Akeena Solar, Inc.
Form 10QSB
August 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-QSB

þ **Quarterly Report Under Section 13 or 15(d) of the Exchange Act**
For the quarterly period ended June 30, 2007

o **Transition Report Under Section 13 or 15(d) of the Exchange Act**

For the transition period from_____ to_____

Commission File Number 333-130906

AKEENA SOLAR, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	20-512054
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

16005 Los Gatos Boulevard, Los Gatos, CA 95032
(Address of principal executive offices)

(408) 395-7774
(Issuer's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Check 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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yesþ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o Noþ

As of August 8, 2007, 23,625,941 shares of the issuer's common stock, par value $0.001 per share, were outstanding.

Transitional Small Business Disclosure Format: Yes o Noþ

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PART I
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

AKEENA SOLAR, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 14,084,684	$ 992,376
Accounts receivable, net	4,897,728	3,434,569
Inventory	3,310,167	1,791,816
Prepaid expenses and other current assets, net	1,165,242	838,192
Total current assets	23,457,821	7,056,953
Property and equipment, net	974,459	194,867
Due from related party	21,825	21,825
Customer list, net	202,760	230,988
Goodwill	318,500	—
Other assets	91,677	24,751
Total assets	$ 25,067,042	$ 7,529,384
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,572,848	$ 2,053,567
Customer rebate payable	738,237	1,196,363
Accrued liabilities	1,018,339	622,184
Accrued warranty	495,481	508,655
Common stock issuable	—	175,568
Deferred purchase price payable	20,000	—
Deferred revenue	931,728	981,454
Credit facility	3,450,000	500,000
Current portion of capital lease obligations	20,335	12,205
Current portion of long-term debt	129,381	17,307
Total current liabilities	9,376,349	6,067,303
Capital lease obligations, less current portion	58,370	42,678
Long-term debt, less current portion	452,032	28,673
Total liabilities	9,886,751	6,138,654
Commitments, contingencies and subsequent events (Notes 15 and 16)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 1,000,000 shares authorized; none issued and outstanding at June 30, 2007 and December 31, 2006	—	—
Common stock $0.001 par value; 50,000,000 shares authorized; 22,834,028 and 15,877,751 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	22,834	15,878
Additional paid-in capital	19,596,247	2,955,926
Accumulated deficit	(4,438,790)	(1,581,074)

Total stockholders’ equity		15,180,291		1,390,730
Total liabilities and stockholders’ equity	$	25,067,042	$	7,529,384

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

AKEENA SOLAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net sales	$ 7,510,861	$ 2,812,424	$ 13,803,291	$ 5,302,597
Cost of sales	5,741,097	2,097,742	10,533,961	4,019,539
Gross profit	1,769,764	714,682	3,269,330	1,283,058
Operating expenses				
Sales and marketing	1,314,285	289,613	2,082,416	441,113
General and administrative	2,358,374	659,702	3,996,235	1,043,917
Total operating expenses	3,672,659	949,315	6,078,651	1,485,030
Loss from operations	(1,902,895)	(234,633)	(2,809,321)	(201,972)
Other income (expense)				
Interest income (expense), net	(21,417)	(13,164)	(48,395)	(26,195)
Total other income (expense)	(21,417)	(13,164)	(48,395)	(26,195)
Loss before provision for income taxes	(1,924,312)	(247,797)	(2,857,716)	(228,167)
Provision for income taxes	—	—	—	—
Net loss	$ (1,924,312)	$ (247,797)	$ (2,857,716)	$ (228,167)
Loss per common and common equivalent share:				
Basic	$ (0.10)	$ (0.03)	$ (0.16)	$ (0.03)
Diluted	$ (0.10)	$ (0.03)	$ (0.16)	$ (0.03)
Weighted average shares used in computing loss per common and common equivalent share:				
Basic	19,446,723	9,000,000	17,963,434	9,000,000
Diluted	19,446,723	9,000,000	17,963,434	9,000,000

