Akeena Solar, Inc.
Form 10-Q
November 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2010

or

o 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

AKEENA SOLAR, INC.
(d/b/a Westinghouse Solar)
(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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 o No o

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. (Check one):

Large accelerated filer o		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company x

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

As of November 3, 2010, 45,649,366 shares of the issuer's common stock, par value $0.001 per share, were outstanding (including non-vested restricted shares).

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AKEENA SOLAR, INC. (d/b/a WESTINGHOUSE SOLAR)
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$1,271,737	$ 5,804,458
Restricted cash	342,403	—
Accounts receivable, net	690,134	173,501
Other receivables	5,053	16,406
Inventory, net	6,315,651	4,433,825
Prepaid expenses and other current assets, net	911,312	419,537
Assets of discontinued operations	1,489,423	5,280,551
Assets held for sale	752,300	2,132,772
Total current assets	11,778,013	18,261,050
Property and equipment, net	303,261	173,471
Other assets, net	407,539	100,894
Long term assets of discontinued operations	21,724	48,906
Total assets	$12,510,537	$ 18,584,321
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$4,276,121	$ 3,930,890
Accrued liabilities	739,268	398,452
Accrued warranty	33,236	8,404
Common stock warrant liability	448,048	2,536,402
Credit facility	342,403	—
Liabilities of discontinued operations	2,745,462	3,222,848
Total current liabilities	8,584,538	10,096,996
Long-term liabilities of discontinued operations	323,375	375,015
Total liabilities	8,907,913	10,472,011
Commitments, contingencies and subsequent events (Notes 16 and 17)		
Stockholders' equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized; 41,204,551 and 36,406,944 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	41,204	36,407
Additional paid-in capital	66,467,479	59,897,553
Accumulated deficit	(62,906,059)	(51,821,650)
Total stockholders' equity	3,602,624	8,112,310
Total liabilities and stockholders' equity	$12,510,537	$ 18,584,321

The accompanying notes are an integral part of these condensed consolidated financial statements

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AKEENA SOLAR, INC. (d/b/a WESTINGHOUSE SOLAR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net revenue	$2,142,229	$402,117	$5,096,656	$604,473
Cost of goods sold	1,827,931	361,024	4,325,204	539,674
Gross profit	314,298	41,093	771,452	64,799
Operating expenses				
Sales and marketing	267,847	57,994	705,610	117,508
General and administrative	2,321,830	2,369,583	7,032,474	6,278,439
Total operating expenses	2,589,677	2,427,577	7,738,084	6,395,947
Loss from operations	(2,275,379)	(2,386,484)	(6,966,632)	(6,331,148)
Other income (expense)				
Interest income (expense), net	(5,059)	13,944	75	(46,357)
Adjustment to the fair value of common stock warrants	81,857	758,352	1,876,759	(2,320,167)
Total other income (expense)	76,798	772,296	1,876,834	(2,366,524)
Loss before provision for income taxes and discontinued operations	(2,198,581)	(1,614,188)	(5,089,798)	(8,697,672)
Provision for income taxes	—	—	—	—
Net loss from continuing operations (Note 3)	(2,198,581)	(1,614,188)	(5,089,798)	(8,697,672)
Loss from discontinued operations, net of tax	(3,996,971)	(790,022)	(5,994,612)	(3,471,464)
Net loss	$(6,195,552)	$(2,404,210)	$(11,084,410)	$(12,169,136)
Loss from continuing operations per common and common equivalent share (basic and diluted)	$(0.05)	$(0.05)	$(0.13)	$(0.27)
Loss from discontinued operations per common and common equivalent share (basic and diluted)	$(0.10)	$(0.02)	$(0.16)	$(0.11)
Net loss per common and common equivalent share (basic and diluted)	$(0.15)	$(0.07)	$(0.29)	$(0.38)
Weighted average shares used in computing loss per common share: (basic and diluted)	40,097,640	33,357,430	38,150,455	31,459,670

