

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

Ascent Solar Technologies, Inc.

Form 10-Q

November 12, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2014

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

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Ascent Solar Technologies, Inc.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of  
incorporation or organization)

20-3672603

(I.R.S. Employer  
Identification No.)

12300 Grant Street, Thornton, CO

(Address of principal executive offices)

80241

(Zip Code)

Registrant's telephone number including area code: 720-872-5000

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Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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:

Large accelerated filer ☐

Accelerated filer

☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company

☒

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 October 31, 2014, there were 15,357,073 shares of our common stock issued and outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

ASCENT SOLAR TECHNOLOGIES, INC.  
(A Development Stage Company)  
CONDENSED BALANCE SHEETS  
(Unaudited)

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current Assets:  |                       |                      |
| Cash and cash equivalents  | \$986,905             | \$3,318,155          |
| Trade receivables  | 1,254,742             | 458,076              |
| Related party receivables and deposits   | 134,200               | 21,122               |
| Inventories  | 2,082,935             | 1,887,612            |
| Prepaid expenses and other current assets  | 2,539,913             | 1,157,484            |
| Total current assets   | 6,998,695             | 6,842,449            |
| Property, Plant and Equipment:   | 38,682,059            | 38,614,905           |
| Less accumulated depreciation and amortization   | (22,299,012 )         | (17,850,688 )        |
|  | 16,383,047            | 20,764,217           |
| Other Assets:  |                       |                      |
| Patents, net of amortization of \$112,889 and \$83,364, respectively   | 1,212,792             | 879,541              |
| Other non-current assets   | 221,000               | 52,813               |
|  | 1,433,792             | 932,354              |
| Total Assets   | \$24,815,534          | \$28,539,020         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                      |
| Current Liabilities:   |                       |                      |
| Accounts payable   | \$1,667,491           | \$442,754            |
| Accrued expenses   | 2,546,820             | 1,800,369            |
| Current portion of long-term debt  | 297,278               | 282,960              |
| Current Portion of Litigation Settlement   | 482,519               | —                    |
| Make-whole dividend liability  | 1,668,510             | 3,146,156            |
| Total current liabilities  | 6,662,618             | 5,672,239            |
| Accrued Litigation Settlement, net of current portion  | 1,008,479             | 1,317,500            |
| Long-Term Debt, net of current portion   | 5,842,392             | 6,067,175            |
| Accrued Warranty Liability   | 91,000                | 47,937               |
| Commitments and Contingencies (Notes 4 & 12)   |                       |                      |
| Stockholders' Equity:  |                       |                      |
| Series A preferred stock, \$.0001 par value; 750,000 shares authorized and issued; 212,390 and 362,390 shares outstanding as of September 30, 2014 and December 31, 2013, respectively (\$2,548,680 Liquidation Preference)                    | 21                    | 36                   |
| Series B-1 preferred stock, \$.0001 par value; 2,000 shares authorized and 1,000 issued; 0 and 350 shares outstanding as of September 30, 2014 and December 31, 2013, respectively   | —                     | —                    |
| Series C preferred stock, \$.0001 par value; 1,000 shares authorized and 630 shares issued; 70 and 0 shares outstanding as of September 30, 2014 and December 31, 2013, respectively; 0 shares outstanding as of October 31, 2014 (\$1,330,000 | —                     | —                    |

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Liquidation Preference)

|   |                |                |
|---|----------------|----------------|
| Common stock, \$0.0001 par value, 250,000,000 shares authorized; 14,137,138 and 6,174,853 shares issued and outstanding, respectively | 1,414          | 617            |
| Additional paid in capital  | 298,576,587    | 263,275,563    |
| Deficit accumulated during the development stage  | (287,366,977 ) | (247,842,047 ) |
| Total stockholders' equity  | 11,211,045     | 15,434,169     |
| Total Liabilities and Stockholders' Equity  | \$24,815,534   | \$28,539,020   |

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

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ASCENT SOLAR TECHNOLOGIES, INC.  
(A Development Stage Company)  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

|  | For the Three Months Ended<br>September 30, |                 | For the Nine Months Ended<br>September 30, |                 | For the Period<br>from Inception<br>(October 18,<br>2005) Through<br>September 30,<br>2014 |
|--|---|-----------------|--|-----------------|--|
|  | 2014  | 2013            | 2014                                       | 2013            |  |
| Revenues   |   |                 |  |                 |  |
| Products *   | \$1,035,367                                 | \$266,534       | \$2,699,513                                | \$608,490       | \$5,745,300  |
| Government contracts   | 101,365                                     | 8,299           | 280,662                                    | 126,332         | 10,146,664   |
| Total Revenues   | 1,136,732                                   | 274,833         | 2,980,175                                  | 734,822         | 15,891,964   |
| Costs and Expenses   |   |                 |  |                 |  |
| Research, development and<br>manufacturing operations                | 6,522,944                                   | 5,335,682       | 17,530,312                                 | 16,246,246      | 139,287,068  |
| Selling, general and<br>administrative                               | 3,996,689                                   | 1,384,650       | 10,304,075                                 | 4,238,063       | 58,525,376   |
| Impairment loss  | —   | —               | —  | —               | 83,993,440   |
| Total Costs and Expenses   | 10,519,633                                  | 6,720,332       | 27,834,387                                 | 20,484,309      | 281,805,884  |
| Loss from Operations   | (9,382,901 )                                | (6,445,499 )    | (24,854,212 )                              | (19,749,487 )   | (265,913,920 )   |
| Other Income/(Expense)   |   |                 |  |                 |  |
| Other Income/(Expense), net  | (1,592,579 )                                | (106,652 )      | (3,123,019 )                               | (320,138 )      | (2,654,213 )   |
| Change in fair value of<br>make-whole dividend liability             | (1,272,084 )                                | 70,272          | (3,460,199 )                               | 70,272          | (4,775,582 )   |
| Total Other Income/(Expense)   | (2,864,663 )                                | (36,380 )       | (6,583,218 )                               | (249,866 )      | (7,429,795 )   |
| Net Loss   | \$(12,247,564 )                             | \$(6,481,879 )  | \$(31,437,430 )                            | \$(19,999,353 ) | \$(273,343,715 )   |
| Deemed dividend on Preferred<br>Stock and accretion of warrants      | —   | (3,653,803 )    | (8,087,500 )                               | (4,251,062 )    | (14,023,262 )  |
| Net Loss applicable to common<br>stockholders                        | \$(12,247,564 )                             | \$(10,135,682 ) | \$(39,524,930 )                            | \$(24,250,415 ) | \$(287,366,977 )   |
| Net Loss Per Share (Basic and<br>diluted)                            | \$(1.09 )                                   | \$(1.87 )       | \$(4.55 )                                  | \$(4.59 )       |  |
| Weighted Average Common<br>Shares Outstanding (Basic and<br>diluted) | 11,277,895                                  | 5,425,668       | 8,688,396                                  | 5,286,238       |  |

\* Includes related party revenue of \$8,050 and \$142,500 for the nine months ended September 31, 2014 and 2013, respectively. For the period from inception through September 30, 2014, related party revenue is \$555,230.

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

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ASCENT SOLAR TECHNOLOGIES, INC.  
(A Development Stage Company)  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Nine Months Ended |                 | For the Period     |
|---|-------------------|-----------------|--------------------|
|   | September 30,     |                 | from Inception     |
|   |                   |                 | (October 18, 2005) |
|   | 2014              | 2013            | through            |
|   |                   |                 | September 30,      |
|   |                   |                 | 2014               |
| Operating Activities:   |                   |                 |                    |
| Net loss  | \$(31,437,430 )   | \$(19,999,353 ) | \$( 273,343,715 )  |
| Adjustments to reconcile net loss to net cash used in operating activities: |                   |                 |                    |
| Depreciation and amortization   | 4,480,662         | 4,659,940       | 35,219,663         |
| Share based compensation  | 633,396           | 538,365         | 14,066,593         |
| Common stock issued for services  | —                 | 104,000         | 201,949            |
| Realized loss on forward contracts  | —                 | —               | 1,430,766          |
| Foreign currency transaction loss (gain)                                    | —                 | —               | (590,433 )         |
| Amortization of financing costs and discounts                               | —                 | —               | 998,565            |
| Impairment loss   | —                 | —               | 83,993,440         |
| Contract cancellation loss  | —                 | —               | 1,167,586          |
| Loss on extinguishment of liabilities                                       | 2,436,428         | —               | 2,596,270          |
| Accrued litigation settlement   | 173,498           | —               | 1,873,498          |
| Change in fair value of make-whole dividend liability                       | 3,460,199         | (70,272 )       | 4,775,582          |
| Changes in operating assets and liabilities:                                |                   |                 |                    |
| Accounts receivable   | (796,666 )        | 5,150           | (1,254,742 )       |
| Related party receivables and deposits                                      | (113,078 )        | 586,114         | (134,200 )         |
| Inventories   | (195,323 )        | 62,055          | (2,082,935 )       |
| Prepaid expenses and other current assets                                   | (1,382,429 )      | (524,400 )      | (2,539,913 )       |
| Accounts payable  | 1,224,737         | (247,802 )      | 1,667,490          |
| Accrued expenses  | 746,451           | (102,069 )      | 1,213,283          |
| Warranty reserve  | 43,063            | 9,750           | 91,000             |
| Net cash used in operating activities                                       | (20,726,492 )     | (14,978,522 )   | (130,650,253 )     |
| Investing Activities:   |                   |                 |                    |
| Purchases of available-for-sale securities                                  | —                 | —               | (907,118,828 )     |
| Maturities and sales of available-for-sale securities                       | —                 | —               | 907,118,828        |
| Purchase of property, plant and equipment                                   | (67,154 )         | (497,373 )      | (135,408,898 )     |
| Note Receivable   | (171,000 )        | —               | (171,000 )         |
| Patent activity costs   | (362,776 )        | (359,702 )      | (1,300,723 )       |
| Net cash used in investing activities                                       | (600,930 )        | (857,075 )      | (136,880,621 )     |
| Financing Activities:   |                   |                 |                    |
| Proceeds from bridge loan financing   | —                 | —               | 1,600,000          |
| Repayment of bridge loan financing  | —                 | —               | (1,600,000 )       |
| Payment of debt financing costs   | —                 | —               | (273,565 )         |
| Payment of equity offering costs  | —                 | —               | (10,514,523 )      |
| Proceeds from debt  | —                 | —               | 7,700,000          |
| Repayment of debt   | (210,465 )        | (197,057 )      | (2,660,331 )       |
| Proceeds from shareholder under Section 16(b)                               | —                 | —               | 148,109            |

