

Ascent Solar Technologies, Inc.  
Form 10-Q  
August 07, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the Transition Period from            to

Commission File No. 001-32919

**Ascent Solar Technologies, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>20-3672603</b> (I.R.S. Employer Identification No.)
<b>12300 Grant Street, Thornton, CO</b> (Address of principal executive offices)	<b>80241</b> (Zip Code)
<b>Registrant's telephone number including area code: 720-872-5000</b>	

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

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  No

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of July 20, 2009, there were 21,081,511 shares of our common stock issued and outstanding.

**Table of Contents**

**ASCENT SOLAR TECHNOLOGIES, INC.**

**Quarterly Report on Form 10-Q**

**Quarterly Period Ended June 30, 2009**

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

<b>Item 1.</b>	<b><u>Condensed Financial Statements</u></b>	3
	<u>Condensed Balance Sheets As of June 30, 2009 (Unaudited) and December 31, 2008</u>	3
	<u>Condensed Statements of Operations For the three and six months ended June 30, 2009 and June 30, 2008 and for the period from inception (October 18, 2005) through June 30, 2009 (Unaudited)</u>	4
	<u>Condensed Statements of Stockholders Equity and Comprehensive Income (Loss) For the period from inception (October 18, 2005) through December 31, 2008 (Audited) and for the six months ended June 30, 2009 (Unaudited)</u>	5
	<u>Condensed Statements of Cash Flows For the six months ended June 30, 2009 and June 30, 2008 and for the period from inception (October 18, 2005) through June 30, 2009 (Unaudited)</u>	7
	<u>Notes to Condensed Financial Statements</u>	8
<b>Item 2.</b>	<b><u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	19
<b>Item 3.</b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	28
<b>Item 4.</b>	<b><u>Controls and Procedures</u></b>	29

**PART II. OTHER INFORMATION**

<b>Item 1A.</b>	<b><u>Risk Factors</u></b>	29
<b>Item 4.</b>	<b><u>Submission of Matters to a Vote of Security Holders</u></b>	29
<b>Item 6.</b>	<b><u>Exhibits</u></b>	30
	<b><u>SIGNATURES</u></b>	31

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Condensed Financial Statements****ASCENT SOLAR TECHNOLOGIES, INC.****(A Development Stage Company as Defined by SFAS No. 7)****CONDENSED BALANCE SHEETS**

	<b>June 30, 2009</b>	<b>December 31,</b>
	<b>(unaudited)</b>	<b>2008</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 28,460,809	\$ 32,913,304
Restricted cash	2,100,000	2,300,000
Investments	17,956,891	52,136,902
Accounts receivable	249,784	336,236
Related party receivable	26,030	
Other current assets	461,118	746,687
<b>Total current assets</b>	<b>49,254,632</b>	<b>88,433,129</b>
<b>Property and Equipment:</b>	<b>31,607,720</b>	<b>28,446,433</b>
Less accumulated depreciation and amortization	(2,534,803)	(1,521,922)
	29,072,917	26,924,511
<b>Other Assets</b>		
Deposits on manufacturing equipment	65,953,179	38,644,881
Patents, net of amortization of \$8,953 and \$6,395, respectively	148,319	137,781
Other non-current assets	69,687	71,563
	66,171,185	38,854,225
<b>Total Assets</b>	<b>\$ 144,498,734</b>	<b>\$ 154,211,865</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 259,786	\$ 265,415
Related party payables	343,823	263,280
Accrued expenses	1,115,198	934,433
Accrued property and equipment	3,289,023	5,115,163
Current portion of long-term debt	227,341	187,150
Forward contract liabilities	71,950	766,403
<b>Total current liabilities</b>	<b>5,307,121</b>	<b>7,531,844</b>
<b>Deferred Rent</b>	<b>8,008</b>	<b>12,012</b>
<b>Long-Term Debt</b>	<b>7,205,906</b>	<b>7,049,902</b>
<b>Commitments and Contingencies (Notes 8 &amp; 14)</b>		
<b>Stockholders Equity:</b>		
Preferred stock, \$0.0001 par value, 25,000,000 shares authorized, no shares outstanding		
Common stock, \$0.0001 par value, 75,000,000 shares authorized; 21,080,511 and 20,946,382 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	2,108	2,095

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Additional paid in capital	165,614,716	164,391,585
Deficit accumulated during the development stage	(34,049,358)	(25,106,641)
Accumulated other comprehensive income	410,233	331,068
<b>Total stockholders' equity</b>	<b>131,977,699</b>	<b>139,618,107</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 144,498,734</b>	<b>\$ 154,211,865</b>

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

**Table of Contents****ASCENT SOLAR TECHNOLOGIES, INC.****(A Development Stage Company as Defined by SFAS No. 7)****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Period from inception (October 18, 2005) through June 30, 2009
	2009	2008	2009	2008	
<b>Research and Development Revenues</b>	\$ 262,674	\$ 344,115	\$ 778,806	\$ 649,013	\$ 3,281,209
<b>Costs and Expenses</b>					
Research and development	3,363,732	2,282,012	6,559,383	4,106,982	22,260,867
General and administrative	1,623,068	1,221,075	3,203,947	2,412,227	16,747,052
<b>Total Costs and Expenses</b>	4,986,800	3,503,087	9,763,330	6,519,209	39,007,919
<b>Loss from Operations</b>	\$ (4,724,126)	\$ (3,158,972)	\$ (8,984,524)	\$ (5,870,196)	\$ (35,726,710)
<b>Other Income/(Expense)</b>					
Interest expense	(127,988)	(67,879)	(211,333)	(107,393)	(1,298,625)
Interest income	146,641	547,556	480,007	899,603	4,323,780
Realized gain on investments	59,383		59,383		27,280
Realized loss on forward contracts	(424,331)		(980,703)		(1,303,133)
Unrealized gain (loss) on forward contracts	540,262		694,453		(71,950)
	193,967	479,677	41,807	792,210	1,677,352
<b>Net Loss</b>	\$ (4,530,159)	\$ (2,679,295)	\$ (8,942,717)	\$ (5,077,986)	\$ (34,049,358)
<b>Net Loss Per Share</b> (Basic and diluted)	\$ (0.22)	\$ (0.16)	\$ (0.43)	\$ (0.36)	
<b>Weighted Average Common Shares Outstanding</b> (Basic and diluted)	21,025,496	16,308,981	20,993,176	14,058,385	

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

**Table of Contents****ASCENT SOLAR TECHNOLOGIES, INC.****(A Development Stage Company as Defined by SFAS No. 7)****CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)****For the Period from inception (October 18, 2005) through December 31, 2008 (Audited) and for the Six Months Ended****June 30, 2009 (Unaudited)**

	Common Stock		Preferred Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	Other Comprehensive Income	Stockholders Equity
<b>Balance at inception, October 18, 2005</b>								
Proceeds from sale of common stock (11/05 @ \$.04 per share)	972,000	\$ 97		\$	\$ 38,783	\$	\$	\$ 38,880
Stock based compensation:								
Founders stock					933,120			933,120
Stock options					26,004			26,004
Net loss						(1,207,234)		(1,207,234)
<b>Balance, December 31, 2005</b>	972,000	\$ 97		\$	\$ 997,907	\$ (1,207,234)	\$	\$ (209,230)
Transfer of assets at historical cost (1/06 @ \$0.03 per share)	1,028,000	103			31,097			31,200
Proceeds from IPO (7/06 @ \$5.50 per unit)	3,000,000	300			16,499,700			16,500,000
IPO costs					(2,392,071)			(2,392,071)
Stock issued to bridge loan lenders (7/06 @ \$2.75 per share)	290,894	29			799,971			800,000
Exercise of stock options (9/06 & 12/06 @ \$0.10 per share)	31,200	3			3,117			3,120
Stock based compensation stock options					348,943			348,943
Net loss						(4,180,912)		(4,180,912)
<b>Balance, December 31, 2006</b>	5,322,094	\$ 532		\$	\$ 16,288,664	\$ (5,388,146)	\$	\$ 10,901,050
Exercise of stock options(1/07 - 12/07 @ \$.10) (7/07 - 12/07 @ \$4.25) (9/07 - 12/07 @ \$2.51 - \$2.76)	169,963	17			346,417			346,434
Conversion of Class A public warrants at \$6.60	3,098,382	310			20,449,011			20,449,321
Redemption of Class A public warrants at \$0.25 per share					(48,128)			(48,128)
Conversion of Class B public warrants at \$11.00 per share	11,000	1			120,999			121,000
Stock based compensation stock options					1,734,879			1,734,879
Proceeds from private placement:								
Common stock (3/07 @ \$5.77 and 8/07 @ \$7.198)	2,534,462	254			15,962,003			15,962,257
Class B public warrants (8/07 @ \$1.91)					3,754,468			3,754,468
Private placement costs					(75,807)			(75,807)
Exercise of representative s warrants (9/07 - 11/07 @ \$6.60 per unit)	300,000	30			1,979,970			1,980,000
Net loss						(6,503,419)		(6,503,419)
<b>Balance, December 31, 2007</b>	11,435,901	\$ 1,144		\$	\$ 60,512,476	\$ (11,891,565)	\$	\$ 48,622,055

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





**Table of Contents****ASCENT SOLAR TECHNOLOGIES, INC.**

(A Development Stage Company as Defined by SFAS No. 7)

**CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)**

(Continued)

For the Period from inception (October 18, 2005) through December 31, 2008 (Audited) and for the Six Months Ended

June 30, 2009 (Unaudited)

	Common Stock		Preferred Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In	Deficit	Other	Stockholders
					Capital		Comprehensive	Equity
<b>Balance, December 31, 2007</b>	11,435,901	\$ 1,144		\$	\$ 60,512,476	\$ (11,891,565)	\$	\$ 48,622,055
Exercise of stock options (1/08 - 12/08 @ \$0.10, \$2.73, \$2.90 & \$4.25)	133,137	13			120,520			120,533
Issuance of Restricted Stock	69,846	7			(7)			
Conversion of Class B public warrants at \$11.00 per share	98,800	10			1,086,790			1,086,800
Stock based compensation					1,881,399			1,881,399
Proceeds from private placement: Common stock (3/08 @ \$9.262 & 10/08 @ \$6.176)	4,763,698	476			36,647,217			36,647,693
Class B public warrants (3/08 @ \$3.954)					6,681,884			6,681,884
Exercise of representative s warrants (1/08 @ \$6.60 per unit)	75,000	8			494,992			495,000
Proceeds from shareholder under Section 16(b)					148,109			148,109
Proceeds from secondary public offering (5/08 @ \$14.00)	4,370,000	437			61,179,563			61,180,000
Costs of secondary public offering					(4,361,358)			(4,361,358)
<b>Components of comprehensive loss</b>								
Net loss						(13,215,076)		(13,215,076)
Unrealized gain on investments							331,068	331,068
<b>Total comprehensive loss</b>						(13,215,076)	331,068	(12,884,008)
<b>Balance, December 31, 2008</b>	20,946,382	\$ 2,095		\$	\$ 164,391,585	\$ (25,106,641)	\$ 331,068	\$ 139,618,107
Exercise of stock options (1/09 - 6/09 @ \$0.10 & \$4.25 per share)	97,169	10			335,482			335,492
Issuance of Restricted Stock	36,960	3			(3)			
Stock based compensation					887,652			887,652
<b>Components of comprehensive loss</b>								
Net loss						(8,942,717)		(8,942,717)
Unrealized loss on investments							(257,514)	(257,514)
Foreign currency translation adjustment							336,679	336,679
<b>Total comprehensive loss</b>						(8,942,717)	79,165	(8,863,552)
<b>Balance, June 30, 2009</b>	21,080,511	\$ 2,108		\$	\$ 165,614,716	\$ (34,049,358)	\$ 410,233	\$ 131,977,699