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

AKEENA SOLAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
Balance at January 1, 2007	15,877,751	$ 15,878	$ 2,955,926	$ (1,581,074)	$ 1,390,730
Proceeds from issuance of common stock at $1.97 under private placement, $0.001 par value	2,062,304	2,062	4,060,677	—	4,062,739
Proceeds from issuance of common stock at $2.75 under private placement, $0.001 par value	4,567,270	4,567	12,555,426	—	12,559,993
Total placement agent fees and registration fees	—	—	(2,030,270)	—	(2,030,270)
Warrants issued to placement agent and warrants issued for finders fees	—	—	1,002,527	—	1,002,527
Issuance of common shares at $3.21, as per an account purchase agreement, $0.001 par value	54,621	55	175,513	—	175,568
Issuance of common shares at $3.14, as per an asset purchase agreement, $0.001 par value	100,000	100	313,900	—	314,000
Exercise of warrants for common shares, $0.001 par value	101,522	102	291,774	—	291,876
Release of restricted common shares and stock-based compensation expense	70,560	70	270,774	—	270,844
Net loss	—	—	—	(2,857,716)	(2,857,716)
Balance at June 30, 2007	22,834,028	$ 22,834	$ 19,596,247	$ (4,438,790)	$ 15,180,291

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

AKEENA SOLAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash flows from operating activities		
Net loss	$ (2,857,716)	$ (228,167)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	60,760	14,365
Amortization of customer list and customer contracts	167,532	—
Bad debt (recovery) expense	(9,187)	175
Loss on disposal of property and equipment	1,388	—
Non-cash stock-based compensation expense	270,844	—
Changes in assets and liabilities:		
Accounts receivable	(1,453,972)	(110,932)
Inventory	(1,518,351)	(787,712)
Prepaid expenses and other current assets	(292,354)	(440,005)
Other assets	(66,926)	—
Accounts payable	519,281	494,143
Customer rebate payable	(458,126)	119,011
Accrued liabilities and accrued warranty	373,981	313,923
Deferred revenue	(49,726)	428,871
Net cash used in operating activities	(5,312,572)	(196,328)
Cash flows from investing activities		
Acquisition of property and equipment	(741,983)	—
Acquisition of customer list	(77,000)	—
Acquisition of Alternative Energy, Inc.	(80,000)	—
Net cash used in investing activities	(898,983)	—
Cash flows from financing activities		
Borrowing on long-term debt	495,596	—
Repayment of long-term debt	(21,697)	(12,386)
Borrowings on line of credit, net of repayments	2,950,000	—
Distributions to stockholder	—	(11,000)
Payment of capital lease obligations	(6,901)	—
Issuance of common stock under private placement	16,622,732	—
Proceeds from exercise of warrants	291,876	—
Payment of placement agent fees and registration fees	(1,027,743)	—
Net cash provided by (used in) financing activities	19,303,863	(23,386)
Net increase (decrease) in cash and cash equivalents	13,092,308	(219,714)
Cash and cash equivalents		
Beginning of period	992,376	270,046
End of period	$ 14,084,684	$ 50,332
Supplemental cash flows disclosures:		
Cash paid during the period for interest	$ 38,778	$ 24,164
Non-cash investing and financing activities		
Issuance of common stock warrants for placement agent fees and finders fees	$ 1,002,527	$ —
Issuance of common stock under an account purchase agreement	$ 175,568	$ —

Issuance of common stock for purchase of net assets under an asset purchase agreement	$	314,000	$	—
Assets acquired under capital lease	$	30,723	$	—

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

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AKEENA SOLAR, INC.
Notes to Condensed Consolidated Financial Statements
June 30, 2007
(Unaudited)

1. Basis of Presentation and Description of Business

Basis of Presentation — Interim Financial Information

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial information. They should be read in conjunction with the financial statements and related notes to the financial statements of Akeena Solar, Inc. (the "Company") for the years ended December 31, 2006 and 2005 appearing in the Company's Form 10-KSB. The June 30, 2007 unaudited interim consolidated financial statements on Form 10-QSB have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in the annual financial statements on Form 10-KSB have been condensed or omitted pursuant to those rules and regulations, although the Company's management believes the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the result of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

