

Westinghouse Solar, Inc.
Form 10-K
March 16, 2012

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2011

or

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

For the transition period from _____ to _____

Commission file number: 001-33695

WESTINGHOUSE SOLAR, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1475 S. Bascom Ave., Suite 101
Campbell, CA
(Address of principal executive offices)

95008
(Zip Code)

(408) 402-9400

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.001 per share
(Title of each class)

The NASDAQ Stock Market LLC
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act:

None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing sales price of the Common Stock as reported on The NASDAQ Capital Market on June 30, 2011, was approximately \$14.1 million. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates.

As of March 15, 2012, 16,805,329 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the Registrant's definitive proxy statement for the 2012 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K, which will be filed with the SEC within 120 days after December 31, 2011.

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PART I

As used in this Annual Report on Form 10-K, unless otherwise indicated, the terms “we,” “us,” “our” and “the Company” refer to Westinghouse Solar, Inc. (“Westinghouse Solar”) and its subsidiaries.

Our Annual Report on Form 10-K for 2011, and information we provide in our Annual Report to Stockholders, press releases, telephonic reports and other investor communications, including those on our website, may contain forward-looking statements with respect to anticipated future events and our projected financial performance, operations and competitive position that are subject to risks and uncertainties that could cause our actual results to differ materially from those forward-looking statements and our expectations.

Forward-looking statements can be identified by the use of words such as “expects,” “plans,” “will,” “may,” “anticipate,” “believes,” “should,” “intends,” “estimates” and other words of similar meaning. These statements constitute forward-looking statements within the meaning of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our then current beliefs, projections and estimates with respect to future events and our projected financial performance, operations and competitive position.

Such risks and uncertainties include, without limitation, our ability to raise capital to finance our operations, the effectiveness, profitability and marketability of our products, our ability to protect our intellectual property rights and proprietary information, general economic and business conditions, the impact of technological developments and competition, adverse results of any legal proceedings, the impact of current, pending or future legislation and regulation of the solar power industry, our ability to enter into acceptable relationships with one or more manufacturers for solar panel components and the ability of such contract manufacturers to manufacture products or components of an acceptable quality on a cost-effective basis, our ability to attract or retain qualified senior management personnel, including sales and marketing and technical personnel and other risks detailed from time to time in our filings with the SEC, including those described in Item 1A below. We do not undertake any obligation to update any forward-looking statements.

Item 1. Business.

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 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. As a result of our extensive installation experience, our team of engineers developed the AC solar panels that have the racking, wiring, grounding and inverter built-in. 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 solar panel distribution network to dealers and other

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 and retailers through distribution partnerships, our dealer network and retail home improvement outlets.

The Company was incorporated as Akeena Solar, Inc. (Akeena Solar) in February 2001 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 (the “Merger”) with Fairview Energy Corporation, Inc. (“Fairview”). Pursuant to the merger agreement, the stockholders of Akeena Solar received one share of Fairview common stock for each issued and outstanding share of Akeena Solar common stock. Our common shares were also adjusted from \$0.01 par value to \$0.001 par value at the time of the Merger. Subsequent to the closing of the Merger, the former stockholders of Akeena Solar held a majority of Fairview’s outstanding common stock. Since the stockholders of Akeena Solar owned a majority of the outstanding shares of Fairview common stock immediately following the Merger, and the management and board of Akeena Solar became the management and board of Fairview immediately following the Merger, the Merger was accounted for as a reverse merger transaction and Akeena Solar was deemed to be the acquirer. The assets, liabilities and the historical operations prior to the Merger are those of Akeena Solar. Subsequent to the Merger, the consolidated financial statements include the assets, liabilities and the historical operations of Akeena Solar and Fairview from the closing date of the Merger.

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On May 17, 2010, we entered into an exclusive worldwide license 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.

As a result of our announced exit from the solar panel installation business, our installation business has been reclassified in our financial statements as discontinued operations beginning with the third quarter of 2010. The exit from the installation business was essentially completed by the end of the fourth quarter of 2010.

At the Annual Meeting of Stockholders held on March 31, 2011, our stockholders approved an amendment to our Certificate of Incorporation to formally change our name from “Akeena Solar, Inc.” to “Westinghouse Solar, Inc.”. The name change became effective on April 6, 2011. Also on April 6, 2011, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a reverse split of our common stock at a ratio of 1-for-4. The reverse stock split became effective at the close of business on April 13, 2011.

On February 16, 2012, we announced that we entered into a generally non-binding term sheet to pursue a business combination with CBD Energy Limited, a diversified renewable energy company based in Sydney, Australia. The term sheet contemplates that CBD would acquire us by means of a merger in which CBD would become our parent company. The terms of the prospective merger remain subject to change and would only be reflected in a binding definitive agreement that remains to be negotiated between the companies, and that would then be subject to shareholder approvals and other customary closing conditions. See Section 9B (Other Information) for additional 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 site 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 growing and evolving, but is still at an early stage of growth 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.

Accordingly, our growth strategy primarily includes:

- Developing and commercializing our solar panel technology optimized for the residential and commercial markets.
- Reducing installation costs and improving the aesthetics and performance of solar systems compared to ordinary, commercially available solar equipment.
- Promoting and enhancing our company's brand name and reputation.

Based on our experience as a solar power system designer and integrator, we believe we understand certain areas in which costs for installations can be significantly reduced. In 2007, we introduced a new “plug and play” solar panel technology (under the brand name “Andalay”) which we believe significantly reduces the installation time, number of

parts and costs, as well as provides superior reliability and aesthetics for customers, when compared to other solar panel mounting products and technology.

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In February 2009, we announced a strategic relationship with Enphase, a leading manufacturer of microinverters, to develop and market Andalay 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.

On September 10, 2010, we announced that we were expanding our distribution business to include sales of our Westinghouse Solar Power Systems directly to dealers in California and that we were exiting the solar panel installation business. We had already transitioned over the last year to a design and manufacturing business model with a distribution network in other parts of the United States and in Canada, and we believe we can improve our business results and significantly reduce our expenses by focusing exclusively on our lower overhead design and manufacturing business. As a result, beginning with the third quarter of 2010, our installation business has been reclassified in our financial statements as discontinued operations. The exit from the installation business was essentially completed at the end of the fourth quarter of 2010. Since May 2010, we have been marketing our AC solar panels under the Westinghouse Solar brand, for which we have licensed exclusive rights from Westinghouse Electric Corporation.

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 the Edison Electric Institute, the electric power industry in the U.S. is over \$218 billion in size, and will continue to grow with our economy.

According to a 2011 report from the U.S. Energy Information Administration (EIA), electricity in the U.S. is generated from the following: coal – 46%, natural gas – 24%, nuclear – 19%, oil - 1%, with renewable energy contributing 10%. “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.

According to IMS Research, a research and consulting firm, approximately 26 gigawatts (GW) of solar capacity were expected to be installed in 2011, of which 2.6 gigawatts were estimated for installation in the United States.

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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 180 watt solar panel may have 72 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:

Westinghouse Solar AC panels also include integrated micro-inverters that produce AC power, eliminating the need for a central inverter. The following diagram schematically shows a typical Westinghouse Solar AC solar power system.

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.

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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. Westinghouse Solar's 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. Westinghouse Solar's AC solution incorporates an integrated micro-inverter on each panel which improves system performance, is more reliable, 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. 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.

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 way 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.

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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.

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 solar panel design and manufacturing industry is in its early stages of development and is highly fragmented, consisting of many large and small companies. Worldwide, the manufacturers of rooftop solar panels include Suntech, Sharp, Yingli, Trina, SunPower, Sanyo, SolarWorld, LG and Samsung.

We believe the principal competitive factors in the solar panel manufacturing industry include:

- Quality;
- Price;
- Installation cost; and
- Company reputation

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

- **Integrated DC and AC Panels Dramatically Reduce Installation Costs.** Our Westinghouse Solar 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 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 our AC panels are an ideal solution for solar installers, trade workers and do-it-yourself customers.
- **Proprietary Technology.** We have received three U.S. patents and four international patents for our technology, and have 23 more U.S. and foreign patents pending.
- **Brand Recognition.** We are working to rapidly expand our distribution business and sales of our Westinghouse Solar Power Systems. We are seeking to take full advantage of the very strong worldwide brand equity that the Westinghouse name currently enjoys, and to emphasize that our solar panels are safer, more reliable and easier to install than other products on the market today.