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



**Table of Contents****ASCENT SOLAR TECHNOLOGIES, INC.****(A Development Stage Company as Defined by SFAS No. 7)****CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>For the Six Months Ended June 30,</b>		<b>For the Period from inception (October 18, 2005) through June 30, 2009</b>
	<b>2009</b>	<b>2008</b>	
<b>Operating Activities:</b>			
Net loss	\$ (8,942,717)	\$ (5,077,986)	\$ (34,049,358)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	1,017,314	619,955	2,549,068
Stock based compensation	887,652	426,546	5,811,997
Realized loss on forward contracts	980,703		1,303,133
Unrealized (gain) loss on forward contracts	(694,453)		71,950
Charge off of deferred financing costs to interest expense			198,565
Charge off of bridge loan discount to interest expense			800,000
Changes in operating assets and liabilities:			
Accounts receivable	86,451	(86,547)	(249,785)
Related party receivables	(26,030)	(677)	(26,030)
Other current assets	285,569	(108,061)	(461,118)
Accounts payable	(5,629)	55,008	259,786
Related party payable	80,543	46,456	343,823
Deferred rent	(4,004)	(4,004)	8,008
Accrued expenses	180,765	69,136	1,115,199
Net cash used in operating activities	(6,153,836)	(4,060,174)	(22,324,762)
<b>Investing Activities:</b>			
Purchases of available-for-sale-securities	(97,215,184)	(167,946,487)	(792,888,932)
Maturities and sales of available for-sale securities	131,137,684	128,665,859	775,005,598
Purchase of property and equipment	(5,042,162)	(8,156,651)	(31,305,715)
Deposits on manufacturing equipment	(28,234,267)	(2,762,216)	(64,163,052)
Restricted cash for manufacturing equipment	200,000		(2,100,000)
Patent activity costs	(13,096)	(8,954)	(132,315)
Deposit on building			(100,000)
Net cash used in investing activities	832,975	(50,208,449)	(115,684,416)
<b>Financing Activities:</b>			
Proceeds from bridge loan financing			1,600,000
Repayment of bridge loan financing			(1,600,000)
Payment of debt financing costs		(75,000)	(273,565)
Payment of equity offering costs		(4,351,191)	(6,829,237)
Proceeds from debt	229,754	4,136,475	7,666,806
Repayment of debt	(33,559)		(233,559)
Proceeds from shareholder under Section 16(b)		148,109	148,109
Proceeds from issuance of stock and warrants	335,492	91,251,604	165,702,882
Redemption of Class A warrants			(48,128)
Net cash provided by financing activities	531,687	91,109,997	166,133,308

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

<b>Effect of exchange rate changes on cash and cash equivalents</b>	336,679		336,679
<b>Net change in cash and cash equivalents</b>	(4,452,495)	36,841,374	28,460,809
<b>Cash and cash equivalents at beginning of period</b>	32,913,304	580,746	
<b>Cash and cash equivalents at end of period</b>	\$ 28,460,809	\$ 37,422,120	\$ 28,460,809
<b>Supplemental Cash Flow Information:</b>			
Cash paid for interest	\$ 164,450	\$ 85,015	\$ 249,693
Cash paid for income taxes	\$	\$	\$
<b>Non-Cash Transactions:</b>			
ITN initial contribution of assets for equity	\$	\$	\$ 31,200

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

**Table of Contents**

**ASCENT SOLAR TECHNOLOGIES, INC.**

**(A Development Stage Company as Defined by SFAS No. 7)**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION**

Ascent Solar Technologies, Inc. (Ascent or the Company) was incorporated on October 18, 2005 from the separation by ITN Energy Systems, Inc. (ITN) of its Advanced Photovoltaic Division and all of that division's key personnel and core technologies. ITN, a private company incorporated in 1994, is an incubator dedicated to the development of thin-film, photovoltaic (PV) battery, fuel cell and nano technologies. Through its work on research and development contracts for private and governmental entities, ITN developed proprietary processing and manufacturing know-how applicable to PV products generally, and to Copper-Indium-Gallium-diSelenide (CIGS) PV products in particular. ITN formed Ascent to commercialize its investment in CIGS PV technologies. In January 2006, in exchange for 1,028,000 shares of common stock of Ascent, ITN assigned to Ascent all ITN's CIGS PV technologies and trade secrets and granted to Ascent a perpetual, exclusive, royalty-free worldwide license to use ITN's proprietary process, control and design technologies in the production of CIGS PV modules. Upon receipt of the necessary government approvals in January 2007, ITN assigned government-funded research and development contracts to Ascent and also transferred the key personnel working on the contracts to Ascent. Today, ITN still provides Ascent a variety of administrative and technical services such as facilities management, equipment maintenance and installation, procurement, and technical support services.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation:** The Company's activities to date have substantially consisted of raising capital, research and development, and the development of a 1.5 MW production plant and additional 30 MW expansion plant. Revenues to date have been generated from the Company's governmental research and development (R&D) contracts and have not been significant. The Company's planned principal operations to commercialize flexible PV modules have not yet commenced. Accordingly, the Company is considered to be in the development stage, as defined in Statement of Financial Accounting Standards No. 7 (SFAS No. 7), *Accounting and Reporting by Development Stage Enterprises*.

**Cash Equivalents:** The Company considers all highly liquid debt securities purchased with an original maturity of three months or less to be cash equivalents. The Company maintains cash balances which may exceed federally insured limits. The Company does not believe that this results in significant credit risk.

**Investments:** The Company accounts for investments in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company has classified its investments as available-for-sale. Such investments are carried at fair value, based on quoted market prices with the unrealized holding gains and losses reported as Accumulated other comprehensive income (loss) in the stockholders equity section of the balance sheet. Realized gains and losses on sales of securities are computed using the specific identification method. The Company evaluates declines in market value for potential impairment. If the decline results in a value below cost and is determined to be other than temporary, the investment is written down to its impaired value and a new cost basis is established.

**Fair Value estimates:** The fair value of an asset or liability is the amount at which it could be exchanged or settled in a current transaction between willing parties. The carrying value for cash and cash equivalents, investments, restricted cash, accounts receivable, accounts payable, accrued property and equipment, accrued expenses and other assets and liabilities approximate their fair values due to their short maturities. Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which provided a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. The Company adopted this statement for financial assets and financial liabilities and nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a recurring basis as of January 1, 2008. The Company adopted this statement for nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a nonrecurring basis as of January 1, 2009. The effect of the adoption of this statement was not material, resulting only in additional disclosures. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**Table of Contents**

**Foreign Currency translation:** Bank account balances related to our forward contracts are translated to U.S. dollars utilizing the period end exchange rate. The foreign currency translation adjustments are reflected as a separate component of accumulated other comprehensive income within stockholders' equity.

**Revenue Recognition:** Revenue to date is from governmental research and development contracts under terms that are cost plus fee or firm fixed price. Revenue from cost plus fee contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs and an allocable portion of the firm fixed fee. Revenue from firm fixed price contracts is recognized under the percentage-of-completion method of accounting, with costs and estimated profits included in contract revenue as work is performed. If actual and estimated costs to complete a contract indicate a loss, provision is made currently for the loss anticipated on the contract.

**Patents:** At such time as the Company is awarded patents, patent costs are amortized on a straight-line basis over the legal life, or over their estimated useful lives, whichever is shorter. As of June 30, 2009, the Company had \$148,319 of net patent costs of which \$26,859 represent costs net of amortization incurred for an awarded patent, and the remaining \$121,460 represents costs incurred for patent applications filed. Amortization expense for the three months ended June 30, 2009 and 2008 was \$1,279 and for the six months ended June 30, 2009 and 2008 was \$2,558.

**Property and Equipment:** Property and equipment are recorded at the original cost to the Company. Assets are being depreciated over estimated useful lives of one to ten years using the straight-line method, commencing when the asset is placed in service. Leasehold improvements are depreciated over the shorter of the remainder of the lease term or the life of the improvements. Upon retirement or disposal, the cost of the asset disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Expenditures for repairs and maintenance are expensed as incurred.

The Company computes depreciation expense using the straight-line method over the estimated useful lives of the assets, as presented in the table below. We amortize leasehold improvements over the shorter of their estimated useful lives or the remaining term of the lease.

	Useful Lives in Years
Buildings	40
Manufacturing machinery and equipment	5 - 10
Furniture, fixtures, computer hardware/software	3 - 7
Leasehold improvements	life of lease

**Long-lived assets:** We account for our long-lived, tangible assets and definitive-lived intangible assets in accordance with Statement of Financial Accounting Standards No. (SFAS, 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). As a result, we assess long-lived assets classified as held and used, including our property, plant and equipment, for impairment whenever long-lived asset may not be recoverable. These events would include significant current period operating or cash flow losses associated with the use of a long-lived asset or group of assets combined with a history of such losses, significant changes in the manner of use of assets and significant negative industry or economic trends.

**Risks and Uncertainties:** The Company's operations are subject to certain risks and uncertainties, including those associated with: the ability to meet obligations; continuing losses; fluctuation in operating results; funding expansions; strategic alliances; financing arrangement terms that may restrict operations; regulatory issues; and competition. The recent financial crisis and the resulting tightening in the credit markets have made it more difficult to raise additional capital to fulfill our expansion business plan. Additionally, U.S. government contracts may be terminated prior to completion of full funding by the U.S. government.

**Net loss per Common Share:** Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share include no dilution and are computed by dividing income available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in the earnings of the Company, similar to fully diluted earnings per share. Common stock equivalents consisting of Class B warrants, IPO warrants (representative warrants), stock options and restricted stock units outstanding as of June 30, 2009 and 2008 of approximately 12.0 million and 11.6 million shares, respectively, have been omitted from loss per share because they are anti-dilutive. Basic and diluted loss per share was the same in each of the periods ended June 30, 2009 and 2008.

**Research and Development Costs:** Research and development costs are incurred during the process of researching and developing new products and enhancing our manufacturing processes and consist primarily of compensation and related costs for personnel, materials, supplies

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

and equipment depreciation. We expense these costs as incurred until the resulting product has been completed and tested and is ready for commercial manufacturing. We also incur research and development expenses on our U.S. federal government research and development contracts and expense as incurred.

**Income Taxes:** Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable

## Table of Contents

temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment. Interest and penalties, if applicable, would be recorded in operations.

In July 2006, the FASB issued FASB Interpretation (FIN 48), *Accounting for Uncertainty in Income Taxes*. The Company adopted the provisions of FIN 48 on January 1, 2007. As defined, FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company became subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company has identified its federal tax return and its Colorado tax return as major tax jurisdictions, as defined. The periods subject to examination for the Company's federal and state tax returns are tax years 2005 through 2007. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

**Stock Based Compensation:** The Company accounts for share-based payments under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, officers, directors, and consultants, including employee stock options based on estimated fair values. SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's Condensed Statements of Operations. Stock based compensation is based on awards ultimately expected to vest and is reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, as necessary, in subsequent periods if actual forfeitures differ from those estimates.