Akeena Solar, Inc. was incorporated in February 2001 as a Subchapter S corporation in the State of California. During June 2006, the Company became a C corporation in the State of Delaware. On August 11, 2006, the Company entered into a reverse merger transaction (the "Merger") with Fairview Energy Corporation, Inc. ("Fairview"). Pursuant to the merger agreement, the stockholders of Akeena Solar received one share of Fairview common stock for each issued and outstanding share of Akeena Solar common stock, which totaled 8,000,000 shares. Akeena Solar's common shares were also adjusted from $0.01 par value to $0.001 par value at the time of the Merger. Subsequent to the closing of the Merger, the closing of a private placement of 3,217,500 shares of the Company's common stock (the "Private Placement") at an issue price of $1.00 per share for a total of $3,217,500, net of placement agent fees of $131,539, and the cancellation of 3,877,477 shares of Fairview common stock, the former stockholders of Akeena Solar held a majority of Fairview's outstanding common stock. The $131,539 of placement agent fees were comprised of $61,500 in cash fees paid and warrants to purchase 61,500 shares of the Company's common stock valued at $70,039 (see Note 11). Since the stockholders of Akeena Solar own a majority of the outstanding shares of Fairview common stock immediately following the Merger, and the management and board of Akeena Solar became the management and board of Fairview immediately following the Merger, the Merger is being accounted for as a reverse merger transaction and Akeena Solar is deemed to be the acquirer. The assets, liabilities and the historical operations prior to the Merger are those of Akeena Solar. Subsequent to the Merger, the consolidated financial statements include the assets and liabilities of Akeena Solar and Fairview, and the historical operations of Akeena Solar and the operations of Fairview from the closing date of the Merger.

Description of Business

The Company is engaged in a single business segment, the installation of solar panel systems to residential and commercial markets.

2. Significant Accounting Policies

Use of estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Cash and Cash Equivalents

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

Manufacturer and installation warranties

The Company warrants its products for various periods against defects in material or installation workmanship. The manufacturer warranty on the solar panels and the inverters have a warranty period range of 5 - 25 years. The Company assists the customer in the event that the manufacturer warranty needs to be used to replace a defected panel or inverter. The Company provides for a 5-year warranty on the installation of a system and all equipment and incidental supplies other than solar panels and inverters that are covered under the manufacturer warranty. The Company records a provision for the installation warranty, within cost of sales, based on historical experience and future expectations of the probable cost to be incurred in honoring its warranty commitment. The provision for the installation warranty is included within “Accrued warranty” in the accompanying condensed consolidated balance sheets.

The provision for installation warranty consists of the following:

	(Unaudited) June 30, 2007	December 31, 2006
Balance at beginning of period	$ 508,655	$ 304,188
Provision charged to warranty expense	194,326	234,467
Less: warranty claims and provision adjustment	(207,500)	(30,000)
Balance at end of period	$ 495,481	$ 508,655

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes.” FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation applies to all tax positions related to income taxes subject to FASB Statement No. 109. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The adoption of FIN 48 did not have a material impact on the Company’s consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements in accounting pronouncements where fair value is the relevant measurement attribute. However, for some entities, the application of this statement will change current practice for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 157 on its definition and measurement of fair value and disclosure requirements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”) which provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The Company has determined that the guidance in SAB 108 does not have a material impact on its consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. The Company does not expect the adoption of SFAS 159 to have a material impact on its consolidated financial position or results of operations.

3. Accounts Receivable

Accounts receivable consists of the following:

	(Unaudited) June 30, 2007	December 31, 2006
Trade accounts	$ 2,171,071	$ 1,671,237
California rebate receivable	542,827	1,040,263
Other state rebates receivable	2,045,174	706,712
Rebate receivable assigned to vendor	133,983	44,939
Other accounts receivable	39,068	15,000
Less: Allowance for doubtful accounts	(34,395)	(43,582)
	$ 4,897,728	$ 3,434,569