Our Services and Products

Many companies play a role in creating solar power systems, including companies specializing in the following:

- **Silicon Refiners** — companies that produce refined silicon, a material that has historically been used as the primary ingredient for solar panels. Other materials may be used as the primary ingredient in the future.
- **Wafer and Cell Manufacturers** — companies that manufacture the electricity generating solar cells.
- **Panel Manufacturers** — companies that assemble solar cells into solar panels, generally laminating the cells between glass and plastic film, and attaching the wires and panel frame. Certain manufacturers also produce customized or private-label panels as OEM suppliers.
- **Distributors** — companies that purchase from manufacturers and resell to designers/integrators and other equipment resellers.
- **Dealer/Installers** — companies that sell products to end user customers.

We are active in the solar power industry as a designer and manufacturer of solar power systems. Our research and development team, in conjunction with our supply management personnel, specify the design of our proprietary solar panels and contract with existing, experienced solar panel manufacturers for the supply of our Westinghouse Solar labeled solar panels. We help these manufacturing partners source unique components of our panels (typically microinverters and special frame hardware).

Westinghouse 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. Westinghouse Solar DC panels 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 Westinghouse Solar AC panels, which deliver 5% to 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% to 25% better performance than ordinary DC panels, we believe Westinghouse Solar AC panels are an ideal solution for solar installers, trade workers and do-it-yourself customers. We have received three U.S. patents and four international patents for our technology, and have 23 more U.S. and foreign patents pending.

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 Westinghouse Solar technology becomes even more useful for the new generation of less expensive but lower efficiency solar panels. Westinghouse Solar panel technology is generally applicable to all framed rooftop solar cell technologies, including silicon, amorphous silicon, thin film and concentrators.

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Customers

We market and sell to a network of authorized dealers and distributors across the United States and Canada. Our Westinghouse Solar 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. In addition to the ability to sell and install Westinghouse Solar products, Westinghouse Solar Dealers benefit from the ability to leverage the Westinghouse brand, and leverage critical marketing support to help them grow their business.

Suppliers

The components used in our systems are purchased from a limited number of manufacturers. Suntech and Lightway manufacture solar panels for us that are built to our specifications. Pursuant to our agreement with Enphase, they will 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.

Intellectual Property

Andalay Solar Panel

We have three U.S. patents (Patent No. 7,406,800, Patent No. 7,832,157 and Patent No. 7,866,098) that cover key aspects of our Andalay solar panel technology, as well as U.S. Trademark No. 3481373 for registration of the mark “Andalay.” In addition to these U.S. patents, we received three foreign patents in 2010: Australian Patent No. 2,005,248,343; Indian Patent No. 243,626; and Mexican Patent No. 274,182. A Korean Patent No. 751,614 was issued in 2007. Currently, Westinghouse Solar has seven issued patents and 23 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 | 7,406,800 | May 18, 2025 |
| United States | 7,832,157 | November 16, 2027 |
| United States | 7,866,098 | January 11, 2028 |
| Australia | 2,005,248,343 | May 18, 2025 |
| India | 243,626 | May 18, 2025 |
| Mexico | 274,182 | May 18, 2025 |
| Korea | 751,614 | May 18, 2025 |

Trademarks

We have registered the trademark “Akeena” with the United States Patent and Trademark Office for providing consulting services in the field of energy systems, technical information via a global computer network in the field of renewable energy systems, and renewable energy systems, namely, photovoltaic systems composed of photovoltaic solar panels, batteries, voltage regulators, inverters, racks and electrical controls, as well as the installation of such systems.

We have also registered the trademarks “Double Your Power” and “Andalay” with the United States Patent and Trademark Office 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, batteries, voltage regulators, 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.”

Since May 2010, we have been marketing our AC solar panels under the Westinghouse Solar brand, for which we have licensed exclusive rights from Westinghouse Electric Corporation.

Employees

As of March 14, 2012, we had 31 employees, of which 14 were sales and marketing employees, 10 were general and administrative employees, 4 were operations employees and 3 were research and development employees. Four employees were part-time, seven employees were currently furloughed and all other employees were full-time employees. 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.

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Item 1A. Risk Factors.

Our Annual Report on Form 10-K for 2011, and information we provide in our press releases, telephonic reports and other investor communications, may contain forward-looking statements with respect to anticipated future events and our projected financial performance, operations and competitive position that are subject to risks and uncertainties that could cause our actual results to differ materially from those forward-looking statements and our expectations. Future economic and industry trends that could potentially impact revenue, profitability, and growth remain difficult to predict. The factors underlying our forecasts forward-looking statements are dynamic and subject to change. As a result, any forecasts or forward-looking statements speak only as of the date they are given and do not necessarily reflect our outlook at any other point in time.

Risks Relating to Our Business

We will need additional capital in the future to fund the growth of our business, and financing may not be available.

Our currently available capital resources and cash flows from operations may be insufficient to meet our working capital and capital expenditure requirements. Our cash requirements will depend on numerous factors, including the rate of growth 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 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 may dilute our stockholders. We cannot assure you that any additional financing that we may need will be available on terms favorable to us, or at all. In addition, in February 2012 we announced the execution of a term sheet to pursue a business combination with CBD. This event may diminish our access to additional financing. 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. In any such case, our business, operating results or financial condition could be materially adversely affected.

If the U.S. Government imposes tariffs on solar panels manufactured in China, it will cause the prices we pay for solar panels to increase, and could cause customer demand for our products to decrease.

A group of solar panel manufacturers with domestic U.S. production facilities is seeking to have the U.S. Government 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. Proceedings are underway at the United States Commerce Department. The timing for a determination on whether to impose tariffs is uncertain, and it has been repeatedly postponed, but it may come as early as March 2012. It is uncertain whether tariffs will be imposed, and if so how much, but tariff rates of 50% to 250% have been suggested. If imposed, tariffs may be retroactive by up to 90 days before the decision date, as well as prospective. Given the large current market share of solar panels manufactured in China, any imposition of significant tariffs would have far reaching, industry-wide effects, and could be disruptive to many established supply relationships. The imposition of such tariffs would likely cause prices for solar power systems in the United States to increase, possibly significantly, and result in reduced market demand for the purchase of solar power systems. The uncertainty created by concern over potential tariffs is already having a negative effect on our ability to sell products and to forecast our sales.

Our current solar panel suppliers, Suntech and Lightway, both manufacture panels for us in China. If the solar panels provided by our suppliers are subjected to a tariff, that will result in an increase in our cost of goods and in the price

we must charge to our customers. The price increase could potentially be significant. If our product prices increase, it would harm our competitive position in selling our products, and could adversely affect our results of operations.

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, but have been concentrated on a small number of large customers. During the twelve months ended December 31, 2011 two customers have accounted for a significant portion of our revenues: Lennar Corporation (Lennar), a leading national homebuilder, and Lennox International Inc. (Lennox), a global leader in the heating and air conditioning markets. As of February 29, 2012, Lennar had ordered solar power systems from us for installation on 233 new homes, which was below the 600 home order commitment volume. The volume of orders from key customers is difficult to predict. Fluctuations in order levels from significant customers could cause our revenue levels to correspondingly fluctuate, and the failure by any significant customer to maintain anticipated order levels could cause our revenue to fall short of expectations and adversely affect our results of operations.

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.

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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.

Historically, we obtained virtually all of our solar panels from Suntech. On March 25, 2011, we entered into a volume supply agreement for a new generation of our solar panel products with Light Way Green New Energy Ltd. (Lightway), and in August 2011, we began purchasing solar panels from Lightway. Both Suntech and Lightway manufacture panels for us that are built to our unique specifications. We currently purchase all of the microinverters used in our AC solar panels from Enphase. We believe that our commercial relationship with each of these suppliers is good. Although we had a significant amount of inventory on hand as of December 31, 2011, and although we believe we could find alternative suppliers for solar panels manufactured to our specifications, and alternative suppliers for microinverters, on comparable terms, the sudden loss of any of our current primary component supply relationships could cause a delay in manufacturing and be disruptive to our operations.