For purposes of determining estimated fair value of share-based payment awards on the date of grant under SFAS 123(R), the Company uses the Black-Scholes option-pricing model (Black-Scholes Model). The Black-Scholes Model requires the input of highly subjective assumptions. Because the Company's employee stock options may have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of the Company's employee stock options. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time, which result in changes to these assumptions and methodologies, which could materially impact the Company's fair value determination.

The application of the SFAS 123(R) accounting principles may be subject to further interpretation and refinement over time. There are significant differences among option valuation models, and this may result in a lack of comparability with other companies that use different models, methods and assumptions. If factors change and the Company employs different assumptions in the application of SFAS 123(R) in future periods, or if the Company decides to use a different valuation model, the compensation expense that the Company records in the future under SFAS 123(R) may differ significantly from what it has recorded in the current period and could materially affect its loss from operations, net loss and net loss per share.

**Comprehensive income (loss):** Our comprehensive income (loss) consists of our net income (loss), changes in unrealized gains or losses on available for sale investments and foreign currency translation adjustments, the impact of which has been excluded from net loss. We present our comprehensive income (loss) in the Condensed Statements of Stockholders' Equity and Comprehensive Income and (Loss). Our accumulated other comprehensive income (loss) is presented as a component of equity in our Condensed Balance Sheets and consists of the cumulative amount of unrealized gains or losses on available-for-sale investments and the cumulative amount of net financial statement translation adjustments that we have incurred since the inception of our business.

**Reclassifications:** Certain reclassifications have been made to the 2008 financial information to conform to the 2009 presentation. Such reclassifications had no effect on net loss and are primarily related to reclassifying costs between Research and development costs and General and administrative expenses in the Condensed Statements of Operations.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.





---

## **Table of Contents**

**Unaudited Information:** The accompanying interim financial information as of June 30, 2009 and for the six months ended June 30, 2009 and 2008 and the period from inception (October 18, 2005) through June 30, 2009 was taken from the Company's books and records without audit. However, in the opinion of management, such information includes all adjustments (consisting only of results of normal recurring accruals) that are necessary to properly reflect the financial position of the Company as of June 30, 2009 and the results of operations for the six months ended June 30, 2009 and 2008 and the period from inception (October 18, 2005) through June 30, 2009 so that the financial statements are not misleading.

**Recent Accounting Pronouncements:** In May 2009, the FASB issued SFAS 165, *Subsequent Events*. This standard establishes general standards of accounting for and disclosure of events that occurred after the balance sheet date, but before financial statements are issued or available to be issued. Specifically, this standard codifies in authoritative GAAP standards the subsequent event guidance that was previously located in auditing standards. SFAS 165 is effective for fiscal years and interim periods ended after June 15, 2009, and is applied prospectively. We adopted SFAS 165 in our quarter ended June 30, 2009. The adoption of SFAS 165 did not have a material impact on our financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of SFAS 162*. This standard designates the FASB Accounting Standards Codification (FASC) as the source of authoritative U.S. GAAP. SFAS 168 is effective for interim or fiscal periods ending after September 15, 2009. We will begin to use the new guidelines and numbering system prescribed by the FASB when referring to GAAP in our quarter ending September 30, 2009.

### **NOTE 3. LIQUIDITY AND CONTINUED OPERATIONS**

As discussed in Note 1, the Company is in the development stage and is currently incurring significant losses from operations. As of June 30, 2009, the Company had \$48.5 million in cash, restricted cash and investments of which approximately \$23 million we intend to use in 2009 for progress payments to our equipment suppliers for our 30 MW line and \$1 million for facility infrastructure for our 30 MW expansion. An additional \$24 million is required in 2010 for final payments to our equipment suppliers on the 30MW line.

The Company commenced regular production on its 1.5 MW production line in the first quarter of 2009. We do not expect that sales revenue from the 1.5 MW production line will be sufficient to support operations and cash requirements, and it is unlikely that sales revenue will support operating cash requirements unless we achieve actual production capacity of at least 30 MW per year. Our original equipment delivery schedule called for installation of all of the 30 MW production equipment during 2009. Due to the recent financial crisis affecting the financial markets, our ability to obtain credit or to raise additional capital has become increasingly difficult. In order to preserve cash, we have extended the equipment delivery schedule related to the first 30MW of annual rated production capacity to 2010. We now expect to begin production using equipment with an annual rated production capacity of approximately 15 MW in early 2010, and full 30 MW of annual rated production capacity by the end of 2010.

The Company expects its current cash balance to be sufficient to cover its operational expenditures through 2009 based on currently known factors, although it expects that it will need to raise additional capital prior to early 2010 to complete its expansion plans.

### **NOTE 4. FAIR VALUE MEASUREMENTS**

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which provided a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. The Company adopted this statement for financial assets and financial liabilities and nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a recurring basis as of January 1, 2008. The Company adopted this statement for nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a nonrecurring basis as of January 1, 2009. The effect of the adoption of this statement was not material, resulting only in additional disclosures. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Level 1 Quoted prices in active markets for identical assets or liabilities.

**Table of Contents**

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In accordance with SFAS 157, the following table represents the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis and its classification on the balance sheet as of June 30, 2009:

	Level 1	Level 2	Level 3	Total	Cash Equivalents	Investments
<b>Financial Assets:</b>						
U.S. government securities	\$	\$ 13,742,544	\$	\$ 13,742,544	\$	\$ 13,742,544
Money market funds	18,885,344			18,885,344	18,885,344	
Corporate securities		4,214,347		4,214,347		4,214,347
	\$ 18,885,344	\$ 17,956,891	\$	\$ 36,842,235	\$ 18,885,344	\$ 17,956,891
<b>Financial Liabilities:</b>						
Derivative liability	\$	\$ 71,950	\$	\$ 71,950		

The fair value of our U.S. government and corporate securities financial assets are noted as an observable input Level 2 as the Company relies on its investment manager to derive the fair value at the end of each month due to the unavailability of quoted prices for these assets.

**NOTE 5. INVESTMENTS**

The Company accounts for investments in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Securities held by the Company as of June 30, 2009 are classified as available-for-sale and consisted of U.S. government securities and corporate securities. Such investments are carried at fair value, based on quoted market prices with the unrealized holding gains and losses reported as Accumulated other comprehensive income in the stockholders' equity section of the balance sheet. Realized gains and losses on sales of securities are computed using the specific identification method. The Company evaluates declines in market value for potential impairment. If the decline results in a value below cost and is determined to be other than temporary, the investment is written down to its impaired value and a new cost basis is established. A summary of available-for-sale securities as of June 30, 2009 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	\$ 13,690,849	\$ 73,838	\$ (22,143)	\$ 13,742,544
Corporate securities	4,192,488	22,329	(470)	4,214,347
<b>Total</b>	<b>\$ 17,883,337</b>	<b>\$ 96,167</b>	<b>\$ (22,613)</b>	<b>\$ 17,956,891</b>

Contractual maturities of our available-for-sale investments as of June 30, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
--	----------------	------------------------------	-------------------------------	----------------------------

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

One year or less	\$ 17,883,337	\$ 96,167	\$ (22,613)	\$ 17,956,891
------------------	---------------	-----------	-------------	---------------

We typically invest in highly-rated securities with low probabilities of default. Our investment policy specifies minimum investment grade criteria, types of acceptable investments, concentration limitations and duration.

### **NOTE 6. ACCOUNTS RECEIVABLE**

Effective January 1, 2007, the Company completed the novation, or transfer, of approximately \$3.5 million in government funded research and development contracts (R&D contracts) from ITN to the Company. The various contracts are being performed for U.S. government customers that include the Air Force Research Laboratory and the National Aeronautics and Space Administration. In addition to approximately \$1.6 million of future revenues to be provided under the transferred contracts, the key scientists, engineers, and process technicians responsible for deliverables under the transferred contracts were also transferred from ITN to become full-time Ascent employees. In 2007 and 2008, additional R&D contracts were awarded to the Company of approximately \$3.4 million.

**Table of Contents**

Accounts receivable consists mainly of billed and unbilled amounts under these R&D contracts. Management deems all accounts receivable to be collectible.

The following table summarizes components of accounts receivable related to R&D contracts:

	As of June 30, 2009	As of December 31, 2008
Billed receivables	\$ 199,066	\$ 273,995
Unbilled receivables	11,158	62,241
<b>Total</b>	<b>\$ 210,224</b>	<b>\$ 336,236</b>

Unbilled receivables represent costs incurred but not yet billed, including retainage amounts by the government on contracts that have not been closed out at the end of the period.

*Provisional Indirect Cost Rates* During 2007, 2008 and 2009, the Company billed the government under cost-based R&D contracts at provisional billing rates which permit the recovery of indirect costs. These rates are subject to audit on an annual basis by the government agencies cognizant audit agency. The cost audit will result in the negotiation and determination of the final indirect cost rates. The Company has not been audited and has not received final rate determinations for the year ended December 31, 2007 or December 31, 2008. The final rates, if different from the actual, may create an additional receivable or liability. In the opinion of management, re-determination of any cost-based contracts will not have a material effect on the Company's financial position or results of operations.

*Contract Status* The Company has authorized but not completed contracts on which work is in process as follows:

	As of June 30, 2009	As of December 31, 2008
Total contract price of initial contract awards, including exercised options and approved change orders (modifications)	\$ 6,889,991	\$ 6,889,991
Completed to date(1)	(5,042,695)	(4,307,951)
<b>Authorized backlog</b>	<b>\$ 1,847,296</b>	<b>\$ 2,582,040</b>

(1) Includes work performed by ITN prior to January 1, 2007.

**NOTE 7. PROPERTY AND EQUIPMENT**

The following table summarizes property and equipment:

	As of June 30, 2009	As of December 31, 2008
Furniture, fixtures, computer hardware and computer software	\$ 939,817	\$ 715,310
Manufacturing machinery and equipment	12,709,426	12,257,585
Leasehold improvements	792,317	789,342
Building	5,687,566	5,634,060
Building construction in process	11,478,594	9,050,136

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Net property, plant and equipment	31,607,720	28,446,433
Less: Accumulated depreciation and amortization	(2,534,803)	(1,521,922)
Property and equipment, net	\$ 29,072,917	\$ 26,924,511

Property and Equipment depreciation and amortization expense for the three months ended June 30, 2009 and 2008 was \$564,444 and \$350,875, respectively and for the six months ended June 30, 2009 and 2008 was \$1,012,881 and \$615,834, respectively.

**Table of Contents****NOTE 8. DEPOSITS ON MANUFACTURING EQUIPMENT**

As of June 30, 2009, the Company had entered into purchase agreements of approximately \$102 million for the acquisition of manufacturing production tools and approximately \$7 million for one meter wide manufacturing development tools for the Company's planned expansion to approximately 30 MW of rated capacity and planned future implementation of one meter wide substrates. As of June 30, 2009, the Company had made or accrued progress payments of approximately \$66 million on these purchase agreements which are reflected on the Condensed Balance Sheet as Deposits on manufacturing equipment. Generally, these purchase agreements have milestone-based deliverables, such as the Company's acceptance of design requirements and successful installation and commissioning of the equipment.