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AKEENA SOLAR, INC. (d/b/a WESTINGHOUSE SOLAR)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
Balance at January 1, 2010	36,406,944	$36,407	$59,897,553	$(51,821,650)	$8,112,310
Issuance of common shares pursuant to October 2009 securities purchase agreement	483,753	484	593,392	—	593,876
Issuance of common shares pursuant to May 2010 securities purchase agreement, net	2,717,392	2,717	2,330,807	—	2,333,524
Conversion of common stock warrant liability upon exercise or expiration of warrants	—	—	211,594	—	211,594
Grants of restricted stock, net of forfeitures and repurchases for employee taxes	524,386	524	(9,958)	—	(9,434)
Stock-based compensation expense	—	—	2,523,177	—	2,523,177
Exercise of warrants for common shares at various exercise prices, $0.001 par value	1,072,076	1,072	920,914	—	921,986
Net loss	—	—	—	(11,084,409)	(11,084,409)
Balance at September 30, 2010	41,204,551	$41,204	$66,467,479	$(62,906,059)	$3,602,624

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AKEENA SOLAR, INC. (d/b/a WESTINGHOUSE SOLAR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2010	2009
Cash flows from operating activities		
Net loss	$ (11,084,409)	$ (12,169,136)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation	101,436	89,074
Amortization of customer list, customer contracts and patents	3,193	3,707
Unrealized (gain) loss on fair value adjustment of common stock warrants	(1,876,759)	2,320,167
Non-cash stock-based compensation expense	2,523,177	1,859,494
Changes in assets and liabilities:		
Accounts receivable	(516,633)	—
Other receivables	11,353	27,814
Inventory	(1,881,826)	5,963,332
Prepaid expenses and other current assets	(491,776)	91,573
Assets of discontinued operations – short term	3,791,128	5,488,033
Assets held for sale	1,468,447	1,531,064
Other assets	(309,838)	(5,473)
Assets of discontinued operations – long-term	27,182	573
Accounts payable	345,231	1,863,198
Accrued liabilities and accrued warranty	365,648	(198,557)
Liabilities of discontinued operations	(351,501)	(2,386,265)
Net cash (used in) provided by operating activities	(7,875,947)	4,478,598
Cash flows from investing activities		
Acquisition of property and equipment	(231,226)	—
Acquisition of property and equipment - discontinued operations	(139,483)	(76,425)
Proceeds from disposal of property and equipment from discontinued operations	60,685	—
Net cash used in investing activities	(310,024)	(76,425)
Cash flows from financing activities		
Borrowing on long-term debt from discontinued operations	18,914	57,335
Repayment of long-term debt from discontinued operations	(188,410)	(182,485)
Borrowings (repayment) on line of credit, net	342,403	(18,746,439)
Repayments on capital lease obligations from discontinued operations	(17,206)	(17,508)
Restricted cash	(342,403)	17,500,000
Proceeds from stock offering	2,499,999	2,000,000
Proceeds from securities purchase agreement	593,876	—
Proceeds from exercise of warrants	921,985	3,222,415
Payment of placement agent and registration fees and other direct costs	(166,474)	(1,195,886)
Employee taxes paid for vesting of restricted stock	(9,434)	(2,804)
Net cash provided by financing activities	3,653,250	2,634,628
Net increase (decrease) in cash and cash equivalents	(4,532,721)	7,036,801
Cash and cash equivalents		
Beginning of period	5,804,458	148,230

End of period	$	1,271,737	$	7,185,031
Supplemental cash flows disclosures:				
Cash paid during the period for interest	$	24,165	$	131,730
Supplemental disclosure of non-cash financing activity:				
Fair value of warrants issued in stock offering		—		1,676,282
Initial fair value of preferred stock issued in offering		—		380,600
Conversion of preferred stock to common stock		—		464,286
Conversion of common stock warrant liability upon exercise of warrants		211,594		313,024
Acquisition of property and equipment under capital lease - discontinued operations		9,717		—
Reclassification of common stock warrant liability to Additional Paid-in Capital		—		777,415
Fair value of warrants issued in connection with induced exercise		—		303,391

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AKEENA SOLAR, INC. (d/b/a WESTINGHOUSE SOLAR)
Notes to Condensed Consolidated Financial Statements
September 30, 2010
(Unaudited)