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|  |              |              |               |
|--|--------------|--------------|---------------|
| Proceeds from issuance of stock and warrants                 | 19,206,637   | 7,291,467    | 274,166,217   |
| Redemption of Class A warrants                               | —            | —            | (48,128 )     |
| Net cash provided by financing activities                    | 18,996,172   | 7,094,410    | 268,517,779   |
| Net change in cash and cash equivalents                      | (2,331,250 ) | (8,741,187 ) | 986,905       |
| Cash and cash equivalents at beginning of period             | 3,318,155    | 12,621,477   | —             |
| Cash and cash equivalents at end of period                   | \$986,905    | \$3,880,290  | \$ 986,905    |
| Non-Cash Transactions:                                       |              |              |               |
| ITN initial contribution of assets for equity                | \$—          | \$—          | \$ 31,200     |
| Note with ITN and related capital expenditures               | \$—          | \$—          | \$ 1,100,000  |
| Non-cash conversions of preferred stock                      | \$13,025,345 | \$—          | \$ 14,709,271 |
| Make-whole provision on convertible preferred stock          | \$8,087,500  | \$1,783,017  | \$ 11,602,199 |
| Beneficial conversion feature on convertible preferred stock | \$—          | \$2,421,062  | \$ 2,421,063  |

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

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ASCENT SOLAR TECHNOLOGIES, INC.

(A Development Stage Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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 certain CIGS PV technologies and trade secrets and granted to Ascent a perpetual, exclusive, royalty-free worldwide license to use, in connection with the manufacture, development, marketing and commercialization of CIGS PV to produce solar power, certain of ITN's existing and future proprietary and control technologies that, although non-specific to CIGS PV, Ascent believes will be useful in its production of PV modules for its target markets. Upon receipt of the necessary government approvals and pursuant to novation in early 2007, ITN assigned government-funded research and development contracts to Ascent and also transferred the key personnel working on the contracts to Ascent.

Currently, the Company is producing consumer oriented products focusing on charging mobile devices powered by or enhanced by the Company's solar modules. Products in these markets are priced based on the overall product value proposition rather than a commodity-style price per watt basis. The Company continues to develop new consumer products and has adjusted utilization of its equipment to meet near term sales forecasts.

Reverse Stock Split

On August 26, 2014, the Company, a Delaware corporation, filed a Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company (the "Certificate of Amendment") with the Secretary of State of the State of Delaware to effect a reverse stock split of the Company's common stock, par value \$0.0001 per share at a ratio of one-for-ten (the "Reverse Stock Split"). The Amendment did not change the number of authorized shares, or the par value, of the Company's common stock. The Amendment provides that every ten shares of the Company's issued and outstanding common stock were automatically combined into one issued and outstanding share of the Company's common stock. All shares and per share amounts in the condensed financial statements and accompanying notes have been retroactively adjusted to give effect to the Reverse Stock Split.

NOTE 2. BASIS OF PRESENTATION

The Company's activities to date have consisted substantially of raising capital, research and development, establishment and development of the Company's production plant, product development and establishing a sales channel for its line of consumer products which is sold under the EnerPlex™ brand. A development stage entity is defined as an entity devoting substantially all of its efforts to establishing a new business and for which either a) planned principal operations have not commenced or b) planned principal operations have commenced, but there has been no significant revenue therefrom. Revenues to date have been primarily generated from the Company's governmental research and development contracts and have not been significant. The Company's planned principal operations to commercialize flexible PV modules and PV integrated consumer products have commenced, but have generated limited revenue to date. The EnerPlex™ brand of consumer oriented products was introduced in 2012. Despite experiencing substantial sequential growth in the fourth quarter of 2013 and the first nine months of 2014, total revenue to date has not been significant. Accordingly, the Company is considered to be in the development stage and has provided additional disclosure of inception to date activity in its Statements of Operations, Statements of Stockholders' Equity and Statements of Cash Flows. Additionally, due to the development stage nature of the Company, the majority of the Company's costs are considered to be research and development costs.



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The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these interim financial statements do not include all of the information and footnotes typically found in U.S. GAAP audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. The Condensed Balance Sheet at December 31, 2013 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes included in the Company's Annual Report on Form 10-K for the year ended

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December 31, 2013. These condensed financial statements and notes should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The preparation of financial statements in conformity with U.S. 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. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

### NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies were described in Note 3 to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The update will establish a comprehensive revenue recognition standard for virtually all industries in GAAP. ASU 2014-09 will change the amount and timing of revenue and cost recognition, implementation, disclosures and documentation. ASU 2014-09 is effective for fiscal years beginning in 2017. The Company is researching whether the adoption of ASU 2014-09 will have a material effect on the Company's consolidated financial statements.

In June 2014, FASB issued ASU No. No. 2014-10, Development Stage Entities (Topic 915). Amongst other things, the amendments in this update removed the definition of development stage entity from Topic 915, thereby removing the distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information on the statements of income, cash flows and shareholders equity; (2) label the financial statements as those of a development stage entity; (3) disclose a description of the development stage activities in which the entity is engaged; and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The standard will be effective for the Company during the first quarter of 2015. The Company is evaluating the potential impact of this new standard on its financial statements.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40). This ASU provides guidance to determine when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date that the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The standard will be effective for the Company for fiscal years beginning in 2016. The Company is evaluating the impact of the adoption of this accounting standard update on its financial statements.

### NOTE 4. LIQUIDITY AND CONTINUED OPERATIONS

As of September 30, 2014, the Company had approximately \$1.0 million in cash and cash equivalents. The Company is in the development stage and is currently incurring significant losses from operations as it works toward further commercialization. In February 2014, the Company completed the sale of 500 shares of Series B-1 preferred stock in a private placement for gross proceeds of \$5.0 million. In May 2014, the Company completed the sale of 600 shares of Series C preferred stock in a private placement for gross proceeds of \$6.0 million. On July 29, 2014, the Company entered into a securities purchase agreement (the "Purchase Agreement") with SHTARD Enterprises Ltd. (the "Investor"). Pursuant to the terms of the Purchase Agreement, the Company issued and sold to the Investor 400,000 shares of the Company's common stock in the aggregate original amount of \$1,320,000 or \$3.30 per share. On August 11, 2014, the Investor purchased an additional 800,000 shares from the Company at \$3.30 per share or \$2,640,000.

On August 29, 2014, the Company entered into a securities purchase agreement with Seng Wei Seow ("Seow") and TFG Radiant Investment Group Ltd. ("TFG Radiant") for a private placement of a total of 3,115,618 shares of the Company's common stock, which is expected to result in gross proceeds of approximately \$8,000,000 to the Company. The private placement will take place in two tranches. In the first tranche, which closed on August 29, 2014, the Company issued (i) 845,309 shares of Common Stock to Seow and (ii) 845,309 shares of Common Stock to TFG Radiant, all at a price of \$2.366 per share, resulting in gross proceeds of approximately \$4,000,000 to the Company. For the second tranche, which closed on November 11, 2014, the Company issued 1,425,000 shares of Common Stock (the "Second Tranche Shares") to TFG Radiant at a price of \$2.80 per share, resulting in gross proceeds of approximately \$4,000,000 to the Company. The closing of the second tranche was subject to the Company

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obtaining stockholder approval of the issuance of the Second Tranche Shares in accordance with the applicable listing rules of The Nasdaq Stock Market. This approval was obtained at a special shareholder meeting held on October 22, 2014.

The Company has commenced production at its manufacturing facility. The Company does not expect that sales revenue and cash flows will be sufficient to support operations and cash requirements until we have fully implemented our new consumer products strategy. During the first nine months of 2014, the Company used \$20.7 million in cash for operations. For the remainder of 2014, the Company expects to incur a base level of maintenance capital expenditures and relatively minor improvements to the existing asset base along with an increased sales effort. As of September 30, 2014 the Company's primary significant long term obligation consists of a note payable of \$6.1 million to a financial institution secured by a mortgage on its headquarters and manufacturing building in Thornton, Colorado. Total payments of \$0.2 million, including principal and interest, on \$6.1 million note payable will come due in the remainder of 2014. Additionally, the Company owes \$1.5 million as of September 30, 2014 related to a litigation settlement reached in April 2014, which is being paid in equal installments over 40 months beginning in April 2014.