**NOTE 9. DEBT**

In January 2006, the Company completed a \$1.6 million bridge loan (Bridge Financing) from lenders (Bridge Noteholders) to help meet the Company's working capital needs. The loans (Bridge Loans) accrued interest at an annual rate of 10% and were due and payable upon the earlier of January 2007 or the completion of Ascent's public offering of equity securities with gross proceeds of at least \$5,000,000 (Qualified Public Offering). In July 2006, with the proceeds from a Qualified Public Offering (*i.e.*, the Company's initial public offering or IPO), the Company repaid the Bridge Loans including accrued interest.

In connection with the Bridge Loans, the Company issued rights (Bridge Rights) to the Bridge Noteholders. One Bridge Right was issued for every \$25,000 loaned. In July 2006, upon completion of the IPO, the holders of Bridge Rights received restricted units. The holder of each Bridge Right received that number of units equal to \$25,000 divided by the IPO price of the units of \$5.50 for a total of 290,894 units. The units are identical to those offered in Ascent's IPO and consisted of one share of common stock, one redeemable Class A public warrant and two non-redeemable Class B warrants. In September 2006, the SEC declared effective the Company's Registration Statement on Form SB-2 (Reg. No. 333-137008) for the shares and warrants underlying the 290,894 units issued in connection with the Bridge Rights. The Registration Statement on Form SB-2 subsequently was converted to a Registration Statement on Form S-3.

Paulson Investment Company, Inc. acted as the placement agent for the Bridge Financing. The Company paid Paulson Investment Company, Inc. a commission equal to 10% of the gross proceeds from the Bridge Financing, plus reasonable out-of-pocket expenses. The Bridge Loans and the Bridge Rights were allocated for accounting purposes based on the relative fair values of the Bridge Loans without the Bridge Rights and the Bridge Rights themselves at the time of issuance. The actual value of the Bridge Loans and the Bridge Rights was computed at \$1,600,000 each for a total value of \$3,200,000. Since they were each of equal value, the \$1,600,000 of proceeds was allocated 50% to the Bridge Loans and 50% to the Bridge Rights (*i.e.*, \$800,000 each). The Bridge Rights of \$800,000 were accounted for as paid-in capital.

The discount for the commission (\$160,000) and the Bridge Rights (\$800,000) were amortized into interest expense over the life of the loans. In July 2006 with the repayment of the Bridge Loans, the remaining unamortized balance of the discount for commission and Bridge Rights of \$960,000 was recognized as interest expense in the Condensed Statements of Operations.

On February 8, 2008, the Company acquired an approximately 120,000 square foot manufacturing and office facility in Thornton, Colorado, for approximately \$5.5 million. The purchase was financed by a promissory note, deed of trust and construction loan agreement ( Construction Loan ) with the Colorado Housing and Finance Authority ( CHFA ), which provided the Company borrowing availability of up to \$7.5 million for the building and building improvements. The Company paid approximately \$1.3 million in cash and was advanced approximately \$4.2 million from CHFA to fund the initial acquisition of the property. The terms of the Construction Loan required payments of interest only at 6.6% on the outstanding balance. On January 29, 2009, the Construction Loan was converted into a permanent loan pursuant to a loan modification agreement between the Company and CHFA ( Permanent Loan ). The Permanent Loan has an interest rate of 6.6% and the principal will be amortized over a period of approximately 19 years and 1 month consistent with a maturity date 20 years after the incurrence of the Construction Loan on February 8, 2008. An additional \$75,000 loan commitment fee was paid in 2008 and reflected on the balance sheet in non-current assets. This fee is being amortized into interest expense over the 20 year life of the Construction and the Permanent Loan. As of June 30, 2009, we have expended approximately \$12.2 million in building improvements of which \$3.4 million was funded by the Permanent Loan. As of June 30, 2009, the renovation was substantially complete. Additional infrastructure costs related to the build-out of two additional structures, electrical upgrade and other utilities have increased our budget for our building improvements since originally projected early in 2008. We will incur a prepayment penalty if the Permanent Loan is prepaid prior to December 31, 2015 equal to the sum of (i) the present value of the total principal and interest payments due under the promissory note from the prepayment date to December 31, 2015, and (ii) the present value of the remaining principal balance of the promissory note that would have been due as of December 31, 2015, less the principal amount of the promissory note outstanding. Further, pursuant to certain negative covenants contained in the deed of trust associated with the Permanent Loan, until the Permanent Loan is repaid and all of our secured obligations performed in full, we may not, among other things, without CHFA's prior written consent: create or incur additional indebtedness; merge or consolidate with any other entity; or make loans or advances to our officers, shareholders, directors or employees, which consent will not be unreasonably withheld.





**Table of Contents**

On January 29, 2009, the date of the closing of our Permanent Loan of \$7,500,000, our future principal payments were due as follows:

2009	\$ 187,150
2010	217,463
2011	232,257
2012	248,059
2013	264,935
Thereafter	6,350,136
	<b>\$ 7,500,000</b>

**NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company is actively engaged in purchasing manufacturing equipment internationally and is exposed to foreign currency risk. In July 2008 and March 2009, the Company entered into fair value hedges utilizing forward contracts designed to match scheduled contractual payments to equipment suppliers which are denominated in Euros and Yen. The total notional value of the Euro forward contracts was 6.4 million with various contract settlement dates beginning September 15, 2008 through July 31, 2009. The total notional value of the Yen forward contracts was ¥521.4 million with contract settlement dates of March and April 2009. The Company elected not to use hedge accounting under SFAS 133 and accordingly, the unrealized gains and losses on each forward contract were determined at each balance sheet date based upon current market rates and are reported as Unrealized gains or losses on forward contracts in the Condensed Statements of Operations. Upon settlement of the forward contracts, realized gains or losses are reported in the Condensed Statements of Operations as Realized gains or losses on forward contracts. As of June 30, 2009, the unrealized gain on these forward contracts was \$694,453 and the realized loss was \$980,703. Although the hedging activity is designed to fix the dollar amount to be expended, the asset purchased is recorded at the spot rate in effect as of the date of the payment to the supplier. The difference between the spot rate and the forward rate has been reported as a loss on forward contract. During the first and second quarter 2009, forward contracts for delivery of 2,256,448 and ¥427,889,000 were settled and deposited in a bank account for future payments to our equipment suppliers. Period end foreign currency translation adjustments related to the Euros and Yen on deposit in our bank account are reflected in accumulated other comprehensive income (loss) as a component of equity in our Condensed Balance Sheets. Included in cash and cash equivalents is \$3,177,919 related to 2,263,153 Euros and \$4,489,916 related to 427,889,000 Yen held as of June 30, 2009. In connection with the forward contracts, the Company has a \$2 million deposit account with the bank holding the forward contracts which is reflected as restricted cash on the June 30, 2009 balance sheet. Derivative financial instruments are not used for speculative or trading purposes. See Note 4 for information about the fair value measurement of our derivative financial instruments.

**NOTE 11. STOCKHOLDERS' EQUITY**

The Company's authorized capital stock consists of 75,000,000 shares of common stock, \$0.0001 par value, and 25,000,000 shares of preferred stock, \$0.0001 par value. In November 2005, the Company issued 972,000 shares of common stock at a price of \$0.04 per share. The Company has recorded for financial statement purposes the 972,000 shares at a fair value of \$1.00 per share. The Condensed Statements of Stockholders' Equity and Comprehensive Income (Loss) reflects compensation expense of \$933,120 related to the recording of this stock transaction. In January 2006, in consideration of certain asset transfers, licenses and service agreements, the Company issued 1,028,000 shares of common stock to ITN Energy Systems, Inc.

Preferred stock, \$0.0001 par value per share, may be issued in classes or series. Designations, powers, preferences, rights, qualifications, limitations and restrictions are determined by the Company's Board of Directors.

**Initial Public Offering:** On July 10, 2006, the Securities and Exchange Commission (SEC) declared effective the Company's Registration Statement on Form SB-2 (Reg. No. 333-131216), and the Company completed its initial public offering (IPO) of 3,000,000 units on July 14, 2006. Each unit consisted of one share of common stock, one redeemable Class A warrant and two non-redeemable Class B warrants. The managing underwriter of the IPO was Paulson Investment Company, Inc. The IPO price was \$5.50 per unit. The gross proceeds of the offering were \$16,500,000. Ascent's net proceeds from the offering, after deducting the underwriter's discount of \$1,097,250 and other fees and expenses, aggregated approximately \$14,000,000.

The common stock and Class A and Class B warrants traded only as a unit through August 9, 2006, after which the common stock, the Class A warrants and the Class B warrants began trading separately.

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

*Class A warrants.* On May 24, 2007, the Company publicly announced that it intended to redeem its outstanding Class A warrants. The Class A warrants became eligible for redemption by the Company at \$0.25 per warrant on April 16, 2007, when the last reported sale price of the Company's common stock had equaled or exceeded \$9.35 for five consecutive trading days. There were

**Table of Contents**

3,290,894 Class A warrants issued in connection with the Company's initial public offering, including the warrants issued to the Bridge Noteholders. The Class A warrants were exercisable at a price of \$6.60 per share.

The exercise period ended June 22, 2007. During the exercise period, 3,098,382 Class A warrants (94.1% of the total outstanding) were exercised for an equal number of shares of common stock, and the Company received \$20,449,321 in proceeds from the warrant exercises. At the end of the exercise period, 192,512 Class A warrants remained outstanding. The Company has set aside funds with its warrant transfer agent to redeem the outstanding warrants for \$0.25 per warrant, or a total cost of \$48,128. As of June 30, 2009, 9,090 Class A warrants remain unredeemed.

*Class B warrants.* The Class B warrants included in the units became exercisable on August 10, 2006. The exercise price of a Class B public warrant is \$11.00. The Class B warrants expire on July 10, 2011. The Company does not have the right to redeem the Class B warrants. During the years ended December 31, 2008 and 2007, 98,800 and 11,000 Class B warrants, respectively were exercised resulting in proceeds to the Company of approximately \$1,086,800 and \$121,000 respectively. As of June 30, 2009, 10,502,583 Class B warrants were outstanding.

*IPO warrants.* Warrants to purchase 300,000 units at \$6.60 were issued to underwriters of the Company's initial public offering in July 2006 (representative's warrants). A unit consists of one share of common stock, one Class A redeemable warrant and two Class B non-redeemable warrants. The warrants expire on July 10, 2011. Upon exercise of the representative's warrants, holders will be forced to choose whether to exercise the underlying Class A warrants or hold them for redemption. As noted above, on June 25, 2007, any Class A warrants then outstanding expired and became redeemable.

Representative's warrants to purchase 150,000 units have been exercised as of December 31, 2007, as have the 150,000 underlying Class A warrants resulting in an issuance of 300,000 shares of common stock and 300,000 Class B warrants for total proceeds to the Company of \$1.98 million. During the year ended December 31, 2008 an additional 37,500 units were exercised, as well as 37,500 underlying Class A warrants resulting in an issuance of 75,000 shares of common stock and 75,000 Class B warrants for total proceeds to the Company of \$495,000. To the extent that holders of representative's warrants are entitled to receive Class A warrants upon exercise of the representative's warrants, those warrants will be immediately subject to call for redemption at \$0.25 per warrant. The holders will then have to decide whether to exercise their Class A warrants or hold them for redemption. As of June 30, 2009, 112,500 representative's warrants remained unexercised.