1. Basis of Presentation and Description of Business

Basis of Presentation — Interim Financial Information

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial information. They should be read in conjunction with the financial statements and related notes to the financial statements of Akeena Solar, Inc. (d/b/a Westinghouse Solar) ("we", "us", "our" or the "Company") for the years ended December 31, 2009 and 2008 appearing in our Form 10-K The September 30, 2010 unaudited interim consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements filed with our Annual Report on Form 10-K have been condensed or omitted as permitted by those rules and regulations. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

Reclassifications

Certain line items in our condensed consolidated balance sheets and our condensed consolidated statements of cash flows have been reclassified to conform to the current presentation. In September 2010, we announced we were exiting the installation business and reclassifying the installation business segment as discontinued operations. (See Note 3. Discontinued Operations). Additionally, parts and supplies, which amounted to $101,000 as of December 31, 2009, and which previously was included in prepaid expenses and other current assets, have now been included in inventory, net.

Description of Business

Akeena Solar, Inc. was incorporated 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 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.

We are a manufacturer and distributor 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 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.

On May 17, 2010, we entered into an exclusive worldwide agreement 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, and we are listed as Akeena Solar, Inc. (d/b/a Westinghouse Solar). Subject to shareholder approval, we plan in the future to formally change our corporate name to Westinghouse Solar, Inc.

On September 7, 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. 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 is expected to be completed by the end of the fourth quarter of 2010. (See Note 3. Discontinued Operations).

Concentration of Risk in Customer and Supplier Relationships

During both the three months and nine months ended September 30, 2010, our three largest customers together accounted for 54% of our net revenue from continuing operations. In each of those periods, our top two customers each accounted for more than 10% of our total net revenue. The relative magnitude and the mix of sales to our largest customers have varied significantly quarter to quarter. Over time, as we work to add additional distributors to our network and to grow our distribution business, we anticipate that the relative significance to our revenue of any particular customer will decline. We do not expect any one customer to continue to account for more than 10% of our revenue on an ongoing basis.

We currently obtain virtually all of our solar panels from Suntech, which manufactures panels for us that are built to our unique specifications, and we currently purchase all of the microinverters used in our AC solar panels from Enphase. We believe that our commercial relationship with each of those suppliers is good. Although we had a significant amount of inventory on hand as of September 30, 2010, 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 either of our current primary component supply relationships could cause a delay in manufacturing and be disruptive to our operations.

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2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when a solar power system is shipped to a customer. Revenue recognition methods for revenue streams that fall under other categories are determined based on facts and circumstances.

Defective solar panels or inverters are covered under the manufacturer warranty. In the event that a panel or inverter needs to be replaced, we will assist the customer in replacing the defective item within the manufacturer's warranty period (between 15 - 25 years). See the "Manufacturer and installation warranties" discussion below.

Deferred revenue consists of installations initiated but not completed within the reporting period.

Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents. We maintain cash and cash equivalents which consist principally of demand deposits with high credit quality financial institutions. At certain times, such amounts exceed FDIC insurance limits. We have not experienced any losses on these investments.

Restricted Cash

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 has 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. The 2009 Bank Facility has a termination date of January 1, 2011. As of September 30, 2010, there was approximately $342,000 borrowed under this line of credit. In accordance with the 2009 Bank Facility, we have recorded a corresponding amount under "Restricted cash" on our condensed consolidated balance sheets.

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 7, 2010, we announced that we were exiting the solar panel installation business. The exit from the installation business is expected to be completed by 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.

Manufacturer and Installation Warranties

We warrant our products for various periods against defects in material or manufacturing workmanship. The manufacturer warranties on solar panels and inverters range from 15 to 25 years. We assist our customers in the event of a claim under the manufacturer warranty to replace a defected panel or inverter. The liability for the manufacturing warranty of approximately $33,000 at September 30, 2010 and $8,000 at December 31, 2009, is included within “Accrued warranty” in the accompanying condensed consolidated balance sheets.