On June 30, 2014, the Company entered into a Service Agreement with Swyft, Inc. ("Swyft"). Swyft will sell consumer products through automated retail stores (kiosks), provide online and mobile retail channels through a website and mobile application, and provide visual and text based advertising through both physical and digital channels. The Company will provide financing to Swyft in the form of a three year 8% convertible note to purchase seventy five (75) automated retail stores at \$4,500 per store, or a total of \$337,500, from ZoomSystems, the manufacturer of automated retail machines. The first convertible loan financing for thirty eight (38) automated retail stores of \$171,000 was provided by the Company by July 31, 2014 and the second convertible loan financing for thirty seven (37) automated retail stores of \$166,500 will be provided by the Company by January 7, 2015. The Company also has an option to continue loan financing for each additional block of fifty (50) automated retail stores. The Service Agreement also required that the Company pay a one-time project set-up fee of \$125,000, which was paid during the third quarter.

Additional projected product revenues are not anticipated to result in a positive cash flow position for the year 2014 overall. However, the Company believes it will have sufficient cash liquidity for the year ending December 31, 2014, given the aforementioned new financing and additional financing that is expected to be secured in the final quarter of the year. The Company has initiated activities related to securing additional financing through strategic or financial investors, but there is no assurance we will be able to raise additional capital on acceptable terms or at all. Changes in the level of expected operating losses, the timing of planned capital expenditures or other factors may negatively impact cash flows and reduce current cash and investments faster than anticipated. If revenues do not increase rapidly, and/or additional financing is not obtained, we will be required to significantly curtail operations to reduce costs and/or sell assets. Such actions would likely have an adverse impact on our future operations.

The Company was previously not in compliance with the NASDAQ minimum \$1.00 bid price requirement. On March 27, 2014, the Company received approval to transfer its listing from the NASDAQ Global Market tier to the NASDAQ Capital Market tier, effective with opening of the market on March 28, 2014. The Company's common stock will continue to trade under the symbol "ASTI". The NASDAQ Capital Market is a continuous trading market that operates in substantially the same manner as the NASDAQ Global Market. Transfer of the Company's listing to the NASDAQ Capital Market resulted in an additional 180-day period within which to regain compliance with the \$1.00 minimum bid price requirement, through September 15, 2014 (the "Compliance Date"). On September 11, 2014, the Company received notification from the Listing Qualifications Department of The Nasdaq Stock Market that the Company had regained compliance with the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2) after maintaining a closing bid price equal to or in excess of \$1.00 for a minimum of ten consecutive trading days and that the Company's noncompliance with that rule had been rectified.

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

The following table summarizes property, plant and equipment as of September 30, 2014 and December 31, 2013:



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|  | As of September<br>30,<br>2014 | As of December 31,<br>2013 |
|--|--------------------------------|----------------------------|
| Building   | \$5,828,960                    | \$ 5,820,509               |
| Furniture, fixtures, computer hardware and computer software | 466,066                        | 461,491                    |
| Manufacturing machinery and equipment                        | 32,371,020                     | 32,332,905                 |
| Net depreciable property, plant and equipment                | 38,666,046                     | 38,614,905                 |
| Manufacturing machinery and equipment in progress            | 16,013                         | —                          |
| Property, plant and equipment                                | 38,682,059                     | 38,614,905                 |
| Less: Accumulated depreciation and amortization              | (22,299,012 )                  | (17,850,688 )              |
| Net property, plant and equipment                            | \$16,383,047                   | \$ 20,764,217              |

The Company analyzes its long-lived assets for impairment, both individually and as a group, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Depreciation expense for the three months ended September 30, 2014 and 2013 was \$1,494,455 and \$1,553,289, respectively and for the nine months ended September 30, 2014 and 2013 was \$4,456,145 and \$4,631,199, respectively. Depreciation expense is recorded under “Research, development and manufacturing operations” expense and “Selling, general and administrative” expense in the Condensed Statements of Operations.

## NOTE 6. INVENTORIES

Inventories consisted of the following at September 30, 2014 and December 31, 2013:

|                 | As of September<br>30,<br>2014 | As of December<br>31,<br>2013 |
|-----------------|--------------------------------|-------------------------------|
| Raw materials   | \$984,727                      | \$1,190,079                   |
| Work in process | 460,115                        | 401,274                       |
| Finished goods  | 638,093                        | 296,259                       |
| Total           | \$2,082,935                    | \$1,887,612                   |

## NOTE 7. DEBT

On February 8, 2008, the Company acquired a 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 (the “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. In 2009, the Construction Loan was converted to a permanent loan pursuant to a Loan Modification Agreement between the Company and CHFA (the “Permanent Loan”). The Permanent Loan, collateralized by the building, has an interest rate of 6.6% and the principal will be amortized through its term to January 2028. The Company will incur a prepayment penalty if the Permanent Loan is prepaid prior to December 31, 2015. Further, pursuant to certain negative covenants in the Permanent Loan, the Company may not, among other things, without CHFA’s prior written consent (which by the terms of the deed of trust is subject to a reasonableness requirement): create or incur additional indebtedness (other than obligations created or incurred in the ordinary course of business); merge or consolidate with any other entity; or make loans or advances to the Company’s officers, shareholders, directors or employees. The outstanding balance of the Permanent Loan was \$6,139,670 as of September 30, 2014.

As of September 30, 2014, future principal payments on long-term debt are due as follows:



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|            |             |
|------------|-------------|
| 2014       | \$72,495    |
| 2015       | 302,210     |
| 2016       | 322,771     |
| 2017       | 344,730     |
| 2018       | 368,183     |
| Thereafter | 4,729,281   |
|            | \$6,139,670 |

**NOTE 8. MAKE-WHOLE DIVIDEND LIABILITY**

In June 2013, the Company entered into a Series A Preferred Stock Purchase Agreement. Holders of Series A Preferred Stock are entitled to cumulative dividends at a rate of 8.0% per annum, with the dividend rate being indexed to the Company's stock price and subject to adjustment. Conversion or redemption of the Series A Preferred Stock within 4 years of issuance requires the Company pay a make-whole dividend to the holders, whereby dividends for the full four year period are to be paid in cash or common stock (valued at 10% below market price).

In October 2013, the Company entered into a Series B Preferred Stock Purchase Agreement. Holders of Series B Preferred Stock are entitled to cumulative dividends at a rate of 5.75% per annum, with the dividend rate being indexed to the Company's stock price and subject to adjustment. Conversion or redemption of the Series B Preferred Stock within 5 years of issuance requires the Company pay a make-whole dividend to the holders, whereby dividends for the full five year period are to be paid in cash or common stock (valued at 8% below market price, but not to exceed the lowest closing price paid during the applicable measurement period).

In April 2014, the Company entered into a Securities Purchase Agreement to issue 600 shares of Series C Preferred Stock to an investor in exchange for \$6.0 million. Holders of Series C Preferred Stock are entitled to cumulative dividends at a rate of 5.75% per annum, when and if declared by the Board of Directors in its sole discretion. The dividends may be paid in cash or in the form of common stock (valued at 8% below market price, but not to exceed 92% of the lowest closing price during the applicable measurement period), at the discretion of the Board of Directors. The dividend rate on the Series C Preferred Stock is indexed to the Company's stock price and subject to adjustment. In addition, the Series C Preferred Stock contains an embedded dividend provision whereby, conversion or redemption of the preferred stock within 5 years of issuance will require dividends for the full five year period to be paid by the Company in cash or common stock (valued at 8% below market price, but not to exceed 92% of the lowest closing price during the applicable measurement period).

The Company concluded the make-whole dividends should be characterized as embedded derivatives under ASC 815. Make-whole dividends are expensed at the time of issuance and recorded as "Deemed dividends on Preferred Stock and accretion of warrants" in the Condensed Statements of Operations and "Make-whole dividend liability" in the Condensed Balance Sheets. The fair value of these dividend liabilities, which are indexed to the Company's common stock, must be evaluated at each period end. The fair value measurements rely primarily on Company-specific inputs and the Company's own assumptions. With the absence of observable inputs, the Company determined these recurring fair value measurements reside primarily within Level 3 of the fair value hierarchy. Fair value determination required forecasting stock price volatility, expected average annual return and conversion date. During the nine months ended September 30, 2014, the Company recorded a net increase in fair value of the liability in the amount of \$3.5 million, recorded as "Change in fair value of make-whole dividend liability" in Other Income/(Expense) in the Condensed Statements of Operations and in the Condensed Statement of Cash Flows.

At September 30, 2014, there were 212,390 shares and 70 shares of Series A and Series C Preferred Shares outstanding, respectively. At September 30, 2014, the Company was entitled to redeem the outstanding Series A preferred shares for \$1.7 million, plus a make-whole amount of \$0.8 million, payable in cash or common shares. At September 30, 2014, the Company was entitled to redeem the outstanding Series C preferred shares for \$0.7 million, plus a make-whole amount of \$0.8 million, payable in cash or common shares. The combined fair value of the make-whole dividend liabilities for the Series A and Series C preferred shares, which approximates cash value, was \$1.7 million as of September 30, 2014.



NOTE 9. STOCKHOLDERS' EQUITY

Common Stock

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At September 30, 2014, the Company had 250,000,000 shares of common stock, \$0.0001 par value, authorized for issuance. Each share of common stock has the right to one vote. As of September 30, 2014, the Company had 14,137,138 shares of common stock outstanding. The Company has not declared or paid any dividends related to the common stock through September 30, 2014.

**Preferred Stock**

At September 30, 2014, the Company had 25,000,000 shares of preferred stock, \$0.0001 par value, authorized for issuance. Preferred stock may be issued in classes or series. Designations, powers, preferences, rights, qualifications, limitations and restrictions are determined by the Company's Board of Directors. 750,000 shares have been designated as Series A preferred stock, 2,000 shares have been designated for Series B-1 and B-2 preferred stock, and 690 shares have been designated as Series C preferred stock. As of September 30, 2014, the Company had 212,390 shares of Series A preferred stock, no shares of Series B-1 preferred stock and no shares of Series B-2 preferred stock and 70 shares of Series C preferred stock outstanding. The Company has no declared unpaid dividends related to the preferred stock as of September 30, 2014.