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. 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, 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.

We are exposed to risks associated with the weak 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 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.

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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 key claims of our Andalay solar panel technology, and we are asserting claims of infringement of our patent rights in a lawsuit and in an action before the International Trade Commission. 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.

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.

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 (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 consolidated balance sheets for December 31, 2011 and 2010, a liability of approximately \$1.1 million and \$1.2 million, respectively, to cover these warranty obligations. That amount is intended to cover both the WS Installations and certain installation projects 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 long-term assets of discontinued operations in our 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 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.

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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.

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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.

Risks Relating to our Common Stock

If our shareholder's equity again 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.

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 for our common stock to remain listed on the NASDAQ Stock Market, subject to the certain conditions, including imposition of a Panel Monitor and requirements that we provide updated forecast information and stockholders' equity projections. Most recently, we submitted updated information in early January, and subsequently received a further letter that we had met the immediate requirements of the Panel's decision, but are subject to ongoing imposition of a Panel Monitor until January 9, 2013, with an obligation to notify the Panel if our stockholders' equity falls below \$2.5 million or we fail to secure needed additional financing, or we fail to satisfy any other listing requirement.

In order to comply with the terms of the Panel decision, we must be able to demonstrate compliance with all requirements for continued listing on The NASDAQ Stock Market. In the event we are unable to do so, our securities may be delisted from The NASDAQ Stock Market.

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On October 4, 2011, we received a letter from The NASDAQ Stock Market (NASDAQ) indicating that for 30 consecutive business days our common stock did not maintain a minimum bid price of \$1.00 (Minimum Bid Price Requirement) per share as required by NASDAQ Listing Rule 5550(a)(2). The notification of non-compliance had no immediate effect on the listing or trading of our common stock on The NASDAQ Capital Market. Under the NASDAQ Listing Rules, if during the 180 calendar days following the date of the notification (that is, prior to April 2, 2012) the closing bid price of our common stock is at or above \$1.00 per share for a minimum of 10 consecutive business days, we will regain compliance with the Minimum Bid Price Requirement and the matter will be closed. If we do not regain compliance with the Minimum Bid Price Requirement by April 2, 2012, NASDAQ will provide written notification that our common stock is subject to delisting. We may appeal NASDAQ's determination to a NASDAQ Hearing Panel at such time as we receive any notification that we have no further grace period.

Failure to meet NASDAQ's continued listing criteria may result in the delisting of our common stock on the NASDAQ Capital Markets.

A delisting from the NASDAQ Capital Market would make the trading market for our common stock less liquid, and would also make us ineligible to use Form S-3 to register the sale of shares of our common stock or to register the resale of our securities held by certain of our security holders with the SEC, thereby making it more difficult and expensive for us to register our common stock or other securities and raise additional capital.

Our stockholders may be diluted by the conversion of our Series B Preferred Stock and the exercise of warrants; in the event we have a "change of control" or if we fail to comply with the terms of the Series B Preferred Stock, we may be in default and face demands for redemption and significant penalties.

On February 17, 2011, we entered into a Securities Purchase Agreement with accredited investors, pursuant to which we sold to such investors our Series B 4% Convertible Preferred ("Series B Preferred"), which was initially convertible into an aggregate of 2,000,000 of our common stock at an initial conversion price of \$1.80 per share, and our Series K Warrants that are exercisable for an aggregate of 1,700,002 shares of our common stock, initially at an exercise price of \$2.40 per share, subject to future adjustment for various events. As a result of our sale of common stock at a price per share of \$0.60 under a December 30, 2011 securities purchase agreement, (i) pursuant to the terms of the outstanding Series B Preferred, the conversion price of the Series B Preferred was reduced to become \$0.60 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 was reduced to become \$0.60 per share of common stock. The conversion price of the Series B Preferred is subject to adjustment downward in the event that we sell common stock (or securities convertible into or exercisable for shares of common stock) at an effective price below the conversion price of the Series B Preferred. If the price adjustment provisions are triggered, then the number of shares of common stock issuable upon conversion of the Series B Preferred may be subject to increase, and the exercise price of the Series K Warrants is subject to decrease. When the investors convert or exercise these securities, our stockholders may experience dilution in the net tangible book value of their common stock. In addition, the sale or availability for sale of the underlying shares in the marketplace could depress our stock price. We have registered for resale all of the underlying shares of common stock relating to the Series B Preferred and the Series K Warrants. 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.

In addition, the terms of our Series B Preferred include various agreements and negative covenants on our part. In the event we fail to comply with those provisions, or if a "change of control" of the Company occurs, it could constitute a "triggering event" (as defined in the Certificate of Designation which designates the rights of the Series B Preferred), and the holders of our Series B Preferred could then demand that all of the outstanding shares of Series B Preferred be redeemed for cash, or under certain circumstances, for shares of our common stock. Any such demand for redemption in cash could have a material adverse affect on our financial position and liquidity, and any demand for redemption in

stock could have a material dilutive effect for our stockholders. In addition, in such event the dividend rate on our outstanding Series B Preferred is subject to increase to 18% per annum thereafter.

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 March 15, 2012, we had 16,805,329 shares of common stock outstanding (which includes 426,895 unvested shares of restricted stock granted to our Board of Directors and our employees), 2,273 shares of Series B Preferred Stock that are convertible into 3,409,029 shares of common stock and we had warrants to purchase 3,633,794 shares of common stock and options to purchase 1,077,744 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 unless purchased by our affiliates. The shares of common stock issuable upon exercise of our outstanding warrants are generally covered (or will be covered) by effective registration statements which permit the underlying shares issuable upon their exercise to be freely tradable in the public market.

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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, many of which are beyond our control, including the following:

- 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;
- period-to-period fluctuations in our financial results; and
- future developments relating to our announcement of our pursuit of a business combination with CBD.

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.

Risks Relating to Our Company

On February 15, 2012, we entered into a non-binding term sheet for a proposed acquisition by CBD Energy Limited. The negotiation and pendency of any business combination may divert resources and the focus of our management team and employees, and may cause uncertainty and negative reaction on the part of our customers, employees, suppliers, or other third-party relationships. If the merger contemplated by the term sheet does not occur, it could have a material adverse effect on our business.

On February 15, 2012, we entered into a term sheet with CBD Energy Limited, a corporation organized under the laws of Australia (CBD), to pursue a business combination by means of a merger in which CBD would become our parent company. We, or a newly formed subsidiary, would become a direct or indirect wholly-owned subsidiary of the CBD. Pursuant to the term sheet, our stockholders would receive shares of CBD in exchange for their shares. The term sheet is generally non-binding by both parties, with the exception of certain provisions that are binding, including confidentiality and payment of expenses.

There is no assurance that the parties will succeed in reaching definitive agreement to pursue the business combination, that a proposed merger will be approved by the shareholders of both companies or, if the merger takes place, that the combination of both companies will be beneficial to our shareholders. During negotiation toward a definitive agreement, and if an agreement is reached, then until shareholder approval and closing, the focus of our management team and employees may be diverted, and there may be uncertainty and negative reaction to the potential merger on the part of our customers, employees, suppliers, or other third-party relationships. If the merger contemplated by the term sheet does not occur, it could have a material adverse effect on our business, results of operation and financial condition.

Our Chief Executive Officer, Barry Cinnamon, beneficially owns a significant number of shares of our common stock, which gives him significant influence over decisions on which our stockholders may vote and which may discourage an acquisition of the Company.

Barry Cinnamon, our Chief Executive Officer, beneficially owns, in the aggregate, approximately 11.4% of our outstanding common stock as of March 15, 2012. The interests of our Chief Executive Officer may differ from the interests of other stockholders. As a result, Mr. Cinnamon's voting power may have a significant influence on the outcome of virtually all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

- election of our directors;
- the amendment of our Certificate of Incorporation or By-laws; and
- the merger of our company or the sale of our assets or other corporate transaction.

Mr. Cinnamon's stock ownership may discourage a potential acquirer from seeking to acquire shares of our common stock or otherwise attempting to obtain control of our company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

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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.