**Private Placement of Securities:** The Company completed a private placement of securities with Norsk Hydro Produksjon AS (Hydro) in March 2007. Hydro is a subsidiary of Norsk Hydro ASA. Hydro purchased 1,600,000 shares of the Company's common stock (representing 23% of the Company's outstanding common stock post transaction) for an aggregate purchase price of \$9,236,000. The Company recorded \$75,807 of costs associated with the private placement as a reduction to Additional paid in capital on the Company's Balance Sheets. In connection with the private placement, Hydro was granted options to purchase additional shares and warrants.

In August 2007, Hydro acquired an additional 934,462 shares of the Company's common stock and 1,965,690 Class B warrants through the exercise of an option previously granted to Hydro and approved by Ascent's stockholders in June 2007. Gross proceeds to the Company were \$10.48 million, and reflected per share and per warrant purchase prices equal to the average of the closing bids of each security, as reported by NASDAQ, for the five consecutive trading days preceding exercise. After acquiring these additional shares, Hydro again held 23% of the total outstanding common shares, after its holdings were diluted as the result of the redemption of Class A warrants and 23% of total outstanding Class B warrants. Pursuant to a second option that was approved by Ascent's stockholders in June 2007, beginning December 13, 2007, Hydro was entitled to purchase additional shares and Class B warrants up to a maximum of 35% of each class of security.

In March 2008, Hydro acquired an additional 2,341,897 shares of the Company's common stock and 1,689,905 Class B warrants through the exercise of the second option previously granted to Hydro and approved by Ascent's stockholders in June 2007, resulting in Hydro ownership of approximately 35% of each class of security. Gross proceeds to the Company were \$28.4 million, and reflected per share and per warrant purchase prices were equal to the average of the closing bids of each security, as reported by NASDAQ, for the five consecutive trading days preceding exercise. As a result of the Company's Secondary Public Offering in May 2008, Hydro's holdings were diluted to approximately 27%.

On October 8, 2008, Hydro acquired an additional 2,421,801 shares of the Company's common stock. The purchase resulted in a return to Hydro's ownership of approximately 35% of the Company's common stock. Gross proceeds to the company from the follow on investment were approximately \$15 million, and reflect per share purchase prices equal to the average of the closing bids of each security, as reported by NASDAQ, for the five consecutive trading days preceding exercise. Until June 15, 2009, the second option entitled Hydro to purchase from the Company additional restricted shares of common stock and Class B warrants to maintain ownership of up to 35% of issued and outstanding common stock and Class B warrants.





Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Expected volatility	108.5%	83.7%
Risk free interest rate	2.7%	3.45%
Expected dividends		
Expected life (in years)	5.68	6.41

**Table of Contents**

For the three months ended June 30, 2009, the Company based its estimate of expected volatility, expected life and expected forfeiture rate on historical company experience. For the three months ended June 30, 2008, the Company based its estimate of expected volatility on disclosures made by peers, the expected life was calculated using the simplified method permitted by Staff Accounting Bulletin (SAB) 107 and forfeitures were estimated based on historical employee retention experience among staff of similar position to those granted options in the plan.

Stock-based compensation expense is calculated on a straight-line basis over the vesting periods of the related options. In future periods, the compensation expense that the Company records under SFAS 123(R) may differ significantly from what the Company recorded in the current period, as the Company builds company-specific performance history.

As of June 30, 2009, the Company had approximately \$1,467,000 of total compensation cost related to non-vested stock option awards not yet recognized and expects to recognize these costs over a weighted average period of approximately 2 years. As of June 30, 2009, approximately 950,000 shares were expected to vest in the future at a weighted average exercise price of \$5.01. As of June 30, 2009, approximately 1,078,500 shares remained available for future grants under the Option Plan.

In addition to the stock options discussed above, the Company recognized share-based compensation expense related to restricted stock awards and restricted stock units of \$247,360 and \$19,015 for the six months ended June 30, 2009 and 2008, respectively and \$128,386 and \$19,015 for the three months ended June 30, 2009 and 2008, respectively. The weighted average grant date fair value of restricted stock for the six months ended June 30, 2009 and 2008 was \$7.79 and \$16.51 per share respectively. Total unrecognized share-based compensation expense from unvested restricted stock awards and restricted stock units as of June 30, 2009 was approximately \$1,258,000 which is expected to be recognized over a weighted average period of approximately 1.4 years.

Total stock-based compensation expense related to both stock options and restricted stock awards and units is reflected in our Condensed Statements of Operations as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
<b>Stock-based compensation cost included in:</b>				
Research and development	\$ 214,680	\$ 124,570	\$ 390,322	\$ 214,985
Selling, general and administrative	263,164	130,583	497,330	211,561
Total stock-based compensation cost	\$ 477,844	\$ 255,153	\$ 887,652	\$ 426,546

**NOTE 13. RELATED PARTY TRANSACTIONS**

Included in General and administrative expenses in the Condensed Statements of Operations for the three months ended June 30, 2009 and 2008 are \$206,971 and \$298,134, respectively, and during the six months ended June 30, 2009 and 2008 are \$408,028 and \$545,393, respectively, of expenditures to ITN for facility sublease costs and administrative support expenses. Included in Research and development expense for the three months ended June 30, 2009 and 2008 are \$374,669 and \$345,342, respectively, and during the six months ended June 30, 2009 and 2008 are \$969,067 and \$588,733, respectively, of expenditures to ITN for supporting research and development and manufacturing activity. Related party payables of \$343,823 as of June 30, 2009 and \$263,280 as of December 31, 2008 on the Condensed Balance Sheets represent costs remaining to be paid to ITN for these expenditures and amounts payable to officers and directors for reimbursement of travel expenditures.

Included in Property and equipment and Deposits on manufacturing equipment as of June 30, 2009 is \$2,188,207 of expenditures to ITN for the construction of manufacturing and research and development equipment and equipment installation for our 30 MW production line incurred during the period January 1, 2006 to June 30, 2009.

**NOTE 14. COMMITMENTS**

**Sublease Agreement:** On November 1, 2005, the Company entered into a sublease agreement with ITN, a greater than five percent stockholder of the Company, to lease office space in Littleton, Colorado. In 2005 and 2006, two Board members of Ascent were partial owners of the company that leased this office space to ITN. As of January 1, 2007, they no longer have an investment in the building the Company is subleasing from ITN. Future minimum payments due under the sublease as of December 31, 2008 are as follows:



Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

**Year ending December 31:**

2009	\$ 227,896
2010	\$ 113,948

---

## **Table of Contents**

The Company is also responsible for payment of pass-through expenses such as property taxes, insurance, water and utilities. Rent expense for the three months ended June 30, 2009 and 2008 was \$58,761 and \$56,973, respectively, and during the six months ended June 30, 2009 and 2008 was \$118,025 and \$113,946, respectively.

**Patent License Agreements:** In 2006, the Company entered into two non-exclusive patent license agreements. In consideration for the right to license certain inventions, the Company is required to pay annual royalty payments based on net sales of products manufactured using the licensed technology. If there are no net sales of products manufactured using the licensed technology, then a minimum royalty payment is required. The Company has made payments for the annual minimum royalties due associated with these patent license agreements.

### **NOTE 15. RETIREMENT PLAN**

On July 1, 2006, the Company adopted a qualified 401(k) plan ( Plan ) which provides retirement benefits for all of its eligible employees. Under the Plan, employees become eligible to participate at the first entry date, provided that they are at least 21 years of age. The participants may elect through salary reduction to contribute up to ceilings established in the Internal Revenue Code and the Plan documents. The Company will match 100% of the first six percent of employee eligible compensation contributions per pay period. In addition, the Company may make discretionary contributions to the Plan as determined by the Board of Directors. Employees are immediately vested in all salary reduction contributions. Rights to benefits provided by the Company's discretionary and matching contributions vest 100% after the first year of service.

### **NOTE 16. SUBSEQUENT EVENTS**

We have evaluated subsequent events through August 7, 2009, the date that these financial statements were issued.

On July 13, 2009, the Company announced the appointment of Farhad Moghadam, Ph.D., as the Company's President and Chief Executive Officer. The appointment became effective August 3, 2009. In connection with his employment, Dr. Moghadam has executed an executive employment agreement with the Company.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and the notes to those financial statements appearing elsewhere in this Form 10-Q. This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.*

### **Overview**

We are a development stage company formed to commercialize flexible PV modules using proprietary technology. For the six months ended June 30, 2009, we generated approximately \$779,000 in revenues. A majority of revenue was from government research and development contracts not from our planned principal operations to commercialize flexible PV modules. As of June 30, 2009, we had an accumulated deficit of approximately \$34 million. Currently our 30MW plant is being installed and commissioned. Under our current business plan, we expect losses to continue until production reaches our annual rated capacity of 30MW. To date, we have financed our operations primarily through public and private equity financings including our secondary public offering of 4,370,000 shares of common stock with net proceeds of approximately \$56.8 million completed in May 2008, and an additional investment of approximately \$15 million by our largest shareholder Norsk Hydro in October 2008. The proceeds from these stock sales are primarily being utilized to fund the equipment purchases for our 30 MW production facility in Thornton, Colorado.

While focused on speed to market, we believe that quality and consistency of product will be paramount to our success in the marketplace. Consequently, our path to commercialization is defined by a highly disciplined, staged progression based upon the achievement of key milestones and supported by over fourteen years of concerted research and development activity by our scientists. Our progression also takes into account market conditions, as well as financing options. In keeping with our philosophy, we completed construction of a 1.5 MW production line in December 2007. In March 2008, we demonstrated initial operating capability (IOC) of our 1.5 MW production line by initiating production trials as an end-to-end integrated process. In the fourth quarter 2008 the U.S.



## **Table of Contents**

Department of Energy's National Renewable Energy Laboratory (NREL) independently verified that modules produced on our 1.5 MW line measured as high as 9.64% in conversion efficiency. The test modules measured six inches wide by one foot long and serve as our building block for both building integrated PV ( BIPV ) and portable power products. During 2008 we focused on testing and qualifying our 1.5 MW production line in anticipation of commencing limited regular production. In the first half of 2009, we began regular production of monolithically integrated flexible CIGS modules from our 1.5 MW production line. In the second quarter 2009 NREL independently verified that modules produced on our 1.5 MW line measured as high as 10.4% in conversion efficiency. Also, during the second quarter 2009, we produced a module five meters long, weighing two kilograms, and that produced 123 watts (under standard test conditions) with an aperture area efficiency of 9.1%. We believe that the five meter long module is the largest monolithically interconnected CIGS module on polyimide ever produced, and possibly the largest CIGS module regardless of construction. We intend to use the five meter length as a baseline for the company's development of large area, flexible, building integrated photovoltaic (BIPV) products with our strategic BIPV partners. We expect that process optimization will be an ongoing effort as we continuously strive for improvements in production yield, production throughput, and product efficiency that have a direct bearing on our cost competitiveness in the marketplace.

During late 2008, we initiated the critical tasks of internal product testing and product development with customers. In 2009, we continued those tasks further and have commenced prototype development with our BIPV, electronic integrated PV (EIPV) and military customers by providing them test samples from our 1.5 MW production line. At the same time we expect to complete the internal testing and begin product certification by the end of 2009.

Production tooling and equipment for the 30 MW plant began arriving in the first quarter of 2009 and installation began in second quarter 2009. Equipment installation is scheduled to be completed in the first half of 2010. We expect to begin production in 2010 and ramp up to rated 30 MW of annual rated production capacity by the end of 2010. Completing our 30MW expansion as well as expanding our annual rated production capacity to 110 MW or greater will be based on our manufacturing developments, market conditions and availability of financing.