**Series A Preferred Stock**

In June 2013, the Company entered into a Securities Purchase Agreement with an investor to sell an aggregate of 750,000 shares of Series A Preferred Stock at a price of \$8.00 per share, resulting in gross proceeds of \$6,000,000. This purchase agreement included warrants to purchase up to 262,500 shares of common stock of the Company. The transfer of cash and securities took place incrementally, the first closing occurring on June 17, 2013 with the transfer of 125,000 shares of Series A Preferred Stock and a warrant to purchase 43,750 shares of common stock for \$1,000,000. The final closings took place in August 2013, with the transfer of 625,000 shares of Series A Preferred Stock and a warrant to purchase 218,750 shares of common stock for \$5,000,000.

Holders of Series A Preferred Stock are entitled to cumulative dividends at a rate of 8.0% per annum when and if declared by the Board of Directors in its sole discretion. The dividends may be paid in cash or in the form of common stock (valued at 10% below market price, but not to exceed the lowest closing price during the applicable measurement period), at the discretion of the Board of Directors. The dividend rate on the Series A Preferred Stock is indexed to the Company's stock price and subject to adjustment. In addition, the Series A Preferred Stock contains a make-whole provision whereby, conversion or redemption of the preferred stock within 4 years of issuance will require dividends for the full four year period to be paid by the Company in cash or common stock (valued at 10% below market price, but not to exceed the lowest closing price during the applicable measurement period).

The Series A Preferred Stock may be converted into shares of common stock at the option of the Company if the closing price of the common stock exceeds \$11.60, as adjusted, for 20 consecutive trading days, or by the holder at any time. The Company has the right to redeem the Series A Preferred Stock at a price of \$8.00 per share, plus any accrued and unpaid dividends, plus the make-whole amount (if applicable). At September 30, 2014, the preferred shares were not eligible for conversion to common shares at the option of the Company. The holder of the preferred shares may convert to common shares at any time, at no cost, at a ratio of 1 preferred share into 1 common share (as adjusted for the Reverse Stock Split, subject to standard ratable anti-dilution adjustments). Upon any conversion (whether at the option of the Company or the holder), the holder is entitled to receive any accrued but unpaid dividends and also any make-whole amount (if applicable). See Note 8. Make-Whole Dividend Liability.

During the nine months ended September 30, 2014, the holder of the Series A Preferred Shares converted 150,000 preferred shares into 150,000 shares of common stock (as adjusted for the Reverse Stock Split). As a result of this conversion, the Company paid a make-whole dividend on the conversion of Series A preferred stock in the amount of 104,075 shares of common stock (as adjusted for the Reverse Stock Split) in lieu of a cash payment of \$520,000. As of October 31, 2014 there were 212,390 Series A Preferred Shares outstanding.

Except as otherwise required by law (or with respect to approval of certain actions), the Series A Preferred Stock shall have no voting rights. Upon any liquidation, dissolution or winding up of the Company, after payment or provision for payment of debts and other liabilities of the Company, the holders of Series A Preferred Stock shall be entitled to receive, *pari passu* with any distribution to the holders of common stock of the Company, an amount equal to \$8.00 per share of Series A Preferred Stock plus any accrued and unpaid dividends.

The warrants offered as part of the Securities Purchase Agreement have a three year term and require payment of an exercise price of \$9.00 per common share to the Company.

The Securities Purchase Agreement for the Series A Preferred Stock required that the registration statement, filed on August 16, 2013, must be declared effective within 90 days of the filing date. If the registration statement was not declared effective by this date, damages of 1% of the total investment amount, or \$60,000, plus interest, would have been owed by the Company to the Holder for each month until registration statement effectiveness is reached or the investment amount is repaid in full. The registration statement became effective on August 30, 2013, therefore any potential registration rights liability owed to the Holder by the Company was eliminated as of September 30, 2013.

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### Series B Preferred Stock

In October 2013, the Company entered into a Securities Purchase Agreement with an investor to offer up to 1,000 shares of Series B-1 or Series B-2 preferred stock at a price of \$10,000 per share, and gross proceeds of up to \$10,000,000. The Company offered the Series B preferred stock in two tranches. The first tranche closed on November 1, 2013, with the Company selling 500 shares of Series B-1 preferred stock in exchange for gross proceeds of \$5,000,000. On January 20, 2014, at a special meeting of the stockholders, the Company obtained stockholder approval for the offering. Delivery of the second tranche of \$5,000,000 in exchange for 500 shares of Series B-1 preferred shares occurred on February 7, 2014. With the closing of both tranches resulting in the issuance of Series B-1 preferred shares, the Company will not offer Series B-2 preferred shares.

Holders of Series B preferred stock were entitled to cumulative dividends at a rate of 5.75% per annum when, and if, declared by the Board of Directors in its sole discretion. The dividends may be paid in cash or in the form of common stock (valued at 8% below market price, but not to exceed the lowest closing price during the applicable measurement period), at the discretion of the Board of Directors. The dividend rate on the Series B preferred stock is indexed to the Company's stock price and subject to adjustment. In addition, the Series B preferred stock contains an embedded dividend provision whereby, conversion or redemption of the preferred stock within 5 years of issuance will require dividends for the full five year period to be paid by the Company in cash or common stock (valued at 8% below market price, but not to exceed the lowest closing price during the applicable measurement period).

The Series B preferred stock may be converted into shares of common stock at the option of the Company if the closing price of the common stock exceeds \$20.00, as adjusted, for 20 consecutive trading days, or by the holder at any time. The Company has the right to redeem the Series B preferred stock at a price of \$10,000 per share, plus any accrued and unpaid dividends, plus the embedded dividend liability amount (if applicable). The holder of the Series B-1 preferred stock may convert to common shares at any time, at no cost, at a conversion price of \$11.50 and a ratio of 1 preferred share into 870 common shares. Conversions by the holder are subject to standard ratable anti-dilution adjustments. Upon any conversion (whether at the option of the Company or the holder), the holder is entitled to receive any accrued but unpaid dividends and also any embedded dividend amount (if applicable). See Note 8.

Make-whole dividend liability.

During the nine months ended September 30, 2014, the holder of the Series B preferred stock converted all remaining 850 preferred shares into 739,130 shares of common stock (as adjusted for the Reverse Stock Split). As a result of these conversions, the Company paid make-whole dividends in the amount of 1,238,680 shares of common stock (as adjusted for the Reverse Stock Split) in lieu of a cash payment of \$6,483,000.

### Series C Preferred Stock

On April 1, 2014, the Company entered into a Securities Purchase Agreement to issue 600 shares of Series C Preferred Stock to an investor in exchange for \$6.0 million.

The Series C Preferred Stock is convertible into common stock at a fixed conversion price of \$11.50 per share of common stock. Holders of Series C Preferred Stock are entitled to cumulative dividends at a rate of 5.75% per annum when and if declared by the Board of Directors in its sole discretion. The dividends may be paid in cash or in the form of common stock (valued at 8% below market price, but not to exceed 92% of the lowest closing price during the applicable measurement period), at the discretion of the Board of Directors. The dividend rate on the Series C Preferred Stock is indexed to the Company's stock price and subject to adjustment. In addition, the Series C Preferred Stock contains an embedded dividend provision whereby, conversion or redemption of the preferred stock within 5 years of issuance will require dividends for the full five year period to be paid by the Company in cash or common stock (valued at 8% below market price, but not to exceed 92% of the lowest closing price during the applicable measurement period).

The Series C Preferred Stock may be converted into shares of common stock at the option of the Company if the closing price of the common stock exceeds \$22.30, as adjusted, for 20 consecutive trading days, or by the holder at any time. The Company has the right to redeem the Series C Preferred Stock at a price of \$10,000 per share, plus any accrued and unpaid dividends, plus the embedded dividend amount (if applicable). The holder of the Series C Preferred Stock may convert to common shares at any time, at no cost, at a conversion price of \$11.50 and a ratio of 1 preferred share into 870 common shares. Conversions by the holder are subject to standard ratable anti-dilution

adjustments. Upon any conversion (whether at the option of the Company or the holder), the holder is entitled to receive any accrued but unpaid dividends and also any embedded dividend amount (if applicable).

Except as otherwise required by law (or with respect to approval of certain actions), the Series C Preferred Stock shall have no voting rights. Upon any liquidation, dissolution or winding up of the Company, holders of Series C Preferred Stock will be entitled to be paid out of the Company's assets, on a parity with holders of the Company's common stock and the Company's Series A preferred stock, an amount equal to \$10,000 per share plus any accrued but unpaid dividends thereon.

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In connection with the Securities Purchase Agreement, the Company entered into a Registration Rights Agreement (“RRA”). The RRA provided that if a resale registration statement was not declared effective on or before (i) the 30th day after April 1, 2014, the Company would be required to issue 30 additional shares of Series C Preferred Stock to the investor; (ii) the 60th day after April 1, 2014, the Company would be required to issue 30 additional shares of Series C Preferred Stock to the investor; and (iii) before the 90th day after April 1, 2014, the Company would be required to issue 30 additional shares of Series C Preferred Stock to the investor. Because the resale registration statement was not declared effective until May 27, 2014, the Company issued 30 additional shares of Series C Preferred Stock to the investor on May 1, 2014.