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.

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Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

As of March 15, 2012, we had two offices. Our corporate headquarters is located at 1475 S. Bascom Ave. Campbell, California 95008. We also maintain a warehouse in San Jose, California for distribution of our solar products.

The following table indicates the approximate square footage for each of our leased office locations.

| Property Location | Approximate Square Footage |
|----------------------|----------------------------------|
| Campbell, California | 5,800 |
| San Jose, California | 25,000 |

Item 3. Legal Proceedings.

On January 27, 2012, the Superior Court of the State of California, County of Santa Clara, filed an order (the "State Derivative Order") granting final approval to the settlement of the state derivative complaint filed against us and certain of the our officers and directors on May 28, 2010, captioned Dulgarian v. Cinnamon et al., Case No. 1:10-CV-173351. Pursuant to the State Derivative Order, the state derivative lawsuit was dismissed in its entirety with prejudice and on the merits. The settlement resulted in a release of all claims and did not provide for the payment of monetary compensation to shareholders; rather, it provided for certain additions to our corporate governance policies and procedures and for the payment of plaintiff's attorneys' fees and litigation expenses to be paid exclusively from the proceeds of our directors and officers liability insurance.

On December 15, 2011, the United States District Court for the Northern District of California entered an order (the "Class Action Order") granting final approval to the settlement of the class action complaint filed against us and certain of our officers on May 18, 2009, captioned Hodges v. Akeena Solar, Inc., et al., Case No. C-09-02147. Pursuant to the settlement and Class Action Order, the class action lawsuit was dismissed in its entirety with prejudice and on the merits, resulting in a release of all claims and a cash payment made exclusively from the proceeds of our directors' and officers' liability insurance.

On October 22, 2009, we filed a complaint against several defendants including Zep Solar, Inc. ("Zep") in the United States District Court for the Northern District of California, San Francisco Division for the direct and contributory infringement of U.S. Patent No. 7,406,800 (the "'800 patent") (the "'800 Patent District Court Action"). The '800 Patent District Court Action alleges that the defendants are engaged in various sales, marketing and other activities involving a product that embodies inventions contained in the '800 patent. The defendants moved to stay the case on January 27, 2010 after filing a petition with the United States Patent and Trademark Office ("USPTO") to have the '800 patent re-examined as a response to the suit. On March 14, 2010, the District Court judge granted defendants' motion to stay the case pending resolution of the re-examination proceeding in the USPTO. On June 7, 2011, the USPTO issued a Reexamination Certificate for some of the original claims of the '800 patent. On June 7, 2011, the defendants submitted a second request for reexamination challenging the remaining claims of the '800 patent. On July 15, 2011, the USPTO granted the request to open a reexamination proceeding concerning the remaining claims of the '800 patent. The District Court has ordered that '800 Patent District Court Action remain stayed during this reexamination process. We intend to aggressively pursue this case upon completion of the reexamination process.

On August 2, 2011 the USPTO issued Patent No. 7,987,641 (the "'641 patent") to Andalay Solar, Inc. covering additional inventions pertaining to a solar panel with integrated racking. On August 2, 2011, Zep and Trina Solar filed a complaint against us in the United States District Court for the Northern District of California, San Francisco Division for declaratory judgment of non-infringement and invalidity of the '641 patent (the "'641 District Court Action"). On August 5, 2011, Zep filed an Inter Parties Reexamination request for the '641 patent, which was granted on September 23, 2011. Zep subsequently requested, and on October 23, 2011, obtained a stay of the '641 District Court Action pending the reexamination proceedings regarding the '641 patent in the USPTO. We intend to aggressively defend our patent rights related to the '641 patent upon completion of the reexamination process.

On October 4, 2011, we filed a complaint with the United States International Trade Commission ("ITC") accusing Zep and Canadian Solar of infringing two Westinghouse Solar patents – the '800 patent and the '641 patent. In the ITC Complaint, we seek relief that includes, among other things, the institution of an investigation of Zep and Canadian Solar, a permanent exclusion order barring certain Zep and Canadian Solar products from being imported into the United States, as well as a cease and desist order prohibiting the importation, sale, or advertising of these products. On November 2, 2011, the ITC initiated an investigation based on our complaint (the "ITC Action"). The ITC has set a hearing date before the presiding Administrative Law Judge on September 24, 2012, and a target date to complete its investigation of May 8, 2013. Following the initiation of the ITC Action, on December 9, 2011, the District Court in the '800 Patent and '641 Patent District Court cases issued a supplemental stay of those respective actions pending the outcome of the ITC Action. We intend to aggressively pursue the ITC Action through the completion of the Government's investigation.

On December 20, 2011, Zep filed a complaint against us and other defendants in the United States District Court for the Northern District of California, San Francisco Division alleging that the our products infringe U.S. Patent No. 7,952,537 (the "'537 District Court Action"). The '537 District Court Action is in its very early stages, but we intend to aggressively defend our products, technology and patent rights.

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.

Item 4. Mine Safety Disclosure

Not applicable.

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PART II

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

Price Range of Common Stock

Our common stock has been quoted on the NASDAQ Capital Market since July 23, 2010 under the symbol WEST. Previously, from September 2007 until July 2010, we were traded under the symbol AKNS. 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.

At the Annual Meeting of Stockholders held on March 31, 2011, our stockholders approved an amendment to our Certificate of Incorporation to formally change the name of the company from "Akeena Solar, Inc." to "Westinghouse Solar, Inc.". The name change became effective on April 6, 2011. Also on April 6, 2011, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a reverse split of our common stock at a ratio of 1-for-4. The reverse stock split became effective at the close of business on April 13, 2011. The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the NASDAQ. All historical share prices have been adjusted to reflect this reverse stock split.

| | High | Low |
|------------------|--------|--------|
| Fiscal Year 2010 | | |
| First Quarter | \$6.04 | \$4.00 |
| Second Quarter | \$4.92 | \$2.68 |
| Third Quarter | \$3.68 | \$2.04 |
| Fourth Quarter | \$2.76 | \$1.36 |
| Fiscal Year 2011 | | |
| First Quarter | \$2.56 | \$1.88 |
| Second Quarter | \$2.75 | \$1.00 |
| Third Quarter | \$1.83 | \$0.75 |
| Fourth Quarter | \$0.83 | \$0.26 |

The last reported sale price of our common stock on the NASDAQ on March 15, 2012, was \$0.57 per share. As of March 15, 2012, there were approximately 15 holders of record of our common stock.

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.

Equity Compensation Plan Information

The following table sets forth a summary of restricted stock activity for the twelve months ended December 31, 2011 and 2010:

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| | Number of Restricted Shares | Weighted-Average Grant Date Fair Value |
|---|-----------------------------------|--|
| Outstanding and not vested beginning balance at January 1, 2010 | 194,968 | \$ 10.52 |
| Granted | 386,326 | \$ 2.54 |
| Forfeited/cancelled | (116,388) | \$ 7.77 |
| Released/vested | (363,460) | \$ 3.74 |
| Outstanding and not vested beginning balance at January 1, 2011 | 101,446 | \$ 7.57 |
| Granted | 332,155 | \$ 1.46 |
| Forfeited/cancelled | (33,550) | \$ 4.61 |
| Released/vested | (110,256) | \$ 4.91 |
| Outstanding and not vested at December 31, 2011 | 289,795 | \$ 1.92 |

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The following table sets forth a summary of stock option activity for the twelve months ended December 31, 2011 and 2010:

| | Number of Shares Subject To | | Number of Shares Subject To | |
|---|-----------------------------------|------------------------------------|-----------------------------------|------------------------------------|
| | Option 2011 | Weighted-Average Exercise Price | Option 2010 | Weighted-Average Exercise Price |
| Outstanding beginning balance | 999,775 | \$ 8.66 | 629,623 | \$ 12.29 |
| Granted during the year | 377,699 | 1.72 | 451,625 | 3.33 |
| Forfeited/cancelled/expired during the year | (299,730) | 11.36 | (81,483) | 7.21 |
| Exercised during the year | — | — | — | — |
| Outstanding at end of year | 1,077,744 | \$ 5.47 | 999,775 | \$ 8.66 |
| Exercisable at end of year | 468,758 | \$ 8.95 | 364,863 | \$ 16.27 |
| Outstanding and expected to vest | 1,007,256 | \$ 5.68 | 894,288 | \$ 9.16 |

| | 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 | 1,077,744 | \$ 5.47 | 884,390 |
| Equity compensation plans not approved by stock holders | — | \$ — | — |

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Company Performance

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed “filed” with the SEC or “soliciting material” under the Exchange Act and shall not be incorporated by reference into any such filings.