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The liability for our manufacturing warranty consists of the following:

	September 30, 2010 (Unaudited)	December 31, 2009
Beginning accrued warranty balance (January 1)	$ 8,404	$—
Reduction for labor payments and claims made under the warranty	—	—
Accruals related to warranties issued during the period	24,832	8,404
Ending accrued warranty balance	$ 33,236	$8,404

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 life we assigned to these assets, approximately 14 years as of September 30, 2010, 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.

Recent Accounting Pronouncements

Fair Value Measurements and Disclosures

ASU Update No. 2009-13 – Revenue Recognition (Topic 605), Multiple Deliverable Revenue Arrangements was issued in October 2009. This guidance eliminates the residual method of allocation and requires the relative selling price method when allocating deliverables of a multiple-deliverable revenue arrangement. The determination of the selling price for each deliverable requires the use of a hierarchy designed to maximize the use of available objective evidence, including: vendor specific objective evidence, third party evidence of selling price, or estimated selling price. The guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and must be adopted in the same period using the same transition method. If adoption is elected in a period other than the beginning of a fiscal year, the amendments in these standards must be applied retrospectively to the beginning of the fiscal year. Full retrospective application of these amendments to prior fiscal years is optional. Early adoption of these standards may be elected. We do not believe the impact of these new accounting standards on our consolidated financial position, results of operations and cash flows.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the Financial Accounting Standards Board (“FASB”) issued a pronouncement that requires enhanced disclosures regarding the nature of credit risk inherent in an entity’s portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for such changes in the allowance for credit losses. The new disclosures will require information for both the financing receivables and the related allowance for credit losses at more disaggregated levels and will be effective in fiscal years beginning in 2011. Specific disclosures regarding activities that occur during a reporting period, such as the disaggregated roll forward disclosures, are effective for us at the beginning of our 2011 fiscal year. We do not expect that the adoption of this new accounting standard will have a material impact on our consolidated financial position, results of operations and cash flows.

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3. Discontinued Operations

On September 7, 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 is expected to be completed by the end of the fourth quarter of 2010. As a result of the decision to exit the California installation business we, recorded a restructuring charge totaling approximately $2.6 million for the quarter ended September 30, 2010, the majority of which consisted of non-cash charges. This restructuring charge was comprised primarily of (i) one-time severance costs of $809,000 related to headcount reductions, which was paid in shares of our common stock, (ii) inventory write downs of $698,000, (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 $239,000.

The assets and liabilities of discontinued operations are presented separately under the captions “Assets of discontinued operations,” “Liabilities of discontinued operations” and “Long-term liabilities of discontinued operations,” respectively, in the accompanying condensed consolidated balance sheets at September 30, 2010 and December 31, 2009, and consist of the following:

Assets of discontinued operations:	September 30, 2010 (unaudited)	December 31, 2009
Accounts receivable and other receivables	$ 1,265,176	$ 4,144,319
Prepaid expenses and other current assets	214,674	836,195
Goodwill	—	298,500
Other assets	9,573	1,537
	$ 1,489,423	$ 5,280,551

Liabilities of discontinued operations:	September 30, 2010 (unaudited)	December 31, 2009
Accounts payable	$ 434,743	$ 346,709
Customer rebate payable	1,365	60,105
Accrued liabilities	482,834	776,527
Accrued warranty	1,296,591	1,179,596
Deferred revenue	326,408	619,242
Current portion of capital lease obligations	6,479	18,086
Current portion of long-term debt	197,042	222,583
Total current liabilities	2,745,462	3,222,848
Capital lease obligations, less current portion	6,307	2,728
Long-term debt, less current portion	208,891	352,847
Other long-term liabilities	108,177	19,440
Total discontinued operations liabilities	$ 3,068,837	$ 3,597,863

In connection with the announcement of our exit from the solar panel installation business, we reclassified certain assets as “Assets held for sale,” in the accompanying condensed consolidated balance sheets at September 30, 2010 and December 31, 2009, and consist of the following:

Assets held for sale:	September 30, 2010 (unaudited)	December 31, 2009
Inventory	$ 342,240	$ 1,057,249
Office equipment	12,333	194,195
Furniture and fixtures	18,305	199,446
Vehicles	379,422	