During the nine months ended September 30, 2014, the holder of the Series C preferred stock converted 560 preferred shares into 486,957 shares of common stock (as adjusted for the Reverse Stock Split). As a result of these conversions, the Company paid make-whole dividends in the amount of 2,312,591 shares of common stock (as adjusted for the Reverse Stock Split) in lieu of a cash payment of \$6,022,434. Subsequent to September 30, 2014, the holders of Series C Preferred Stock converted 70 preferred shares into a total of 683,362 common shares, which includes make-whole dividends. As of October 31, 2014, there were 0 shares of Series C Preferred Stock outstanding.

**NOTE 10. EQUITY PLANS AND SHARE-BASED COMPENSATION**

**Share-Based Compensation:** The Company measures share-based compensation cost at the grant date based on the fair value of the award and recognizes this cost as an expense over the grant recipients’ requisite service periods for all awards made to employees, officers, directors and consultants.

The share-based compensation expense recognized in the Condensed Statements of Operations was as follows:

|  | For the three months ended<br>September 30, |           | For the<br>nine months ended September 30, |           |
|--|---|-----------|--|-----------|
|  | 2014  | 2013      | 2014                                       | 2013      |
| Share-based compensation cost included in: |   |           |  |           |
| Research and development                   | \$86,163                                    | \$58,898  | 273,234                                    | \$183,725 |
| Selling, general and administrative        | 121,909                                     | 111,548   | 360,162                                    | 354,640   |
| Total share-based compensation cost        | \$208,072                                   | \$170,446 | \$633,396                                  | \$538,365 |

The following table presents share-based compensation expense by type:

|                                     | For the three months ended<br>September 30, |           | For the<br>nine months ended September 30, |           |
|-------------------------------------|---|-----------|--|-----------|
|                                     | 2014  | 2013      | 2014                                       | 2013      |
| Type of Award:                      |   |           |  |           |
| Stock Options                       | \$99,802                                    | \$96,911  | 315,342                                    | \$298,455 |
| Restricted Stock Units and Awards   | 108,270                                     | 73,535    | 318,054                                    | 239,910   |
| Total share-based compensation cost | \$208,072                                   | \$170,446 | \$633,396                                  | \$538,365 |

**Stock Options:** The Company recognized share-based compensation expense for stock options of \$315,000 to officers, directors and employees for the nine months ended September 30, 2014 related to stock option awards ultimately expected to vest. The weighted average estimated fair value of employee stock options granted for the nine months ended September 30, 2014 and 2013 was \$5.00 and \$4.90 per share, respectively. Fair value was calculated using the Black-Scholes Model with the following assumptions:

|                         | For the nine<br>months ended September 30, |      |
|-------------------------|--|------|
|                         | 2014                                       | 2013 |
| Expected volatility     | 94%  | 97%  |
| Risk free interest rate | 2%   | 1%   |

|                          |     |     |
|--------------------------|-----|-----|
| Expected dividends       | —   | —   |
| Expected life (in years) | 6.0 | 5.2 |

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Expected volatility is based on the historical volatility of the Company's stock. The risk-free rate of return is based on the yield of U.S. Treasury bonds with a maturity equal to the expected term of the award. Historical data is used to estimate forfeitures within the Company's valuation model. The Company's expected life of stock option awards is derived from historical experience and represents the period of time that awards are expected to be outstanding. As of September 30, 2014, total compensation cost related to non-vested stock options not yet recognized was \$272,000 which is expected to be recognized over a weighted average period of approximately 1.7 years. As of September 30, 2014, 180,642 shares were vested or expected to vest in the future at a weighted average exercise price of \$15.59. As of September 30, 2014, 72,292 shares remained available for future grants under the Option Plan. Restricted Stock: In addition to the stock options discussed above, the Company recognized share-based compensation expense related to restricted stock grants of \$318,000 for the nine months ended September 30, 2014. The weighted average estimated fair value of restricted stock grants for the nine months ended September 30, 2014 and 2013 was \$7.10 and \$6.20 per share, respectively.

Total unrecognized share-based compensation expense from unvested restricted stock as of September 30, 2014 was \$107,000 which is expected to be recognized over a weighted average period of approximately 0.3 years. As of September 30, 2014, 58,909 shares were expected to vest in the future. As of September 30, 2014, 215,943 shares remained available for future grants under the Restricted Stock Plan.

### NOTE 11. RELATED PARTY TRANSACTIONS

TFG Radiant Investment Group Ltd. and its affiliates ("TFG Radiant") own approximately 17% of the Company's outstanding common stock as of September 30, 2014. In February 2012, the Company announced the appointment of Victor Lee as President and Chief Executive Officer. Mr. Lee had served on the Company's Board of Directors since November 2011 and is currently the managing director of Tertius Financial Group Pte Ltd, the joint venture partner with Radiant Group in TFG Radiant. In April 2012, the Company appointed the Chairman of TFG Radiant, Mr. Winston Xu (aka Xu Biao), as a member of its Board of Directors.

In June 2012, the Company entered into a supply agreement and a contract manufacturing agreement with TFG Radiant. Under the terms of the contract manufacturing agreement, TFG Radiant will oversee certain aspects of the contract manufacturing process related to the Company's EnerPlex™ line of consumer products. The Company will compensate TFG Radiant for acting as general contractor in the contract manufacturing process. Under the supply agreement, TFG Radiant intends to distribute the Company's consumer products in Asia. In December 2012, the Company entered into a consulting services agreement with TFG Radiant for product design, product development and manufacturing coordinating activities provided by TFG Radiant to the Company in connection with the Company's new line of consumer electronic products. The consulting services agreement was terminated effective March 31, 2014.

During nine months ended September 30, 2014, the Company made disbursements to TFG Radiant in the amount of \$560,000, consisting of \$200,000 for consulting fees and \$360,000 for finished goods received and deposits for work-in-process. During the period from inception through September 30, 2014, the Company recognized revenue in the amount of \$555,000 for products sold to TFG Radiant under the supply agreement. As of September 30, 2014 and December 31, 2013, the Company held \$134,000 and \$21,000, respectively, in receivables and deposits with TFG Radiant.

### NOTE 12. COMMITMENTS AND CONTINGENCIES

On October 21, 2011, the Company was notified that a complaint claiming \$3 million for an investment banking fee (the "Lawsuit") was filed by Jefferies & Company, Inc. ("Jefferies") against the Company in New York State Supreme Court in the County of New York. In December 2010, Ascent and Jefferies entered into an engagement agreement (the "Fee Agreement") pursuant to which Jefferies was hired to act as the Company's financial advisor in relation to certain potential transactions. In addition, Jefferies claimed an award for attorney's fees and prejudgment interest in the approximate amount of \$1.2 million.



On April 16, 2014, the parties settled the lawsuit where the Company agreed to pay Jefferies a total of \$2.0 million in equal installments over 40 months. The Company has paid \$300,000 through September 30, 2014.

The Company records a liability in its financial statements for costs related to claims, including settlements and judgments, where the Company has assessed that a loss is probable and an amount can be reasonably estimated. The Company accrued \$1.7 million, the net present value of the \$2.0 million settlement, as of December 31, 2013. As of September 30, 2014, \$1.0 million was accrued for the long-term portion of this settlement and \$0.5 million was recorded as Accrued litigation settlement, current portion, in the Condensed Balance Sheets.

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On June 30, 2014, the Company entered into a Service Agreement with Swyft, Inc. ("Swyft"). Swyft will sell consumer products through automated retail stores (kiosks), provide online and mobile retail channels through a website and mobile application, and provide visual and text based advertising through both physical and digital channels. The Company will provide financing to Swyft in the form of a three year 8% convertible note to purchase seventy five (75) automated retail stores at \$4,500 per store or a total of \$337,500 from ZoomSystems, the manufacturer of automated retail machines. The first convertible loan financing for thirty eight (38) automated retail stores of \$171,000 was provided by the Company by July 31, 2014 and the second convertible loan financing for thirty seven (37) automated retail stores of \$166,500 will be provided by the Company by January 7, 2015. The Company also has an option to continue loan financing for each additional block of fifty (50) automated retail stores. The Service Agreement also required the Company to pay a one time project set-up fee of \$125,000, which was paid during the third quarter.

### NOTE 13. JOINT VENTURE

On December 28, 2013, the Company entered into a definitive agreement for the establishment of a joint venture with the Government of the Municipal City of Suqian in Jiangsu Province, China ("Suqian").

The agreement covers a multi-faceted, three-phase project. Completion of all three phases would involve an anticipated investment of up to \$500 million over 6 years, comprised of equipment, intellectual property and cash funded by Suqian, the Company, and other supporting investors to be brought in by the Company.

In the initial phase of the project, the Company and Suqian will form a joint venture entity ("JV") in which Suqian will inject approximately \$4.8 million in cash and have majority interest of 75%. The Company will inject approximately \$1.6 million in cash and hold a minority interest of 25%. Near the end of 2014 or early in 2015, Suqian will further inject the balance of the committed \$32.5 million while the Company will contribute its proprietary technology and intellectual property, as well as certain equipment from its Colorado facility, thereby increasing the Company's shareholdings progressively up to an 80% ownership.

Under the terms of the definitive agreement, in phase 1 and phase 2 of the project, the Company is required to contribute to the JV manufacturing equipment, intellectual property assets, proprietary technology and know-how, and cash for its ownership share, and Suqian is required to contribute cash for its ownership share. Pursuant to the terms of the Definitive Agreement, the Company's total contribution for phase 1 and phase 2 is required to be approximately \$130 million. Suqian's total contribution for phase 1 and phase 2 is required to be approximately \$32 million.