The following graph shows a comparison from December 31, 2006 through December 31, 2011 of cumulative total return for our common stock, the NASDAQ Composite Index and the NASDAQ Clean Edge Green Energy Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the NASDAQ Clean Edge Green Energy Index assume reinvestment of dividends. We have never paid dividends on our common stock and have no present plans to do so.

| | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 |
|--------------------------------|--------|--------|-------|--------|--------|--------|
| Westinghouse Solar, Inc. | 100.00 | 306.15 | 66.15 | 48.08 | 18.15 | 3.08 |
| NASDAQ Composite | 100.00 | 110.26 | 65.65 | 95.19 | 112.10 | 110.81 |
| NASDAQ Clean Edge Green Energy | 100.00 | 202.02 | 72.02 | 106.82 | 109.60 | 61.02 |

Item 6. Selected Financial Data.

Not applicable.

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

The following discussion highlights what we believe are the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion should be read in conjunction with our financial statements and related notes appearing elsewhere in this Annual Report. This discussion contains "forward-looking statements," which can be identified by the use of words such as "expects," "plans," "will," "may," "anticipates," "believes," "should," "intends," "estimates" and other words of similar meaning. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied by these forward-looking statements. Such risks and uncertainties include, without limitation, the risks described on page 1 of this Annual Report, and the risks described in Item 1A above.

Company Overview

We are a designer and manufacturer of 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, trade workers and do-it-yourself customers in the United States and Canada 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.

In September 2007, we introduced our new "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) all black appearance with 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 three U.S. patents (Patent No. 7,406,800, Patent No. 7,832,157 and Patent No. 7,866,098) that cover key aspects of our solar panel technology, as well as U.S. Trademark No. 3481373 for registration of the mark "Andalay." In addition to these U.S. patents, we received three foreign patents in 2010: Australian Patent No. 2,005,248,343; Indian Patent No. 243,626; and Mexican Patent No. 274,182. A Korean Patent No. 751,614 was issued in 2007. Currently, we have seven issued patents and eighteen other pending U.S. and foreign patent applications that cover the Andalay technology working their way through the USPTO and foreign patent offices.

In February 2009, we announced 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 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, trade workers and do-it-yourself customers.

On May 17, 2010, we entered into an exclusive worldwide license agreement that permits us to 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, and we are listed as Westinghouse Solar, Inc.

As a result of our announced exit from the solar panel installation business, our installation business has been reclassified in our financial statements as discontinued operations. The exit from the installation business was essentially completed by the end of the fourth quarter of 2010.

At the Annual Meeting of Stockholders held on March 31, 2011, our stockholders approved an amendment to our Certificate of Incorporation to formally change our name from “Akeena Solar, Inc.” to “Westinghouse Solar, Inc.”. The name change became effective on April 6, 2011. Also on April 6, 2011, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a reverse split of our common stock at a ratio of 1-for-4. The reverse stock split became effective at the close of business on April 13, 2011.

On February 16, 2012, we announced that we entered into a generally non-binding term sheet to pursue a business combination with CBD Energy Limited, a diversified renewable energy company based in Sydney, Australia. The term sheet contemplates that CBD would acquire us by means of a merger in which CBD would become our parent company. The terms of the prospective merger remain subject to change and would only be reflected in binding, definitive agreements that remain to be negotiated between the companies, and that would then be subject to shareholder approvals and other customary closing conditions. See Section 9B (Other Information) for additional information.

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Concentration of Risk

Financial instruments that potentially subject us to credit risk are comprised of cash and cash equivalents, which are maintained at high quality financial institutions. At December 31, 2011 and 2010, there was approximately \$1.1 million and \$886,000, respectively, in excess of the Federal Deposit Insurance Corporation limit of \$250,000.

The relative magnitude and the mix of revenue from our largest customers have varied significantly quarter to quarter. During the twelve months ended December 31, 2011 and 2010, four customers have accounted for significant revenues, varying by period, to our company: Lennar Corporation (Lennar), a leading national homebuilder, Lennox International Inc. (Lennox), a global leader in the heating and air conditioning markets, Real Goods Solar (Real Goods), a leading residential solar energy installation company/integrator and Highland Solar (Highland), a Canadian solar distributor. For the twelve months ended December 31, 2011 and 2010, the percentages of sales to Lennar, Lennox, Real Goods and Highland are as follows:

| | Twelve Months Ended December 31, | | | |
|---------------------------|-------------------------------------|---|------|---|
| | 2011 | | 2010 | |
| Lennar Corporation | 21.5 | % | — | |
| Lennox International Inc. | 20.6 | % | 16.2 | % |
| Real Goods Solar | 2.6 | % | 25.1 | % |
| Highland Solar | — | | 13.6 | % |

Lennar Corporation and Highland Solar had no receivable balance as of December 31, 2011 and 2010. Lennox accounted for 23.1% and 1.0% of our gross accounts receivable as of December 31, 2011 and 2010, respectively. Real Goods accounted for 1.2% and 73.3% of our gross accounts receivable as of December 31, 2011 and 2010, respectively.

Over time, as we work to add additional distributors to our network and to grow our distribution business, we anticipate the relative significance to our revenue of any particular customer will decline.

We maintain reserves for potential credit losses and such losses, in the aggregate, have generally not exceeded management's estimates. Our top three vendors accounted for approximately 61.3% and 57.3% of materials purchased during the twelve months ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, accounts payable included amounts owed to the top three vendors of approximately \$3.3 million and \$1.1 million, respectively.

Historically, we obtained virtually all of our solar panels from Suntech. On March 25, 2011, we entered into a volume supply agreement for a new generation of our solar panel products with Light Way Green New Energy Co., Ltd (Lightway), and in August 2011, we began purchasing solar panels from Lightway. Both Suntech and Lightway manufacture panels for us that are built to our unique specifications. We currently purchase all of the microinverters used in our AC solar panels from Enphase. Although we had a significant amount of inventory on hand as of December 31, 2011, and although we believe we could find alternative suppliers for solar panels manufactured to our specifications, and alternative suppliers for microinverters, on comparable terms, the sudden loss of any of our current primary component supply relationships could cause a delay in manufacturing and be disruptive to our operations.

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Results of Operations

As a result of the exit from the installation business in September 2010, and in accordance with generally accepted accounting principles, the installation business operation has been reclassified to discontinued operations in our Consolidated Balance Sheets and our Consolidated Statements of Operations. Amounts for the prior periods have been reclassified to conform to this presentation.