### **Commercialization and Manufacturing Expansion Plan**

We intend to be the first company to manufacture large, flexible, PV modules in commercial quantities that use CIGS on a flexible, plastic substrate. Our manufacturing expansion plan entails the design, installation, qualification, testing and operation of additional production tools to increase our rated production capacity. We intend to incrementally expand our aggregate production capacity to 30 MW by attaining the following milestones within the time frames indicated:

Second half of 2009: complete internal testing for certification and begin external product certification with products from our 1.5 MW production line.

Fourth quarter of 2009: begin qualification of production tools for the first 15 MW.

First half of 2010: begin production and ramp up using the first half of initial 30 MW annual rated production capacity, and complete installation of all 30 MW tools.

Second half of 2010: commence ramp up using 30 MW of annual rated production capacity.

Although we currently plan to expand our production capacity in accordance with the timeline above and further plan to expand our production capacity to 110 MW or more, the actual timing and amount of production capacity that we install may significantly deviate from the above plan due to market conditions, availability of financing, timeliness of delivery of production tools, product performance and other factors. See

Significant Trends, Uncertainties and Challenges below. We also recognize the importance of developing strategies and plans that may allow for the timely acceleration of our production beyond the current plan in order to meet market demand and the challenges from competitors who are presently expanding their operations.

Rated production capacity refers to our expected level of annual production upon optimization of our production process and is based on assumed production yields and module efficiencies. The actual production levels that we are able to realize at any point during our planned expansion will depend on a variety of factors, including our ability to optimize our production process to achieve targeted production yields and module efficiencies.

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Delays in product certifications would significantly affect our ability to continue developing product applications with our customers, delays that extend significantly beyond 2009 likely would impact our ability to develop demand for our PV modules, and would affect our planned sales and results of operations in 2010, when we expect to have commenced production using our planned production tools for approximately 30 MW of rated capacity.

---

## **Table of Contents**

Using our 1.5 MW production line as a model, we have consummated the fixed price delivery contracts for the majority of the production tools for the 30 MW line. The equipment supplier schedules within the supply agreements provide for the installation of the first half of the production tools by the end of the third quarter of 2009 and the second half of the production tools by the end of the second quarter of 2010. Significant delays in achieving desired production yields, module efficiencies or other performance metrics on the 1.5 MW production line and/or delays in the delivery, installation and qualification of the 30 MW production tools may impact our real and projected product sales in 2010.

We have initiated engineering and development of the one meter wide production tools to support future expansion of rated capacity. Successfully transitioning to one meter wide rolls should significantly increase our throughput, while reducing the number of manufacturing tools and, hence, the amount of capital expenditures required for equipment and facilities. We also believe that our production costs can be reduced by transitioning to a one meter wide web. Generally speaking, we believe that all other significant process variables, such as speed, thickness and composition, should remain materially unchanged from those used with our one-third meter wide rolls. Based upon discussions with our equipment suppliers, we have identified deposition of the CIGS layer in the one meter wide format as the most challenging aspect of transitioning to one meter wide rolls; consequently, we have initiated the development of one meter wide prototype CIGS and molybdenum production tools to enable us to begin evaluating and testing one meter wide area deposition sources and process control systems. The one meter CIGS prototype production tool was received in 2009 and the one meter molybdenum production tool is scheduled for delivery in 2010. We plan to conduct six to nine months of testing and evaluation prior to committing the capital to procure the one meter format production tools to support further expansion of rated capacity. Our planned expansion to approximately 110 MW of rated capacity will require additional capital, which we may not be able to obtain on favorable terms, if at all or without dilution to our stockholders.

### **Capital Equipment Expenditures and Manufacturing Costs**

Since our formation in October 2005, most of our cash outlays have gone toward the investment in capital equipment necessary to develop our manufacturing capabilities for producing the commercial products we envision. We expect this trend to continue into the foreseeable future as we expand to approximately 110 MW of rated capacity. We will require additional capital and additional facilities to achieve our manufacturing expansion plans. If we are unable to secure the necessary capital or to manage the disbursement of capital taking into consideration any unforeseen factors, such as cost increases from our equipment suppliers and the potential negative changes in the value of the U.S. dollar against foreign currencies, our ability to expand our manufacturing capacity as planned, as well as our financial performance and results of operations, may be adversely affected.

We currently expect the capital expenditures to support the first 30 MW of rated capacity to total approximately \$95 million to \$100 million for manufacturing equipment and approximately \$17 million for the acquisition and renovations of our new manufacturing facility in Thornton, Colorado. We also expect capital expenditures of approximately \$8 million for installation, qualification and other associated pre-operating expenses related to the first 30 MW expansion. In addition, we have budgeted approximately \$7 million in 2008 and 2009 for the procurement and installation of the one meter wide manufacturing development tools, sources, and sensor control systems. In order to install the next 30 MW and then additional 50 MW of rated capacity, we expect that we will require another approximately \$225 million to \$235 million for property, plant and equipment and approximately \$15 million for installation, qualification and other associated pre-operating expenses.

Our major equipment suppliers are located in Japan, the United Kingdom and Germany. To manage the uncertainties related to the procurement of capital equipment, we have continued to work closely with our equipment suppliers to complete the engineering of our new tools and refine the estimates of our planned capital outlays. To manage the fluctuations of foreign exchange rates, we have implemented forward pricing contracts for certain agreements denominated in foreign currencies.

### **Significant Trends, Uncertainties and Challenges**

We believe that the significant trends, uncertainties and challenges that directly or indirectly affect our financial performance and results of operations are:

Our ability to achieve desired production yields, module efficiencies and other performance targets, and to obtain necessary or desired certifications for our PV modules;

Our ability to expand production in accordance with our plans set forth above under Commercialization and Manufacturing Expansion Plan ;

Our ability to achieve projected operational performance and cost metrics;

## Table of Contents

Our ability to consummate strategic relationships with key partners, including original equipment manufacturer (OEM) customers, system integrators, and distributors who deal directly with end-users in the BIPV, EIPV, portable power, and government/military solar panel markets;

The effect that currency fluctuations may have on our capital equipment purchases, manufacturing costs and the price of our planned PV modules;

Changes in the supply and demand for PV modules as well as fluctuations in selling prices for PV modules world wide;

Our ability to manage the planned expansion of our manufacturing facilities, operations and personnel; and

Our ability and the ability of our distributors, suppliers and customers to manage operations and orders during the global financial crisis

**Basis of Presentation:** The Company's activities to date have substantially consisted of raising capital, research and development, and the development of a 1.5 MW production plant and additional 30 MW expansion plant. Revenues to date have been generated from the Company's governmental research and development (R&D) contracts and have not been significant. The Company's planned principal operations to commercialize flexible PV modules have not yet commenced. Accordingly, the Company is considered to be in the development stage, as defined in Statement of Financial Accounting Standards No. 7 (SFAS No. 7), *Accounting and Reporting by Development Stage Enterprises*.

**Cash Equivalents:** The Company considers all highly liquid debt securities purchased with an original maturity of three months or less to be cash equivalents. The Company maintains cash balances which may exceed federally insured limits. The Company does not believe that this results in significant credit risk.

**Investments:** The Company accounts for investments in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company has classified its investments as available-for-sale. Such investments are carried at fair value, based on quoted market prices with the unrealized holding gains and losses reported as Accumulated other comprehensive income (loss) in the stockholders equity section of the balance sheet. Realized gains and losses on sales of securities are computed using the specific identification method. The Company evaluates declines in market value for potential impairment. If the decline results in a value below cost and is determined to be other than temporary, the investment is written down to its impaired value and a new cost basis is established.

**Fair Value estimates:** The fair value of an asset or liability is the amount at which it could be exchanged or settled in a current transaction between willing parties. The carrying value for cash and cash equivalents, investments, restricted cash, accounts receivable, accounts payable, accrued property and equipment, accrued expenses and other assets and liabilities approximate their fair values due to their short maturities. Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which provided a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. The Company adopted this statement for financial assets and financial liabilities and nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a recurring basis as of January 1, 2008. The Company adopted this statement for nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a nonrecurring basis as of January 1, 2009. The effect of the adoption of this statement was not material, resulting only in additional disclosures. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**Foreign Currency translation:** Bank account balances related to our forward contracts are translated to U.S. dollars utilizing the period end exchange rate. The foreign currency translation adjustments are reflected as a separate component of accumulated other comprehensive income within stockholders' equity.

**Revenue Recognition:** Revenue to date is from governmental research and development contracts under terms that are cost plus fee or firm fixed price. Revenue from cost plus fee contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs and an allocable portion of the firm fixed fee. Revenue from firm fixed price contracts is recognized under the percentage-of-completion method of accounting, with costs and estimated profits included in contract revenue as work is performed. If actual and estimated costs to complete a contract indicate a loss, provision is made currently for the loss anticipated on the contract.





**Table of Contents**

**Patents:** At such time as the Company is awarded patents, patent costs are amortized on a straight-line basis over the legal life, or over their estimated useful lives, whichever is shorter. As of June 30, 2009, the Company had \$148,319 of net patent costs of which \$26,859 represent costs net of amortization incurred for an awarded patent, and the remaining \$121,460 represents costs incurred for patent applications filed. Amortization expense for the three months ended June 30, 2009 and 2008 was \$1,279 and for the six months ended June 30, 2009 and 2008 was \$2,558.

**Property and Equipment:** Property and equipment are recorded at the original cost to the Company. Assets are being depreciated over estimated useful lives of one to ten years using the straight-line method, commencing when the asset is placed in service. Leasehold improvements are depreciated over the shorter of the remainder of the lease term or the life of the improvements. Upon retirement or disposal, the cost of the asset disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Expenditures for repairs and maintenance are expensed as incurred.

The Company computes depreciation expense using the straight-line method over the estimated useful lives of the assets, as presented in the table below. We amortize leasehold improvements over the shorter of their estimated useful lives or the remaining term of the lease.

	Useful Lives in Years
Buildings	40
Manufacturing machinery and equipment	5 - 10
Furniture, fixtures, computer hardware/software	3 - 7
Leasehold improvements	life of lease

**Long-lived assets:** We account for our long-lived, tangible assets and definitive-lived intangible assets in accordance with Statement of Financial Accounting Standards No. (SFAS, 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). As a result, we assess long-lived assets classified as held and used, including our property, plant and equipment, for impairment whenever long-lived asset may not be recoverable. These events would include significant current period operating or cash flow losses associated with the use of a long-lived asset or group of assets combined with a history of such losses, significant changes in the manner of use of assets and significant negative industry or economic trends.

**Risks and Uncertainties:** The Company's operations are subject to certain risks and uncertainties, including those associated with: the ability to meet obligations; continuing losses; fluctuation in operating results; funding expansions; strategic alliances; financing arrangement terms that may restrict operations; regulatory issues; and competition. The recent financial crisis and the resulting tightening in the credit markets have made it more difficult to raise additional capital to fulfill our expansion business plan. Additionally, U.S. government contracts may be terminated prior to completion of full funding by the U.S. government.

**Net loss per Common Share:** Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share include no dilution and are computed by dividing income available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in the earnings of the Company, similar to fully diluted earnings per share. Common stock equivalents consisting of Class B warrants, IPO warrants (representative warrants), stock options and restricted stock units outstanding as of June 30, 2009 and 2008 of approximately 12.0 million and 11.6 million shares, respectively, have been omitted from loss per share because they are anti-dilutive. Basic and diluted loss per share was the same in each of the periods ended June 30, 2009 and 2008.