Pursuant to the terms of the Definitive Agreement, Ascent and Suqian are required to ascribe a dollar value to the Company's non-cash contributions. The major milestone was the agreement by the Suqian government to credit approximately \$77 million to the Company's contribution of its proprietary technology, which represents 60% towards Ascent's total required contribution of \$130 million. In order to value the Company's intellectual property assets, the parties jointly agreed to hire an independent appraisal company located in China. The appraisal company has now completed that review and has submitted the valuation report to each of the JV partners. This report valued the Company's intellectual property assets at approximately \$65 million, plus 20% premium added by Suqian government to bring the total value to \$77 million. The remaining 40% of the Company's contribution will be in the form of some equipment from its Colorado plant and/or cash. The exact amounts of cash and equipment will be determined at a later date. These amounts of cash and equipment will depend, among other things, on an assessment of the contributed equipment by a Chinese appraisal firm mutually selected by the Company and Suqian.

The actual contributions of cash and other assets into the JV by the Company and Suqian will happen incrementally over time. In addition, under the Definitive Agreement, Suqian has agreed to provide rent-free use of the 331,000-square-foot manufacturing facility and office space that is currently being built for the Company in the Suqian Economic and Industrial Development Science Park.

The JV will build a factory to manufacture the Company's proprietary photovoltaic modules. The Company is committed to purchase this factory within the first 5 years at the initial construction cost, and will also purchase Suqian's ownership interest in the JV at a cost of 1.5 times Suqian's cash investment.

The implementation of the agreement, including the formation of the JV entity, is subject to a number of contractual conditions and governmental approvals. Such conditions and approvals must be obtained in order for the Suqian

factory to be built and become operational. On September 17, 2014, the Company was officially granted the Certificate of Approval for Establishment with Foreign Investment in the People's Republic of China, and on September 24, 2014, the Company was officially granted the Business License to operate the JV. Several activities, including the cash injection by Suqian into the JV and the transfer of equipment by the Company, will begin during the forth quarter of 2014.

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In December 2013, the Company established a wholly owned legal entity in Singapore (Ascent Solar (Asia) PTE. LTD. "Ascent Asia"). Ascent Asia was established initially to manage the Company's contract manufacturing partners in Asia. In the longer term, this entity will serve as the Company's sales headquarters in Asia, in addition to providing management of regional warehousing operations. Any activity for Ascent Asia will be consolidated into the Company's financial statements.

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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 photovoltaic modules using our proprietary technology. For the nine months ended September 30, 2014, we generated \$3.0 million of revenue. Our revenue from product sales was \$2.7 million and our revenue from government research and development contracts was \$0.3 million. As of September 30, 2014, we had an accumulated deficit of \$287.4 million.

Our proprietary manufacturing process deposits multiple layers of materials, including a thin film of highly efficient copper-indium-gallium-diselenide ("CIGS") semiconductor material, on a flexible, lightweight, high tech plastic substrate using a roll-to-roll manufacturing process and then laser patterns the layers to create interconnected photovoltaic ("PV") cells, or PV modules, in a process known as monolithic integration. We believe that our technology and manufacturing process, which results in a lighter, flexible module package, provides us with unique market opportunities relative to both the crystalline silicon ("c-Si") based PV manufacturers that currently lead the PV market, as well as other thin film PV manufacturers that use substrate materials such as glass, stainless steel or other metals that can be heavier and more rigid than plastics.

We believe that the use of CIGS on a flexible, durable, lightweight, high tech plastic substrate will allow for unique and seamless integration of our PV modules into a variety of electronic products, building materials, defense, transportation and space applications, as well as other products and applications that may emerge. For markets that place a high premium on weight, such as consumer electronics, rooftop, defense, space, near space, and aeronautic markets, we believe our materials provide attractive increases in power-to-weight ratio, and we believe that our materials have higher power-to-area ratios and voltage-to-area ratios than competing flexible PV thin film technologies. We believe that our lightweight, flexible, and ultra-rugged technology is transformational in nature, and will provide us advantages in serving newly emerging specialty markets such as UAV's (unmanned aerial vehicles) as well as BAPV (building applied photovoltaic) and other applications where it is not possible to add solar panels to existing structures using traditional crystalline solar technology.

In 2012, we added a new strategic focus to our business model by introducing consumer oriented products sold under the EnerPlex™ brand, concentrating on charging devices powered by or enhanced by our solar modules. Products in the consumer electronics market are priced based on the overall product value proposition rather than a commodity-style price per watt basis which only takes into account the value of the solar component. The majority of our resources are applied towards developing these consumer products; however we have maintained working relationships with co-development partners in developing products for a number of diverse PV integrated charging applications in industries such as: automotive, military, transportation, outdoor recreation and aerospace.

Notable EnerPlex product launches include:

In June 2012, we introduced the EnerPlex Surfr™, a battery and a solar case for the Apple® iPhone® 4/4S smart phone featuring our ultra-light CIGS thin film technology integrated directly into the case. The case incorporates our ultra-light and thin PV module into a sleek, protective iPhone 4/4S case, along with a thin, life extending, battery. The charger adds minimal weight and size to an iPhone, yet provides supplemental charging when needed. In August of 2012, we announced the launch of the second version of Surfr for the Samsung® Galaxy S® III, which provides 85% additional battery life.

In December 2012, we introduced the EnerPlex Kickr™ and EnerPlex Jumpr™ product series. The Kickr IV is an extremely portable, compact and durable solar charging device, approximately seven inches by seven inches when folded, and weighs less than half a pound. The Kickr IV provides 6.5 watts of regulated power that can help charge phones, digital cameras, and other small USB enabled devices. The Kickr IV is ideal for outdoor activities such as camping, hiking and mountain climbing as well as daily city use. To complement the Kickr IV, we also released the Jumpr™ series of portable power banks. The Jumpr™ series provides a compact power storage solution for those who need to take the power of the sun with them on the go.

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During 2013, the EnerPlex™ brand rapidly expanded adding two additional product series as well as over fifteen new products. In the beginning of 2013, we introduced new additions to the Jumpr™ line of portable power banks; releasing the Jumpr Mini in August, Jumpr Stack in August and Jumpr Max in September. The latest additions to the Kickr™ line of portable solar chargers, the Kickr I and Kickr II were introduced in August at the Outdoor Retailer show.

Furthermore, in October 2013 we released our first series of solar integrated backpacks for consumer use, the Packr™, a fashion forward and functional pack perfect. Before the holiday season we debuted the third installment in our phone case line, the Sufr Battery & Solar case for the Samsung Galaxy S4.

During 2014 the EnerPlex brand has aggressively expanded its urban product line to include the Surfr Battery & Solar Case for the iPhone 5 & 5S, and the Red Dot Award winning Jumpr Slate 5k & 10k, the thinnest lithium polymer batteries currently available. In addition we recently introduced a number of portable power banks including the Jumpr Stack 3, 6 & 9 as well as the Jumpr Mini, which utilize our patented Stack & Charge technology and are equipped with integrated micro-USB and lightning tethers, reducing the need to carry cumbersome cables.

Simultaneously, we expanded our Packr line of solar integrated backpacks to include the Packr Executive and Packr Commuter, packs designed to keep the modern consumer powered up throughout the day. The inclusion of these new products enables EnerPlex to provide a comprehensive charging solution to any urban consumer, no matter their power or device requirements.

During the third quarter we have prepared to enter an underserved market by debuting many additions to our outdoor line of products including: the Generatr Series of large capacity batteries, capable of powering devices as large as refrigerators, as well as the Commandr Series of large lightweight solar chargers, designed specifically to integrate directly with the Generatr. The Generatr 1200 was named one of the top 14 products at the Outdoor Retailer tradeshow in August. Simultaneously we have developed a range of powerbanks designed specifically for outdoors use, such as the Jumpr Quad, a ruggedized AA and AAA battery charger, as well as the Jumpr Bar, a lightweight power solution with an integrated USB flip-out enabling consumers to charge the powerbank without cables.

We continue to aggressively pursue new distribution channels for the EnerPlex™ brand and these activities have led to placement in a variety of high-traffic e-commerce venues, such as [www.walmart.com](http://www.walmart.com), [www.amazon.com](http://www.amazon.com), [www.newegg.com](http://www.newegg.com), as well as many others, including our own e-commerce platform at [www.goenerplex.com](http://www.goenerplex.com).

EnerPlex products are also carried in all 35 Fry's Electronics stores across 9 states. Each store is provided with EnerPlex branded merchandising assets to highlight the uniqueness of our product lines. We began our direct sales to consumers through kiosks in the second half of 2013, and currently have 11 kiosks in 3 states (Colorado, California, and Nevada). The agreement with Swyft to deploy up to 200 automated retail stores (kiosks) will rapidly expand our direct sales channel. The first 75 of these automated kiosks are expected to be deployed in Q1'2015.

### Commercialization and Manufacturing Strategy

Our proprietary manufacturing process deposits multiple layers of materials, including a thin film of highly efficient Copper-Indium-Gallium-diSelenide ("CIGS") semiconductor material, on a flexible, lightweight, plastic substrate using a roll-to-roll manufacturing process and then laser patterns the layers to create interconnected PV cells, or PV modules, in a process known as monolithic integration. Our monolithic integration techniques enable us to form complete PV modules with less or no costly back end assembly of intercell connections. Traditional PV manufacturers assemble PV modules by bonding or soldering discrete PV cells together. This manufacturing step typically increases manufacturing costs and at times proves detrimental to the overall yield and reliability of the finished product. By reducing or eliminating this added step using our proprietary monolithic integration techniques, we believe we can achieve cost savings in, and increase the reliability of, our PV modules. We believe our technology and manufacturing process, which results in a lighter, flexible module package, provides us with unique market opportunities relative to both the crystalline silicon ("c-Si") based PV manufacturers that currently lead the PV market, as well as other thin-film PV manufacturers that use substrate materials such as glass, stainless steel or other metals that can be heavier and more rigid than plastics.