The following table sets forth, for the periods indicated, certain information related to our operations as a percentage of our net revenue:

| | 2011 | % | 2010 | % |
|---|----------------|---------|-----------------|----------|
| Net revenue | \$11,429,383 | 100.0 | \$8,653,390 | 100.0 |
| Cost of goods sold | 10,380,051 | 90.8 | 7,403,637 | 85.6 |
| Gross profit | 1,049,332 | 9.2 | 1,249,753 | 14.4 |
| Operating expenses | | | | |
| Sales and marketing | 2,271,392 | 19.9 | 1,182,444 | 13.7 |
| General and administrative | 5,868,175 | 51.3 | 8,536,187 | 98.6 |
| Total operating expenses | 8,139,567 | 71.2 | 9,718,631 | 112.3 |
| Loss from operations | (7,090,235) | (62.0) | (8,468,878) | (97.9) |
| Other income (expense) | | | | |
| Interest income (expense), net | (21,260) | (0.2) | (4,638) | (0.1) |
| Adjustment to the fair value of common stock warrants | 2,592,722 | 22.7 | 2,039,136 | 23.6 |
| Total other income (expense) | 2,571,462 | 22.5 | 2,034,498 | 23.5 |
| Loss before provision for income taxes and discontinued operations | (4,518,773) | (39.5) | (6,434,380) | (74.4) |
| Provision for income taxes | - | | - | |
| Net loss from continuing operations | (4,518,773) | (39.5) | (6,434,380) | (74.4) |
| Loss from discontinued operations, net of tax | (112,848) | (1.0) | (6,489,698) | (75.0) |
| Net loss | (4,631,621) | (40.5) | (12,924,078) | (149.4) |
| Preferred stock dividend | (99,047) | (0.9) | — | — |
| Preferred deemed dividend | (975,460) | (8.5) | — | — |
| Net loss attributable to common stockholders | \$(5,706,128) | (49.9) | \$(12,924,078) | (149.4) |
| Net loss from continuing operations per common and common equivalent share (basic and diluted) | \$(0.37) | | \$(0.63) | |
| Net loss from discontinued operations per common and common equivalent share (basic and diluted) | \$(0.00) | | \$(0.63) | |
| Net loss per common and common equivalent share attributable to common shareholders (basic and diluted) | \$(0.46) | | \$(1.28) | |
| Weighted average shares used in computing loss per common share: (basic and diluted) | 12,342,655 | | 9,953,468 | |

Year Ended December 31, 2011 as compared to Year Ended December 31, 2010

Net revenue

We generate revenue from the sale of solar power systems. For the year ended December 31, 2011 we generated \$11.4 million of revenue, an increase of \$2.8 million, or 32.1%, compared to \$8.7 million of revenue for the year ended December 31, 2010. The increase in revenue was due to the growth of our network of distribution dealers, increased revenue from our strategic partners and more competitive pricing.

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Cost of goods sold

Cost of goods sold as a percent of revenue for the year ended December 31, 2011 was 90.8% of net revenue compared to 85.6% for the year ended December 31, 2010. Gross profit from continuing operations for the year ended December 31, 2011 was \$1.0 million, or 9.2% of revenue, compared to \$1.2 million, or 14.4% of revenue, for the same period in 2010. The decrease in gross margin for the year ended December 31, 2011 compared to the year ended December 31, 2010, was due to reduced customer pricing to encourage customers to switch to our new lower cost, larger format panels that we began shipping to customers in the third quarter of 2011. The decrease in margin in the year ended December 31, 2011 was also due to higher inventory overhead allocations in the current year, partially offset by lower panel and component costs.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2011 were \$2.3 million, or 19.9% of net revenue as compared to \$1.2 million, or 13.7% of net revenue during the same period of the prior year. The increase in sales and marketing expense for the year ended December 31, 2011, reflects higher expenditures for Westinghouse licensing fees, trade shows and advertising expense of \$642,000, increases in payroll and commissions of \$371,000 and increases in travel costs of \$69,000, supporting the expansion of our distribution business.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2011 were \$5.9 million, or 51.3% of net revenue as compared to \$8.5 million, or 98.6% of net revenue during the same period of the prior year. The decrease in general and administrative expense for the December 31, 2011 was due primarily to reductions in payroll costs of \$925,000, stock compensation expense of \$764,000, professional fees of \$252,000, office supplies, postage and telephone of \$192,000, computer hardware and software of \$111,000, travel expense of \$101,000 and rent expense of \$99,000. These favorable adjustments were slightly offset by an increase insurance expense of \$106,000.

Interest, net

During the year ended December 31, 2011, net interest expense was approximately \$21,000, compared to \$5,000 in interest expense recorded during the same period in 2010. The change was primarily due to interest expense related to our business financing agreement with Bridge Bank.

Adjustment to the fair value of common stock warrants

During the year ended December 31, 2011, we recorded mark-to-market adjustments to reflect the fair value of outstanding common stock warrants accounted for as a liability, resulting in an unrealized gain of \$2.6 million in our consolidated statements of operations. The fair values of the warrants declined primarily due a decrease in the price of our common stock and a shorter life for the remainder of our outstanding warrants. During the year ended December 31, 2010, we recorded mark-to-market adjustments resulting in a \$2.0 million unrealized gain in our consolidated statements of operations.

Income taxes

During the year ended December 31, 2011 and 2010, there was no income tax expense or benefit for federal and state income taxes reflected in our consolidated statements of operations due to the our net loss and a valuation allowance on the resulting deferred tax asset.

Net loss from continuing operations

Net loss from continuing operations for the year ended December 31, 2011 was \$4.5 million, or \$0.37 per share, compared to a net loss from continuing operations of \$6.4 million, or \$0.63 per share, for the year ended December 31, 2010. Net loss for the year ended December 31, 2011 included a favorable non-cash adjustment to the fair value of common stock warrants of \$2.6 million. Net loss for the year ended December 31, 2010 included a favorable non-cash adjustment of \$2.0 million to reflect the fair value of common stock warrants.

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Loss from discontinued operations

On September 10, 2010, we announced that we were exiting the solar panel installation business and we were expanding our distribution business to include sales of our Westinghouse Solar Power Systems directly to dealers in California. The exit from the installation business was essentially completed by the end of 2010. As a result of the decision to exit the California installation business, we recorded a restructuring charge totaling approximately \$3.0 million for the year ended December 31, 2010, the majority of which consisted of non-cash charges. This restructuring charge was comprised primarily of (i) one-time severance costs of \$765,000 related to headcount reductions, which was paid in shares of our common stock, (ii) inventory write downs of \$948,000, (iii) lease accelerations and the write off of leasehold improvements of \$307,000, (iv) goodwill impairment of \$299,000, (v) vehicle, furniture and fixtures and computer equipment write downs of \$290,000 and (vi) other prepaid costs write-downs of \$367,000. During the year ended December 31, 2010, we recorded a loss from discontinued operations of \$6.5 million. During the year ended December 31, 2011, we recorded an additional \$113,000 loss from the discontinued installation business.

Preferred deemed dividend

In connection with our sale of Series B Preferred Stock and Series K Warrants on February 17, 2011, on the date of issuance, we recorded the fair value of the warrants of \$2.6 million as “Common stock warrant liability” with the residual value of \$975,460 allocated to “Convertible redeemable preferred stock.” We used the Black-Scholes model to value the Series K warrants. For purposes of calculating the fair value of the warrants, we used a risk free rate of return of 1.4%, an expected life of 4.1 years and a volatility percentage of 103.2%. We also recorded the beneficial conversion feature of \$975,460 as a preferred deemed dividend. The amount of the beneficial conversion feature was limited to the amount of proceeds allocated to the instrument. In addition, direct fundraising costs of approximately \$532,000 and warrants to purchase 60,000 shares of our common stock issued to the placement agent, valued at \$89,010, were deducted from the proceeds raised.

Liquidity and Capital Resources

The current economic downturn presents us with challenges in meeting the working capital needs of our business. Our primary requirements for working capital are to fund purchases for solar panels and microinverters, and to cover our payroll and lease expenses. For each of the two years in the period ending December 31, 2011, we have incurred net losses and negative cash flows from operations. In addition, we expect to incur a net loss from operations for the year ending December 31, 2012. During the recent years, we have undertaken several equity financing transactions to provide the capital needed to sustain and to grow our business. Based on current cash projections for 2012, which contemplate a smaller operating loss and reaching breakeven cash flow from operations in the second half of the year, we intend to address ongoing working capital needs through cost reduction measures recently implemented and utilization of existing inventory, along with utilizing our available credit facility and raising additional equity. In the event that revenue is lower, further staffing reductions and expense cuts could occur. Our revenue levels remain difficult to predict, and we anticipate that we will continue to sustain losses in the near term, and we cannot assure investors that we will be successful in reaching break-even.

As of December 31, 2011, we had approximately \$1.3 million in cash on hand and \$658,000 available under our credit facility. As an additional source of capital, outstanding warrants provide the possibility for us to receive additional proceeds upon exercise, depending on market conditions. Subsequent to December 31, 2011, warrants to purchase 472,222 shares of common stock with an exercise price of \$0.60 per share were exercised, resulting in approximately \$283,000 in proceeds. We have warrants to purchase approximately 1.2 million shares of common stock with an exercise price of \$0.60 that remain outstanding that may provide additional funding. We are in discussions with potential investors to obtain additional funding, and have engaged an investment banker to facilitate these efforts.