**Research and Development Costs:** Research and development costs are incurred during the process of researching and developing new products and enhancing our manufacturing processes and consist primarily of compensation and related costs for personnel, materials, supplies and equipment depreciation. We expense these costs as incurred until the resulting product has been completed and tested and is ready for commercial manufacturing. We also incur research and development expenses on our U.S. federal government research and development contracts and expense as incurred.

**Income Taxes:** Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment. Interest and penalties, if applicable, would be recorded in operations.

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

In July 2006, the FASB issued FASB Interpretation (FIN 48), *Accounting for Uncertainty in Income Taxes*. The Company adopted the provisions of FIN 48 on January 1, 2007. As defined, FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company became subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company has identified its federal tax

---

**Table of Contents**

return and its Colorado tax return as major tax jurisdictions, as defined. The periods subject to examination for the Company's federal and state tax returns are tax years 2005 through 2007. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

**Stock Based Compensation:** The Company accounts for share-based payments under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, officers, directors, and consultants, including employee stock options based on estimated fair values. SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's Condensed Statements of Operations. Stock based compensation is based on awards ultimately expected to vest and is reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, as necessary, in subsequent periods if actual forfeitures differ from those estimates.

For purposes of determining estimated fair value of share-based payment awards on the date of grant under SFAS 123(R), the Company uses the Black-Scholes option-pricing model (Black-Scholes Model). The Black-Scholes Model requires the input of highly subjective assumptions. Because the Company's employee stock options may have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of the Company's employee stock options. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time, which result in changes to these assumptions and methodologies, which could materially impact the Company's fair value determination.

The application of the SFAS 123(R) accounting principles may be subject to further interpretation and refinement over time. There are significant differences among option valuation models, and this may result in a lack of comparability with other companies that use different models, methods and assumptions. If factors change and the Company employs different assumptions in the application of SFAS 123(R) in future periods, or if the Company decides to use a different valuation model, the compensation expense that the Company records in the future under SFAS 123(R) may differ significantly from what it has recorded in the current period and could materially affect its loss from operations, net loss and net loss per share.

**Comprehensive income (loss):** Our comprehensive income (loss) consists of our net income (loss), changes in unrealized gains or losses on available for sale investments and foreign currency translation adjustments, the impact of which has been excluded from net loss. We present our comprehensive income (loss) in the Condensed Statements of Stockholders' Equity and Comprehensive Income and (Loss). Our accumulated other comprehensive income (loss) is presented as a component of equity in our Condensed Balance Sheets and consists of the cumulative amount of unrealized gains or losses on available-for-sale investments and the cumulative amount of net financial statement translation adjustments that we have incurred since the inception of our business.

**Reclassifications:** Certain reclassifications have been made to the 2008 financial information to conform to the 2009 presentation. Such reclassifications had no effect on net loss and are primarily related to reclassifying costs between Research and development costs and General and administrative expenses in the Condensed Statements of Operations.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Unaudited Information:** The accompanying interim financial information as of June 30, 2009 and for the six months ended June 30, 2009 and 2008 and the period from inception (October 18, 2005) through June 30, 2009 was taken from the Company's books and records without audit. However, in the opinion of management, such information includes all adjustments (consisting only of results of normal recurring accruals) that are necessary to properly reflect the financial position of the Company as of June 30, 2009 and the results of operations for the six months ended June 30, 2009 and 2008 and the period from inception (October 18, 2005) through June 30, 2009 so that the financial statements are not misleading.

**Recent Accounting Pronouncements:** In May 2009, the FASB issued SFAS 165, *Subsequent Events*. This standard establishes general standards of accounting for and disclosure of events that occurred after the balance sheet date, but before financial statements are issued or available to be issued. Specifically, this standard codifies in authoritative GAAP standards the subsequent



**Table of Contents**

event guidance that was previously located in auditing standards. SFAS 165 is effective for fiscal years and interim periods ended after June 15, 2009, and is applied prospectively. We adopted SFAS 165 in our quarter ended June 30, 2009. The adoption of SFAS 165 did not have a material impact on our financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of SFAS 162*. This standard designates the FASB Accounting Standards Codification (FASC) as the source of authoritative U.S. GAAP. SFAS 168 is effective for interim or fiscal periods ending after September 15, 2009. We will begin to use the new guidelines and numbering system prescribed by the FASC when referring to GAAP in our quarter ending September 30, 2009.

**Results of Operations****Comparison of the Three and Six Months Ended June 30, 2009 and 2008**

Certain reclassifications have been made to the 2008 financial information to conform to the 2009 presentation. Such reclassifications had no effect on net loss and are primarily related to reclassifying costs between R&D costs and G&A expenses in the Condensed Statements of Operations. Our activities to date have substantially consisted of raising capital, business and product development, research and development and the development of our 1.5 MW production line and the construction of our 30 MW production line.

*Research and Development Revenues.* Our R&D revenues were \$262,674 for the three months ended June 30, 2009 compared to \$344,115 for the three months ended June 30, 2008, a decrease of \$81,441. Our R&D revenues were \$778,806 for the six months ended June 30, 2009 compared to \$649,013 for the six months ended June 30, 2008, an increase of \$129,793. The majority of our R&D revenues during the three and six months ended June 30, 2009 and 2008 were revenues earned on our government R&D contracts. The increase for the six months ended June 30, 2009 primarily relates to two government contracts awarded in June 2008. The decrease for the three months ended June 30, 2009 is due to special projects by the research and development team for internal research and development activities therefore not incurring R&D government contract activity as usual for the current period.

*Research and Development.* R&D costs include the costs incurred for pre-production activities on our 1.5 MW line and our planned 30 MW line and costs related to our governmental contracts. R&D costs were \$3,363,732 for the three months ended June 30, 2009 compared to \$2,282,012 for the three months ended June 30, 2008, an increase of \$1,081,720. Pre-production cost increases were comprised primarily of personnel related costs of approximately \$500,000, facility related costs of approximately \$300,000, stock compensation expense of approximately \$90,000, and contract and consulting services of approximately \$128,000. Costs related to material and equipment production start-up activity declined approximately \$80,000. Governmental R&D expenditures decreased slightly. R&D costs were \$6,559,383 for the six months ended June 30, 2009 compared to \$4,106,982 for the six months ended June 30, 2008, an increase of \$ 2,452,401. Pre-production cost increases were comprised primarily of personnel related costs of approximately \$890,000, contract and consulting services of approximately \$587,000, facility related costs of approximately \$540,000, and stock compensation expense of approximately \$175,000. In addition, depreciation and amortization increased approximately \$80,000 and IT and telecom costs increased approximately \$61,000. Costs related to material and equipment production start-up activity declined approximately \$123,000. Governmental R&D expenditures increased slightly.

*General and Administrative.* G&A expenses were \$1,623,068 for the three months ended June 30, 2009 compared to \$1,221,075 for the three months ended June 30, 2008, an increase of \$401,993. This increase is comprised of primarily of increased consulting costs of approximately \$189,000, costs associated with increased headcount of approximately \$108,000, an increase in stock compensation expense of approximately \$133,000, and an increase in depreciation and amortization of approximately \$59,000. These increases were partially offset by decreases in public company costs of approximately \$65,000. G&A expenses were \$3,203,947 for the six months ended June 30, 2009 compared to \$2,412,227 for the six months ended June 30, 2008, an increase of \$791,720. This increase is comprised of primarily of increased consulting costs of approximately \$357,000, costs associated with increased headcount of approximately \$288,000, an increase in stock compensation expense of approximately \$286,000, and an increase in depreciation and amortization of approximately \$90,000. These increases were partially offset by decreases in public company costs of approximately \$119,000 and a decrease in legal fees of approximately \$68,000.

*Interest Expense.* Interest expense was \$127,988 for the three months ended June 30, 2009 compared to \$67,879 for the three months ended June 30, 2008, an increase of \$60,109. Interest expense relates to our CHFA loan utilized for our 30 MW production facility expansion in Thornton, Colorado. Interest expense was \$211,333 for the six months ended June 30, 2009 compared to \$107,393 for the six months ended June 30, 2008, an increase of \$103,940. The increase in Interest expense for these periods relates to an increased CHFA loan balance.

*Interest Income.* Interest income was \$146,641 for the three months ended June 30, 2009 compared to \$547,556 for the three months ended June 30, 2008, a decrease of \$400,915. Interest income represents interest on cash and investments. Interest income was \$480,007 for the six months ended June 30, 2009 compared to \$899,603 for the six months ended June 30, 2008, a decrease of



**Table of Contents**

\$419,596. The decrease in interest income for these periods is due to significantly lower interest rates in 2009 as compared to 2008 as well as a lower average cash balance, particularly in the second quarter 2009 as compared with second quarter 2008.

*Realized Gain on Investments.* Realized gain on investments was \$59,383 for the three and six months ended June 30, 2009 compared to \$0 for the three and six months ended June 30, 2008, an increase of \$59,383. Realized gain on investments represents gains from U.S. government securities maturing in the current period.

*Realized Loss on Forward Contracts and Unrealized Gain (Loss) on Forward Contracts.* For the three months ended June 30, 2009, the unrealized gain on forward contracts was \$540,262 and the realized loss was \$424,331. For the six months ended June 30, 2009, the unrealized gain on forward contracts was \$694,453 and the realized loss was \$980,703. Although the hedging activity is designed to fix the dollar amount to be expended, the asset purchased is recorded at the foreign currency spot rate in effect as of the date of the payment to the supplier. The difference between the foreign currency spot rate on the date the forward contract closes and the forward rate in the contract has been reported as a loss on forward contract. The unrealized gain on forward contracts represents the difference between the forward contract rate and the foreign currency spot rate at the current balance sheet date.

*Net Loss.* Our Net Loss was \$4,530,159 for the three months ended June 30, 2009 compared to a Net Loss of \$2,679,295 for the three months ended June 30, 2008, an increase in Net Loss of \$1,850,864. Net Loss was \$8,942,717 for the six months ended June 30, 2009 compared to a Net Loss of \$5,077,986 for the six months ended June 30, 2008, an increase of \$3,864,731. The increase in Net Loss can be summarized in variances in significant account activity as follows:

	<b>Increase (decrease) of Net Loss For the Three Months Ended June 30, 2009 compared to June 30, 2008</b>	<b>Increase (decrease) of Net Loss For the Six Months Ended June 30, 2009 compared to June 30, 2008</b>
Contract revenues	\$ 81,441	\$ (129,793)
Research and development costs		
Manufacturing R&D	1,037,266	2,203,340
Government R&D	(45,656)	73,723
Non-cash stock based compensation	90,110	175,338
General and administrative expenses		
Corporate G&A	269,412	505,951
Non-cash stock based compensation	132,581	285,769
Interest expense	60,109	103,940
Interest income	400,915	419,596
Realized Loss on forward contract	424,331	980,703
Unrealized Gain on forward contracts	(540,262)	(694,453)
Realized Gain on Investments	(59,383)	(59,383)
Increase of Net Loss	\$ 1,850,864	\$ 3,864,731

**Liquidity and Capital Resources**

For the six months ended June 30, 2009, our cash used in operations was approximately \$6.2 million compared to approximately \$4.1 million for the three months ended June 30, 2008. For the six months ended June 30, 2009 approximately \$33.3 million had been expended in capital to complete our 1.5 MW production line and facility modifications, payments on our 30 MW and one meter wide development and production tools, and acquisition and renovations to the Thornton, Colorado facility for our manufacturing expansion.