Currently, we are producing consumer oriented products focusing on charging devices powered by or enhanced by our solar modules. We continue to develop new consumer products and we have adjusted our utilization of our equipment to meet our near term forecast sales. We plan to continue the development of our current PV technology to increase module efficiency, improve our manufacturing tooling and process capabilities and reduce manufacturing costs. We

also plan to continue to take advantage of research and development contracts to fund a portion of this development. On December 28, 2013, we entered into a definitive agreement for the establishment of a joint venture with the Government of the Municipal City of Suqian in Jiangsu Province, China ("Suqian").

The agreement covers a multi-faceted, three-phase project. Completion of all three phases would involve an anticipated investment of up to \$500 million over 6 years, comprised of equipment, intellectual property and cash funded by Suqian, our business, and other supporting investors brought into the project by us.



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In the initial phase of the project during 2014, we and Suqian will form a joint venture entity (“JV”) in which Suqian will inject approximately \$4.8 million in cash and have a majority interest of 75%. We shall inject approximately \$1.6 million in cash and hold a minority interest of 25%. Near the end of 2014 or early in 2015, Suqian will further inject the balance of the committed \$32.5 million while we will contribute our proprietary technology and intellectual property, as well as certain equipment from our Colorado facility, thereby increasing our shareholdings progressively up to an 80% ownership.

Under the terms of the definitive agreement, in phase 1 and phase 2 of the project, Ascent is required to contribute to the JV manufacturing equipment, intellectual property assets, proprietary technology and know-how, and cash for its ownership share, and Suqian is required to contribute cash for its ownership share. Pursuant to the terms of the Definitive Agreement, Ascent's total contribution for phase 1 and phase 2 is required to be approximately \$130 million. Suqian's total contribution for phase 1 and phase 2 is required to be approximately \$32 million.

Pursuant to the terms of the Definitive Agreement, Ascent and Suqian are required to ascribe a dollar value to Ascent's non-cash contributions. The major milestone was the agreement by the Suqian government to credit approximately \$77 million to Ascent's contribution of its proprietary technology, which represents 60% towards Ascent's total required contribution of \$130 million. In order to value Ascent's intellectual property assets, the parties jointly agreed to hire an independent appraisal company located in China. The appraisal company has now completed that review and has submitted the valuation report to each of the JV partners. This report valued Ascent's intellectual property assets at approximately \$65 million, plus 20% premium added by Suqian government to bring the total value to \$77 million. The remaining 40% of Ascent's contribution will be in the form of some equipment from its Colorado plant and/or cash. The exact amounts of cash and equipment will be determined at a later date. These amounts of cash and equipment will depend, among other things, on an assessment of the contributed equipment by a Chinese appraisal firm mutually selected by Ascent and Suqian.

The actual contributions of cash and other assets into the JV by Ascent and Suqian will happen incrementally over time. In addition, under the Definitive Agreement, Suqian has agreed to provide rent-free use of the 331,000-square-foot manufacturing facility and office space that is currently being built for Ascent in the Suqian Economic and Industrial Development Science Park.

The JV will build a factory to manufacture our proprietary photovoltaic modules. We are committed to purchase this factory within the first 5 years, at the initial construction cost, and we will also purchase Suqian's ownership interest in the JV at a cost of 1.5 times Suqian's cash investment.

The implementation of the agreement, including the formation of the JV entity, is subject to a number of contractual conditions and governmental approvals. Such conditions and approvals must be obtained in order for the Suqian factory to be built and become operational. On September 17, 2014, the Company was officially granted the Certificate of Approval for Establishment with Foreign Investment in the People's Republic of China, and on September 24, 2014, the Company was officially granted the Business License to operate the JV. Several activities, including the cash injection by Suqian into the JV and the transfer of equipment by the Company, will begin during the forth quarter of 2014.

On June 30, 2014, the Company entered into Service Agreement with Swyft, Inc. (“Swyft”). Swyft will sell consumer products through automated retail stores (kiosks), provide online and mobile retail channels through a website and mobile application, and provide visual and text based advertising through both physical and digital channels. The Company will provide financing to Swyft in the form of a three year 8% convertible note to purchase seventy five (75) automated retail stores at \$4,500 per store or total of \$337,500 from ZoomSystems, the manufacturer of automated retail machines. The first convertible loan financing for thirty eight (38) automated retail stores or \$171,000 was provided by the Company by July 31, 2014 and the second convertible loan financing for thirty seven (37) automated retail stores or \$166,500 will be provided by the Company by January 7, 2015. The Company also has an option to continue loan financing for each additional block of fifty (50) automated retail stores. The Service Agreement also required the Company to pay a one-time project set-up fee of \$125,000, which was paid during the third quarter.

Related Party Activity

In February 2012, we announced the appointment of Victor Lee as President and Chief Executive Officer. Mr. Lee had served on our Board of Directors since November 2011 and is currently the managing director of Tertius Financial Group Pte Ltd, the joint venture partner with Radiant Group, in TFG Radiant. In April 2012, we appointed the Chairman of TFG Radiant, Mr. Winston Xu (aka Xu Biao), as a member of our Board of Directors. TFG Radiant owns approximately 17% of our outstanding common stock as of September 30, 2014. The addition of TFG Radiant as a major shareholder has significantly improved our capabilities on a number of fronts. TFG Radiant's domicile in China provides us access to high quality, low cost contract manufacturing in Asia through expansion of TFG Radiant's existing relationships, developed through many years of successful operation in China. Integrating these suppliers into our supply chain enables us to bring our products to market faster. TFG Radiant also provides a global product perspective that significantly improves the product design activities of our Thornton, Colorado designers as they collaborate with designers in Asia. We continue to integrate and improve the design-to-manufacture process

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where we manufacture modules in our US plant, ship them to Asia for completion into finished goods at low cost and then ship products to all markets we will serve.

In June 2012, we entered into a supply agreement and a contract manufacturing agreement with TFG Radiant. Under the terms of the contract manufacturing agreement TFG Radiant will oversee certain aspects of the contract manufacturing process related to our EnerPlex™ line of consumer products. We will compensate TFG Radiant for acting as general contractor in the contract manufacturing process. Under the supply agreement TFG Radiant intends to distribute our consumer products in Asia. In December 2012, we entered into a consulting agreement with TFG Radiant for product design, product development and manufacturing coordination activities provided by TFG Radiant to us in connection with our line of consumer electronics products. The services agreement was discontinued as of March 31, 2014.

During the nine months ended September 30, 2014, we made disbursements to TFG Radiant in the amount of \$560,000, consisting of \$200,000 for consulting fees and \$360,000 for finished goods received and deposits for work-in-process. During the period from inception through September 30, 2014, we recognized revenue in the amount of \$555,000 and for products sold to TFG Radiant under the supply agreement. As of September 30, 2014 and December 31, 2013, we held \$134,000 and \$21,000, respectively, in receivables and deposits with TFG Radiant.

### 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 include:

- our ability to generate customer acceptance of and demand for our products;
- successful ramping up of commercial production on the equipment installed;
- successful and timely certification of our products for use in our target markets;
- successful operating of production tools to achieve the efficiencies, throughput and yield necessary to reach our cost targets;
- design resulting in products saleable at a prices sufficient to generate profits;
- our strategic alliance with TFG Radiant resulting in the design, manufacture and sale of sufficient products to achieve profitability;
- our ability to raise sufficient capital to enable us to reach a level of sales sufficient to achieve profitability on terms favorable to us;
- our ability to successfully design, manufacture, market, distribute and sell our newly introduced line of consumer oriented products;
- effective management of the planned ramp up of our domestic and international operations;
- our ability to maintain the listing of our common stock on The NASDAQ Capital Market;
- our ability to achieve projected operational performance and cost metrics;
- our ability to successfully develop and maintain strategic relationships with key partners, including OEMs, system integrators, distributors, retailers and e-commerce companies, who deal directly with end users in our target markets;
- our ability to enter into commercially viable licensing, joint venture, or other commercial arrangements; and
- availability of raw materials.

### Critical Accounting Policies and Estimates

Critical accounting policies used in reporting our financial results are reviewed by management on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities.

Processes used to develop these estimates are evaluated on an ongoing basis. Estimates are based on historical experience and various other assumptions that are believed to be reasonable for making judgments about the carrying value of assets and liabilities. Actual results may differ as outcomes from assumptions may change.

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Our significant accounting policies were described in Note 3 to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no changes to these policies that are of potential significance to us during the nine months ended September 30, 2014.

### Recent Accounting Pronouncements

See Note 3, "Summary of Significant Accounting Policies," in the Notes to Condensed Financial Statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The update will establish a comprehensive revenue recognition standard for virtually all industries in GAAP. ASU 2014-09 will change the amount and timing of revenue and cost recognition, implementation, disclosures and documentation. ASU 2014-09 is effective for fiscal years beginning in 2017. The Company is researching whether the adoption of ASU 2014-09 will have a material effect on the Company's consolidated financial statements.

In June 2014, FASB issued ASU No. No. 2014-10, Development Stage Entities (Topic 915). Amongst other things, the amendments in this update removed the definition of development stage entity from Topic 915, thereby removing the distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information on the statements of income, cash flows and shareholders equity; (2) label the financial statements as those of a development stage entity; (3) disclose a description of the development stage activities in which the entity is engaged; and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The standard will be effective for the Company during the first quarter of 2015. The Company is evaluating the potential impact of this new standard on its financial statements.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40). This ASU provides guidance to determine when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date that the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The standard will be effective for the Company for fiscal years beginning in 2016. The Company is evaluating the impact of the adoption of this accounting standard update on its financial statements.