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern. Our significant operating losses and negative cash flow from operations raise substantial uncertainty about our ability to continue as a going concern. The accompanying financial statements 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. We believe our current cash balance, projected financial results from our operations, and the amounts that should be available to us through debt and equity financing provide sufficient resources and operating flexibility to fund our anticipated cash needs, through at least the next 12 months; however, there can be no assurance that we will be able to raise additional funds on commercially reasonable terms, if at all. The current economic downturn adds uncertainty to our anticipated revenue levels and to the timing of cash receipts, which are needed to support our operations. It also worsens the market conditions for seeking equity and debt 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.

On February 16, 2012, we announced that we entered into a term sheet to pursue a business combination with CBD Energy Limited (CBD), a diversified renewable energy company organized under the laws of Australia and based in Sydney, Australia. As proposed in the term sheet, we and a newly formed subsidiary of CBD would merge, we would become a wholly-owned subsidiary of CBD, and our stockholders would receive shares of CBD in exchange for their shares. The term sheet is generally non-binding on both parties, with the exception of certain provisions that are binding, including confidentiality and expense provisions. The proposed transaction remains subject to negotiation and to execution of definitive agreements, and then would be subject to various closing conditions, including submission for approval to our shareholders and the shareholders of CBD. Until the execution of a definitive agreement and the closing of the merger, it is possible that the focus of our management team and employees may be diverted, and that there may be a negative reaction to the merger on the part of our customers, employees, suppliers, or other third-party relationships. See Section 9B (Other Information) for additional information.

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Our Line of Credit

On March 3, 2009, we entered into a Loan and Security Agreement (Cash Collateral Account) with Comerica Bank, dated as of February 10, 2009 (the "2009 Bank Facility"), which had a limit of \$1.0 million, subject to our obligation to maintain cash as collateral for any borrowings incurred or any letters of credit issued on our behalf. In connection with the 2011 Credit Facility with Bridge Bank (as described below), our Cash Collateral Account with Comerica Bank was terminated in February 2011.

On February 15, 2011, we entered into a Business Financing Agreement (the "2011 Credit Facility") with Bridge Bank, National Association ("Bridge Bank") to finance our accounts receivable. The 2011 Credit Facility provides for a credit limit of \$750,000, representing the maximum amount of advances based on up to 50% of \$1.5 million of gross eligible accounts receivables. The 2011 Credit Facility may be terminated at any time by either party and may be renewed under similar terms if acceptable and agreed to by both parties. If any advance is not repaid in full within 90 days from the earlier of (a) invoice date, or (b) the date on which such advance is made, we are obligated to immediately pay the outstanding amount to Bridge Bank. Outstanding loans under the 2011 Credit Facility will accrue interest at the Bridge Bank Prime rate plus 3.0% (annualized) of the daily gross financed amount outstanding. The 2011 Credit Facility is secured by substantially all of our assets. There was approximately \$92,000 borrowed and approximately \$658,000 available under the 2011 Credit Facility as of December 31, 2011.

Equity Financing Activity

On May 17, 2010, we entered into a securities purchase agreement with certain institutional accredited investors relating to the sale of 679,348 shares of common stock at a price of \$3.68 per share and Series I Warrants to purchase up to 339,677 shares of common stock (50% of the number of shares of common stock initially issued) at an exercise price of \$4.40 per share, which warrants were not exercisable until six months after issuance and have a term of five and one-half years. The aggregate purchase price for the shares and Series I warrants was \$2,500,000. Under the securities purchase agreement, we also agreed to extend the term of the remaining Series H Warrants until December 1, 2011. The outstanding Series H Warrants were issued on June 1, 2009, and were due to expire on June 1, 2010. The remaining outstanding Series H Warrants represent the right to purchase up to an aggregate of 156,250 shares at an exercise price of \$5.36 per share of common stock.

On October 7, 2010, we entered into a securities purchase agreement with certain institutional accredited investors relating to the sale of 1,000,000 shares of common stock at a price of \$2.20 per share, along with the sale of Series J Warrants to purchase up to 400,001 shares of common stock (40% of the number of shares of common stock initially issued) at an exercise price of \$2.44 per share. The warrants were not exercisable until six months after issuance and have a term of five years from the date they are first exercisable. The aggregate purchase price for the shares and the warrants was \$2,200,000. Under the securities purchase agreement, we agreed to amend the outstanding Series I Warrants, such that the exercise price of the Series I Warrants is reduced from \$4.40 per share to \$2.44 per share. In addition, with respect to 45% of the shares of common stock subject to each of the Series I Warrants, (i) each warrant is not exercisable until the six month anniversary of the closing under the securities purchase agreement, and (ii) the expiration date is extended such that the warrant is exercisable for five years from the delayed initial exercise date. The outstanding Series I Warrants were originally issued on May 17, 2010, and represent the right to purchase up to an aggregate of 339,677 shares of common stock.

On February 17, 2011, we entered into a securities purchase agreement with certain institutional accredited investors relating to the sale of 4,000 units at a price of \$900 per unit. Each unit consists of (i) one share of Series B Preferred Stock (the "Series B Preferred"), with each such share of Series B Preferred initially convertible into 500 shares of common stock at an initial conversion price of \$1.80 per share, subject to future adjustment for various events, and (ii) warrants to purchase 1,700 shares of common stock at an initial exercise price of \$2.40 per share, subject to future

adjustment for various events. As a result of a December 30, 2011 securities sale discussed below, (i) pursuant to the terms of the outstanding Series B 4% Convertible Preferred Stock, the conversion price of the Series B Preferred was reduced to \$0.60 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 was reduced to \$0.60 per share of common stock. There are currently 2,273 shares of Series B Preferred that remain outstanding. After this adjustment to the conversion price as a result of the subsequent sales of the lower priced securities, the outstanding Series B Preferred would be convertible into 3,409,029 shares of common stock. See Note 11 for a discussion of the sale of units.

On March 25, 2011, we entered into a Supply Agreement with Light Way Green New Energy Co., Ltd (Lightway). Lightway is a vertically integrated manufacturer of polycrystalline silicon wafers, solar cells and solar modules. Lightway provides an additional source of supply for our proprietary solar panels. In consideration of the new contract manufacturing arrangement, we agreed to issue to Lightway shares of our common stock with a market value of \$520,000, based on the closing share price of our common stock on the date of the first shipment of products by Lightway. On July 31, 2011, in conjunction with their first shipment, Lightway was issued 361,111 unvested shares of our common stock. The shares will vest ratably on a monthly basis over a one year period beginning August 31, 2011. As of December 31, 2011, 150,465 shares had vested. The restricted stock is valued at the vest date fair value of the common stock, capitalized into inventory and expensed monthly over one year based on the volume of Lightway panels sold. The unvested shares are subject to forfeiture in the event of termination of the Supply Agreement by either party.

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On August 16, 2011, we entered into a securities purchase agreement with an institutional accredited investor relating to the sale of 990,099 shares of common stock at a price of \$1.01 per share, along with the sale of Series L Warrants to purchase up to 643,564 shares of common stock (65% of the number of shares of common stock initially issued) at an exercise price of \$1.17 per share. The warrants are not exercisable until six months after issuance and have a term of five years from the date they are first exercisable. The aggregate purchase price for the shares and the warrants was \$1,000,000. Under the securities purchase agreement, we agreed to amend the outstanding Series J Warrants, such that the exercise price of the Series J Warrants is reduced from \$2.44 per share to \$1.17 per share. In addition, each of the Series J Warrants, (i) is not exercisable until the six month anniversary of the closing under the August 16, 2011 securities purchase agreement, and (ii) the expiration date is extended such that the warrant is exercisable for five years from the delayed initial exercise date. The outstanding Series J Warrants were originally issued on October 7, 2010, and represent the right to purchase up to an aggregate of 400,001 shares of common stock.