As of June 30, 2009, we had approximately \$48.5 million in cash, restricted cash and investments. We currently expect the capital expenditures needed to support the first 30 MW of rated capacity will total approximately \$95 million to \$100 million for production and manufacturing equipment and approximately \$17 million for the acquisition of the building and renovations of our 30 MW Thornton facility. We also expect capital expenditures of approximately \$8 million for installation, qualification and other associated pre-operating expenses related to the expansion. In addition, we have budgeted approximately \$7 million for the procurement and installation of the one meter wide manufacturing development tools, sources, and sensor control systems. As of June 30, 2009, we have made actual cash payments of approximately



## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

\$64.2 million for our 30 MW production and manufacturing development tools, including installation costs and expect to make the remaining payments in 2009 and the first half of 2010.

During the six months ended June 30, 2009, the use of cash for operational expenses averaged approximately \$1 million per month and was related to pre-manufacturing activities, research and technology development, business development and general corporate expenses. We expect operational expenses to increase through 2009 as we commence commercial production and increase the size of our workforce. Our average monthly operational expense for six months ended June 30, 2009 of approximately \$1 million

**Table of Contents**

is net of average monthly R&D revenues from our governmental contracts of approximately \$0.1 million. A significant component of our costs for the six months ended June 30, 2009 related to the ongoing qualification of our 1.5 MW line and continuing corporate costs related to building the required infrastructure to support our 1.5 MW manufacturing operations and expansion plans. We anticipate that our operational expenditures will continue to increase throughout 2009 due to the planned hiring of additional personnel for both our 1.5 MW production line and the installation and qualification of our new 30 MW of rated production capacity in Thornton, Colorado. As of June 30, 2009, we had 77 full-time employees of which 51 were manufacturing personnel. We plan to continue to increase our staff during 2009, principally in the manufacturing area.

We do not expect that our sales revenue from the 1.5 MW production line will be sufficient to support our operations and cash requirements, and it is unlikely that our sales revenue will support our operating cash requirements unless we achieve actual production capacity of at least 30 MW per year. Our original equipment delivery schedule called for installation of all of the 30MW production equipment during 2009. Due to the recent financial crisis affecting the financial markets, our ability to obtain credit or to raise additional capital has become increasingly difficult. In order to preserve cash we have extended the equipment delivery schedule related to the first 30 MW of annual rated production capacity to 2010. We now expect to begin production using equipment with an annual rated production capacity of approximately 15 MW by mid early 2010, and full 30 MW of annual rated production capacity by the end of 2010. The Company expects its current cash balance to be sufficient to cover its operational expenditures through 2009 based on currently known factors, although it expects that it will need to raise additional capital prior to early 2010 to complete its expansion plans. The Company is currently pursuing various avenues to obtain additional capital including the U.S. Department of Energy Loan Guarantee Program and raising money in the equity markets.

On January 9, 2009, we filed a shelf Registration Statement on Form S-3 with the SEC. The SEC declared the registration statement effective on January 16, 2009. With the shelf registration, we may from time to time sell common stock, preferred stock, warrants or some combination in one or more offerings totaling up to \$150 million.

**Contractual Obligations**

The following table presents our contractual obligations as of June 30, 2009 which has not changed significantly from December 31, 2008. Our contractual commitments consist of legal commitments requiring us to make fixed or determinable cash payments, regardless of contractual requirements with the vendor to provide future goods or services. We purchase raw materials, services and manufacturing equipment from a variety of vendors. During the normal course of business, in order to manage manufacturing lead times and help assure adequate supply, we enter into agreements with suppliers that either allow us to procure goods and services when we choose or that establish purchase requirements.

Contractual Obligations	Total	Less Than 1 Year	Payments Due by Year		More Than 5 Years
			1-3 Years	3-5 Years	
			(In thousands)		
Long-term debt obligations (1)	\$ 12,832	\$ 636	\$ 1,387	\$ 1,387	\$ 9,422
Operating lease obligations	342	342			
Purchase obligations (2)	45,811	40,142	5,669		
Total	\$ 58,985	\$ 41,120	\$ 7,056	\$ 1,387	\$ 9,422

(1) Includes estimated cash interest to be paid over the remaining terms of the debt.

(2) Purchase obligations are agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed minimum, or variable price provision and the approximate timing of transactions.

**Off Balance Sheet Transactions**

As of June 30, 2009, we did not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.



## **Table of Contents**

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Foreign Currency Exchange Risk**

The Company is actively engaged in purchasing manufacturing equipment internationally and is exposed to foreign currency risk. Our objective is to fix the dollar amount of our foreign currency denominated manufacturing equipment purchases at time of order. Although the hedging activity is designed to fix the dollar amount to be expended, the asset purchased is recorded at the spot rate in effect as of the date of the payment to the supplier. The difference between the spot rate and the forward rate has been reported as a loss on forward contract.

In July 2008 and March 2009, the Company entered into fair value hedges utilizing forward contracts designed to match scheduled contractual payments to equipment suppliers which are denominated in Euros and Yen. The total notional value of the Euro forward contracts was 6.4 million with various contract settlement dates beginning September 15, 2008 through July 31, 2009. The total notional value of the Yen forward contracts was ¥521.4 million with contract settlement dates of March and April 2009. Derivative financial instruments are not used for speculative or trading purposes.

Although our reporting currency is the U.S. dollar, we may conduct business and incur costs in the local currencies of other countries in which we may operate, make sales and buy materials. As a result, we are subject to currency translation risk. Further, changes in exchange rates between foreign currencies and the U.S. dollar could affect our future net sales and cost of sales and could result in exchange losses.

We cannot accurately predict future exchange rates or the overall impact of future exchange rate fluctuations on our business, results of operations and financial condition.

#### **Interest Rate Risk**

Our exposure to market risks for changes in interest rates relates primarily to our cash equivalents and investment portfolio. As of June 30, 2009, our cash equivalents consisted of money market funds and investments represented U.S. government securities, and high quality corporate securities. The primary objective of our investment activities is to preserve principal and provide liquidity on demand, while at the same time maximizing the income we receive from our investments without significantly increasing risk. The direct risk to us associated with fluctuating interest rates is limited to our investment portfolio and we do not believe that a change in interest rates will have a significant impact on our financial position, results of operations or cash flows.

#### **Commodity and Component Risk**

Failure to receive timely delivery of production tools from our equipment suppliers could delay our planned expansion of manufacturing capacity and materially and adversely affect our results of operations and financial condition. Our planned expansion of manufacturing capacity and commercialization timeline depend on the timely delivery of production tools from our equipment suppliers. The relationships with our chosen equipment suppliers are relatively new, and at this point in time we cannot be certain that the equipment orders we place with these suppliers will be fulfilled as we expect or in a timely manner.

We are exposed to price risks for the raw materials used in the manufacture of our PV modules. We depend on a limited number of third-party suppliers for key raw materials, and their failure to perform could cause manufacturing delays and impair our ability to deliver PV modules to customers in the required quality and quantity and at a price that is profitable to us. Our failure to obtain raw materials and components that meet our quality, quantity and cost requirements in a timely manner could interrupt or impair our ability to manufacture our PV modules or increase our manufacturing cost. Most of our key raw materials are either sole-sourced or sourced by a limited number of third-party suppliers. As a result, the failure of any of our suppliers to perform could disrupt our supply chain and impair our operations. In addition, many of our suppliers are small companies that may be unable to supply our increasing demand for raw materials as we implement our planned expansion. We may be unable to identify new suppliers in a timely manner or on commercially reasonable terms. Raw materials from new suppliers may also be less suited for our technology and yield PV modules with lower conversion efficiencies, higher failure rates and higher rates of degradation than PV modules manufactured with the raw materials from our current suppliers.

If delivery of production tools or raw materials are not made on schedule or at all, then we might be unable to carry out our commercialization and manufacturing expansion plans, produce PV modules in the volumes and at the times that we expect or generate sufficient revenue from operations, and our business, results of operations and financial condition could be materially and adversely affected.

#### **Credit Risk**

## Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

We have certain financial and derivative instruments that potentially subject us to credit risk. These consist primarily of cash, cash equivalents, restricted cash, investments, and forward foreign exchange contracts. We are exposed to credit losses in the event of nonperformance by the counter parties to our financial and derivative instruments. We place cash, cash equivalents, investments and

**Table of Contents**

forward foreign exchange contracts with various high-quality financial institutions, and exposure is limited at any one institution. We continuously evaluate the credit standing of our counter party financial institutions.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management conducted an evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15 and 15d-15 under the Exchange Act as of June 30, 2009. Based on this evaluation, our management concluded that as of June 30, 2009, the design and operation of our disclosure controls and procedures were effective.

**Changes in Internal Control over Disclosure and Reporting**

There was no change in our internal control over financial reporting that occurred during the quarterly period ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

At an annual meeting of the Company's stockholders on June 30, 2009, the stockholders selected Dr. Amit Kumar, Richard Swanson and Ron Eller to serve until the 2012 Annual Meeting of Stockholders, and elected Richard Erskine to serve until the 2011 Annual Meeting of Stockholders. The Company's Stockholders also approved the amendment and restatement of the Company's 2005 stock option plan. Approximately 81.1% of outstanding votable shares were represented in person or by proxy at the meeting. The voting results for each matter were as follows:

<b><u>Proposal #1</u></b>	<b><u>Election of Three Class 1 Directors</u></b>		
	<b>Director</b>	<b>For</b>	<b>Withheld</b>
	Dr. Amit Kumar	16,310,802	711,226
	Richard Swanson	16,407,094	614,934
	Ron Eller	16,628,731	393,297

**Proposal #1**      **Election of One Class 3 Director**

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

	<b>Director</b>	<b>For</b>	<b>Withheld</b>
Richard Erskine		16,606,414	415,614

**Table of Contents**

**Proposal #2**      **To approve an amendment and restatement of the Company's 2005 Stock Option Plan that increases the number of shares authorized for issuance under that plan by 1,000,000 shares.**

	For	Against	Abstain	Non Votes
	9,395,765	1,634,967	33,134	5,985,162

**Item 6. Exhibits**

- a. The following exhibits are filed as part of, or are incorporated by reference into, this report:

**Exhibit**

No.	Description
3.1	Registrant's Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form SB-2 filed January 23, 2006 (Reg. No. 333-131216), as amended)
3.2	Registrant's Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our current report on Form 8-K filed February 17, 2009)
10.1	Amended and Restated Executive Employment Agreement with Farhad Moghadam*
10.2	Employment Agreement with Prem Nath (incorporated by reference to Exhibit 99.1 to our current report on Form 8-K filed July 22, 2009)
10.3	Restricted Stock Unit Agreement with Farhad Moghadam*
10.4	Stock Option Agreement with Farhad Moghadam*
10.5	Inducement Award Agreement with Farhad Moghadam*
31.1	Chief Executive Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002*

\* Filed herewith



**Table of Contents**

**ASCENT SOLAR TECHNOLOGIES, INC.**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 7th day of August, 2009.

ASCENT SOLAR TECHNOLOGIES

By: */s/* GARY GATCHELL  
Gary Gatchell

*Chief Financial Officer (Principal Financial Officer  
and Authorized Signatory)*