Andalay Solar, Inc.
Form S-1/A
July 31, 2015

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

FORM S-1/A
Amendment No. 1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

4931
(Primary Standard Industrial Classification Code Number)

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

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

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

Copy to:

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

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

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

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

statement for the same offering.

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

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

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

Large accelerated file	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (1)	Amount of registration fee (3)	
Common Stock, $0.001 par value per share	150,000,000	$ 0.01	$ 1,500,000	$ 174	(4)

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

(2) Estimated in accordance with Rule 457(c) of the Securities Act of 1933 solely for the purpose of computing the amount of the registration fee based on the closing price of our common stock on July 17, 2015.

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

(4) Previously paid.

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

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

SUBJECT TO COMPLETION, DATED JULY 21, 2015

PRELIMINARY PROSPECTUS

ANDALAY SOLAR, INC.

150,000,000 Shares of Common Stock

This prospectus relates to the offer and resale of up to 150,000,000 shares of our common stock, par value $0.001 per share, by the selling stockholder, Southridge Partners II LP, a Delaware limited partnership ("Southridge"). All of such shares represent shares that Southridge has agreed to purchase if put to it by us pursuant to, and subject to the volume limitations and other limitation of, the terms of the Equity Purchase Agreement we entered into with them on December 10, 2014 (the "December Equity Purchase Agreement"). On December 11, 2014, we filed a Registration Statement on Form S-1 to register 85,000,000 shares of common stock related to our December Equity Purchase Agreement with Southridge and on January 16, 2015, the Securities and Exchange Commission declared the Registration Statement effective. To date, we have drawn down approximately $1,105,000 from the sale of 84,113,042 shares of common stock from the December Equity Agreement. Subject to the terms and conditions of the December Equity Purchase Agreement we have the right to "put," or sell, up to $5,000,000 worth of shares of our common stock to Southridge, of which approximately $1,105,000 worth of shares have been sold and approximately $3,895,000 remains available for sale. This arrangement is also sometimes referred to herein as the "Equity Line."

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

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

We may draw upon the Equity Line periodically during the Term (a "Draw Down") by delivering to Southridge a written notice (a "Draw Down Notice") requiring Southridge to purchase a dollar amount in shares of common stock (a "Draw Down Amount"). Southridge has committed to purchase up to $5,000,000 worth of shares of our common stock over a period of time terminating on the earlier of: (i) July 16, 2016 which date is 18 months from the effective date of the registration statement we filed on December 11, 2014, in connection with the December Equity Purchase Agreement (the "Initial Registration Statement"); or (ii) the date on which Southridge has purchased shares of our common stock pursuant to the Equity Line for an aggregate maximum purchase price of $5,000,000. In no event may the shares issuable pursuant to a Draw Down Notice, when aggregated with the shares then held by Southridge on the date of the Draw Down, exceed 9.99% of the Company's outstanding common stock.

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

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

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

Our common stock became eligible for trading on the OTCQB on September 6, 2012. On May 15, 2015, we began trading on the OTCPink and then on July 20, 2015, our stock became eligible for trading on the OTCQB. Our common stock is quoted on the OTCQB under the symbol "WEST". The closing price of our stock on July 17, 2015, was $0.01.

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

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

The date of this prospectus is July ___, 2015

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

PROSPECTUS SUMMARY

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

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

Company Overview

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

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

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

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

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

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

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

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

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

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The Offering

Common stock that may be offered by selling stockholder	150,000,000 shares
Common stock currently outstanding	400,040,909 shares
Total proceeds raised by offering	We will not receive any proceeds from the resale or other disposition of the shares covered by this prospectus by Southridge, the selling shareholder. We will receive proceeds from the sale of shares to Southridge. Southridge has committed to purchase up to $5,000,000 worth of shares of our common stock over a period of time terminating on the earlier of: (i) July 16, 2016, which date is18 months from the effective date of the Initial Registration Statement; or (ii) the date on which Southridge has purchased shares of our common stock pursuant to the December Equity Purchase Agreement for an aggregate maximum purchase price of $5,000,000. To date, Southridge has purchased $1,105,000 worth of shares of common stock from us under the December Equity Purchase Agreement. The purchase price to be paid by Southridge will be 90% of the average of the daily VWAP during the Valuation Period. On the date the Draw Down Notice is delivered to Southridge, we are required to deliver an estimated amount of shares to Southridge's brokerage account equal to 125% of the Draw Down Amount indicated in the Draw Down Notice divided by the closing bid price of the trading day immediately prior to the date of the Draw Down Notice ("Estimated Shares"). The Valuation Period begins on the first trading day after the Estimated Shares have been delivered to Southridge's brokerage account and have been cleared for trading and terminates on the tenth day thereafter. At the end of the Valuation Period, if the number of Estimated Shares delivered to Southridge is greater than the shares issuable pursuant to a Draw Down, then Southridge is required to return to us the difference between the Estimated Shares and the actual number of shares issuable pursuant to the Draw Down. If the number of Estimated Shares is less than the shares issuable under the Draw Down, then we are required to issue additional shares to Southridge equal to the difference; provided that the number of shares to be purchased by Southridge may not exceed the number of shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of our shares of common stock outstanding.
Risk Factors	There are significant risks involved in investing in our company. For a discussion of risk factors you should consider before buying our common stock, see "Risk Factors" beginning on page 4.

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RISK FACTORS

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

Risks Relating to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our industry is highly competitive and fragmented, is subject to rapid change and has low barriers to entry. Competition in the solar power services industry may increase in the future, partly due to low barriers to ent