On September 28, 2011, we entered into a securities purchase agreement with an institutional accredited investor relating to the sale of 500,000 shares of common stock at a price of \$0.80 per share, along with the sale of Series M Warrants to purchase up to 325,000 shares of common stock (65% of the number of shares of common stock initially issued) at an exercise price of \$0.81 per share. The warrants are not exercisable until six months after issuance and have a term of five years from the date they are first exercisable. The aggregate purchase price for the shares and the warrants was \$500,000. Under the securities purchase agreement, we agreed to amend the outstanding Series L Warrants, such that the exercise price of the Series L Warrants is reduced from \$1.17 per share to \$0.81 per share. In addition, each of the Series L Warrants, (i) is not exercisable until the six month anniversary of the closing under the September 28, 2011 securities purchase agreement, and (ii) the expiration date is extended such that the warrant is exercisable for five years from the delayed initial exercise date. The outstanding Series L Warrants were originally issued on August 16, 2011, and represent the right to purchase up to an aggregate of 643,564 shares of common stock.

On December 30, 2011, we entered into a securities purchase agreement with CBD Energy Limited (“CBD”), an Australian corporation, relating to the sale of 1,666,667 shares of common stock at a price of \$0.60 per share. The aggregate purchase price was \$1,000,000. See previous discussion in Liquidity and Capital resources on potential merger with CBD.

Cash flow analysis

Our primary capital requirement is to fund purchases of solar panels and inverters. Significant sources of liquidity are cash on hand, cash flows from operating activities, working capital and proceeds from equity financings. As of December 31, 2011, we had approximately \$1.3 million in cash and cash equivalents. As of December 31, 2011, we had approximately \$658,000 in additional borrowing capacity available under our 2011 Credit Facility.

Cash used in operating activities was approximately \$4.5 million for the year ended December 31, 2011. Excluding non-cash items of \$2.6 million of unrealized gain on the fair value adjustment of common stock warrants and stock-based compensation expense of \$1.1 million, cash used in operating activities was primarily due to a \$536,000 increase in other assets, a \$454,000 increase in other receivables, a \$384,000 decrease in liabilities of discontinued operations and a \$218,000 increase in accounts receivable, offset by a \$2.4 million increase in accounts payable and a \$531,000 decrease in assets of discontinued operations – short term. The increases and decreases in assets and liabilities were primarily due to the timing of payments and receipts. Cash used in operating activities was approximately \$10.4 million for the year ended December 31, 2010. Excluding non-cash items of \$2.7 million of stock-based compensation expense, partially offset by \$2.0 million in an unrealized gain on the fair value adjustment of common stock warrants, cash used in operating activities was primarily from a \$2.4 million decrease in accounts payable and a \$739,000 increase in accounts receivable, partially offset by a \$4.7 million decrease in assets of discontinued operations – short term, a decrease of \$1.6 million in assets held for sale and a \$253,000 increase in accrued liabilities and accrued warranty. The increases and decreases in assets and liabilities were primarily due to the timing of payments and

receipts.

Cash provided by investing activities was \$180,000 for the year ended December 31, 2011, primarily due to \$235,000 in proceeds from disposal of property and equipment from discontinued operations, partially offset by \$73,000 in acquisitions of property and equipment. Cash used in investing activities was \$72,000 for the year ended December 31, 2010, primarily due to \$324,000 of purchases of vehicles, computer equipment and leasehold improvements for our ongoing operations and \$139,000 of purchases for our discontinued operations, mostly offset by \$392,000 of proceeds received from the disposal of property and equipment of our discontinued operations.

Cash provided by financing activities was approximately \$5.1 million for the year ended December 31, 2011. During the year ended December 31, 2011, we received net proceeds of \$5.2 million from the issuance of common and preferred stock, partially offset by the repayment of notes payable of \$168,000. Cash provided by financing activities was approximately \$5.2 million for the year ended December 31, 2010. During the year ended December 31, 2010, we received net proceeds of \$4.9 million from the issuance of common stock and proceeds of approximately \$922,000 from the exercise of warrants to purchase our common stock.

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Application of Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reporting of assets, liabilities, sales and expenses, and the disclosure of contingent assets and liabilities. Note 2 to our consolidated financial statements as filed in our Annual Report on Form 10-K provides a summary of our significant accounting policies, which are all in accordance with generally accepted accounting policies in the United States. Certain of our accounting policies are critical to understanding our consolidated financial statements, because their application requires management to make assumptions about future results and depends to a large extent on management's judgment, because past results have fluctuated and are expected to continue to do so in the future.

We believe that the application of the accounting policies described in the following paragraphs is highly dependent on critical estimates and assumptions that are inherently uncertain and highly susceptible to change. For all these policies, we caution that future events rarely develop exactly as estimated, and the best estimates routinely require adjustment. On an ongoing basis, we evaluate our estimates and assumptions, including those discussed below.

Revenue recognition. Revenue from sales of products is recognized when: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sale price is fixed or determinable, and (4) collection of the related receivable is reasonably assured. We recognize revenue when the solar power systems are shipped to the customer.

Discontinued operations. Discontinued operations are presented and accounted for in accordance with Accounting Standards Codification (ASC) 360, "Impairment or Disposal of Long-Lived Assets," (ASC 360). When a qualifying component of the Company is disposed of or has been classified as held for sale, the operating results of that component are removed from continuing operations for all periods presented and displayed as discontinued operations if: (a) elimination of the component's operations and cash flows from the Company's ongoing operations has occurred (or will occur) and (b) significant continuing involvement by the Company in the component's operations does not exist after the disposal transaction. On September 10, 2010, we announced that we were exiting the solar panel installation business. The exit from the installation business was essentially completed at the end of the fourth quarter of 2010. The exit from the installation business was therefore classified as discontinued operations for all periods presented under the requirements of ASC 360.

Inventory. Inventory is stated at the lower of cost (on an average basis) or market value. We determine cost based on our weighted-average purchase price and include both the costs of acquisition and the shipping costs in our inventory. We regularly review the cost of inventory against its estimated market value and record a lower of cost or market write-down to cost of goods sold, if any inventory has a cost in excess of estimated market value. Our inventory generally has a long life cycle and obsolescence has not historically been a significant factor in its valuation.

Long-lived assets. We periodically review our property and equipment and identifiable intangible assets for possible impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. Assumptions and estimates used in the evaluation of impairment may affect the carrying value of long-lived assets, which could result in impairment charges in future periods. Significant assumptions and estimates include the projected cash flows based upon estimated revenue and expense growth rates and the discount rate applied to expected cash flows. In addition, our depreciation and amortization policies reflect judgments on the estimated useful lives of assets.

Patent Costs. We capitalize external legal costs and filing fees associated with obtaining or defending our patents and amortize these costs using the straight-line method over the shorter of the legal life of the patent or its economic life. We believe the remaining useful lives we assigned to these assets, approximately 13 years as of December 31, 2011,

are reasonable. We periodically review our patents to determine whether any such costs have been impaired and are no longer being used. To the extent we no longer use certain patents, the associated costs will be written-off at that time.

Stock-based compensation. We use the Black-Scholes-Merton Options Pricing Model (Black-Scholes) to estimate fair value of our employee and our non-employee director stock-based awards. Black-Scholes requires various judgmental assumptions, including estimating stock price volatility, expected option life and forfeiture rates. We measure compensation expense for non-employee stock-based compensation under ASC 505-50, "Equity-Based Payments to Non-Employees." The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The estimated fair value is measured utilizing Black-Scholes using the value of our common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete.

Warranty provision. The manufacturer directly warrants the solar panels and inverters for a range from 15 to 25 years. We warrant the balance of system components of our products against defects in material and workmanship for five years. We assist our customers in the event of a claim under the manufacturer warranty to replace a defective solar panel or inverter.

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Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-29, which updates the guidance in ASC Topic 805, Business Combinations (ASU 2010-29). The objective of ASU 2010-29 is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity as defined by ASC 805 that enters into business combinations that are material on an individual or aggregate basis. This guidance will become effective for us for any acquisitions occurring on or after the beginning of our 2012 fiscal year. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU No. 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows.

In September 2011, the FASB issued an amendment to Topic 350, Intangibles—Goodwill and Other, which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described under paragraphs 350-20-35-4 and 350-20-35-9 under Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows.

Off-Balance Sheet Arrangements

We do not hav