## Results of Operations

### Comparison of the Three and Nine Months Ended September 30, 2014 and 2013

Our activities to date have substantially consisted of raising capital, business and product development, research and development and the development of our production lines.

Revenues. Our revenues were \$1,137,000 for the three months ended September 30, 2014 compared to \$275,000 for the three months ended September 30, 2013, an increase of \$862,000. Revenues for the three months ended September 30, 2014 include \$1,035,000 of product sales compared to \$267,000 for the three months ended September 30, 2013, an increase of \$768,000. Revenues earned from our government research and development contracts increased by \$93,000 during the three months ended September 30, 2014 to \$101,000.

Our revenues were \$2,980,000 for the nine months ended September 30, 2014 compared to \$735,000 for the nine months ended September 30, 2013, an increase of \$2,245,000. Revenues for the nine months ended September 30, 2014 include \$2,700,000 of product sales compared to \$608,000 for the nine months ended September 30, 2013, an increase of \$2,092,000. Revenues earned on our government research and development contracts increased by \$154,000 during the nine months ended September 30, 2014 to \$281,000.

Research, development and manufacturing operations. Research, development and manufacturing operations costs were \$6,523,000 for the three months ended September 30, 2014 compared to \$5,336,000 for the three months ended September 30, 2013, an increase of \$1,187,000. Research, development and manufacturing operations costs include costs incurred for product development, pre-production and production activities in our manufacturing facility.

Research, development and manufacturing operations costs also include costs related to technology development and

governmental contracts. Costs related to product development, pre-production and production activities increased by \$1,146,000. The production cost increase was comprised of production materials costs of \$829,000, supplies and equipment related costs of \$131,000, personnel related costs of \$41,000, other manufacturing related expenses of \$250,000, facility related costs of \$61,000 and stock compensation expense of \$17,000, partially offset by decreases in consulting and contract service costs of \$140,000, and depreciation and amortization of \$47,000.

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Technology development and government contract costs increased by \$41,000 in the three months ended September 30, 2014. This increase was primarily the result of an increase in material and supply costs on billable contracts of \$13,000 and personnel related costs of \$23,000.

Research, development and manufacturing operations costs were \$17,530,000 for the nine months ended September 30, 2014 compared to \$16,246,000 for the nine months ended September 30, 2013, an increase of \$1,284,000. Research, development and manufacturing operations costs include costs incurred for product development, pre-production and production activities in our manufacturing facility. Research, development and manufacturing operations costs also include costs related to technology development and governmental contracts. Costs related to product development, pre-production and production activities increased by \$1,244,000. The production cost increase was comprised of production materials costs of \$1,380,000, personnel related costs of \$132,000, supplies and equipment related costs of \$51,000, stock compensation expense of \$66,000, other manufacturing related expenses of \$251,000 and facility related costs of \$80,000, partially offset by decreases in consulting and contract service costs of \$560,000 and depreciation and amortization of \$155,000. Technology development and government contract costs increased by \$40,000 in the nine months ended September 30, 2014. This increase was primarily the result of an increase in material and supply costs on billable contracts of \$14,000 and stock compensation costs of \$24,000.

Selling, general and administrative. Selling, general and administrative expenses were \$3,997,000 for the three months ended September 30, 2014 compared to \$1,385,000 for the three months ended September 30, 2013, an increase of \$2,612,000. This increase is comprised of marketing related costs of \$1,010,000, consulting and contract service costs related to the operation of our kiosks of \$432,000, personnel related costs of \$361,000, materials, and supplies and other costs of \$89,000, public company costs of \$247,000 and legal costs of \$457,000.

Selling, general and administrative expenses were \$10,304,000 for the nine months ended September 30, 2014 compared to \$4,238,000 for the nine months ended September 30, 2013, an increase of \$6,066,000. This increase is comprised of marketing related costs of \$2,429,000, consulting and contract service costs related to the operation of our kiosks of \$1,779,000, personnel related costs of \$827,000, materials, and supplies and other costs of \$153,000, public company costs of \$405,000 and legal costs of \$411,000.

Other Income / (Expense), net. Other Income / (Expense) was \$1,593,000 net expense for the three months ended September 30, 2014 compared to \$107,000 net expense for the three months ended September 30, 2013, an increase of \$1,486,000. This increase was the result of a loss on extinguishment of liabilities related to make-whole payments on Series C preferred stock conversions in the amount of \$1,453,000, as well as \$32,000 of interest expense.

Other Income / (Expense) was \$3,123,000 net expense for the nine months ended September 30, 2014 compared to \$320,000 net expense for the nine months ended September 30, 2013, an increase of \$2,803,000. This increase was the result of a loss on extinguishment of liabilities related to make-whole payments on Series A, Series B, and Series C preferred stock conversions in the amount of \$2,436,000, and \$300,000 penalty shares issued for the Series C preferred stock, as well as \$62,000 of interest expense.

Change in fair value of make-whole dividend liability. Change in fair value of make-whole dividend liability was an expense of \$1,272,000 for the three months ended September 30, 2014 as compared to income of \$70,000 for the three months ended September 30, 2013, a net change of \$1,342,000. This increase in expense is the result of an increase in the fair value of make-whole dividends payable to the holders of Series A and Series C preferred stock.

Change in fair value of make-whole dividend liability was an expense of \$3,460,000 for the nine months ended September 30, 2014 as compared to income of \$70,000 for the nine months September 30, 2013, a net change of \$3,530,000. This increase in expense is the result of an increase in the fair value of make-whole dividends payable to the holders of Series A, Series B, and Series C preferred stock.

Net Loss. Our Net Loss was \$12,248,000 for the three months ended September 30, 2014 compared to a Net Loss of \$6,482,000 for the three months ended September 30, 2013, an increase of \$5,766,000.

Our Net Loss was \$31,437,000 for the nine months ended September 30, 2014 compared to a Net Loss of \$19,999,000 for the nine months ended September 30, 2013, an increase of \$11,438,000.

The increase in Net Loss can be summarized in variances in significant account activity as follows:



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|   | Decrease (increase)<br>to Net Loss<br>For the Three<br>Months Ended<br>September 30, 2014<br>Compared to the<br>Three Months<br>Ended<br>September 30, 2013 | Decrease (increase)<br>to Net Loss<br>For the Nine<br>Months Ended<br>September 30, 2014<br>Compared to the<br>Nine Months Ended<br>September 30, 2013 |
|---|---|--|
| Revenues  |   |  |
| Products  | \$768,000   | \$2,092,000  |
| Government Contracts                                  | 93,000  | 154,000  |
| Research, development and manufacturing operations    |   |  |
| Product development, pre-production and production    | (1,129,000)   | (1,179,000)  |
| Technology and government contracts                   | (31,000)  | (16,000)   |
| Non-cash stock based compensation                     | (27,000)  | (90,000)   |
| Selling, general and administrative expenses          |   |  |
| Corporate selling, general and administrative         | (2,602,000)   | (6,060,000)  |
| Non-cash stock based compensation                     | (10,000)  | (6,000)  |
| Other Income / (Expense)                              |   |  |
| Other Income / (Expense), net                         | (1,486,000)   | (2,803,000)  |
| Change in fair value of make-whole dividend liability | (1,342,000)   | (3,530,000)  |
| Increase to Net Loss                                  | \$ (5,766,000)  | \$ (11,438,000)  |

**Liquidity and Capital Resources**

As of September 30, 2014, we had approximately \$1.0 million in cash and cash equivalents. We are in the development stage and are currently incurring significant losses from operations as we work toward further commercialization. In February 2014, we completed the sale of 500 shares of Series B-1 preferred stock in a private placement for gross proceeds of \$5.0 million. In May 2014, we completed the sale of 600 shares of Series C preferred stock in a private placement for gross proceeds of \$6.0 million. On July 29, 2014, Ascent Solar Technology, Inc. (the "Company") entered into a securities purchase agreement (the "Purchase Agreement") with SHTARD Enterprises Ltd. (the "Investor"). Pursuant to the terms of the Purchase Agreement, the Company issued and sold to the Investor 400,000 shares of the Company's common stock in the aggregate original amount of \$1,320,000 or \$3.30 per share. On August 11, 2014, the Investor purchased an additional 800,000 shares from the Company at \$3.30 per share or \$2,640,000 total.

On August 29, 2014, the Company entered into a securities purchase agreement with Seng Wei Seow ("Seow") and TFG Radiant Investment Group Ltd. ("TFG Radiant") for a private placement of a total of 3,115,618 shares of the Company's common stock, which is expected to result in gross proceeds of approximately \$8,000,000 to the Company. The private placement will take place in two tranches. In the first tranche, which closed on August 29, 2014, the Company issued (i) 845,309 shares of Common Stock to Seow and (ii) 845,309 shares of Common Stock to TFG Radiant, all at a price of \$2.366 per share, resulting in gross proceeds of approximately \$4,000,000 to the Company. For the second tranche, which closed on November 11, 2014, the Company issued 1,425,000 shares of Common Stock (the "Second Tranche Shares") to TFG Radiant at a price of \$2.80 per share, resulting in gross proceeds of approximately \$4,000,000 to the Company. The closing of the second tranche was subject to the Company obtaining stockholder approval of the issuance of the Second Tranche Shares in accordance with the applicable listing rules of The Nasdaq Stock Market. This approval was obtained at a special shareholder meeting held on October 22, 2014. We have commenced production at our manufacturing facility. We do not expect that sales revenue and cash flows will be sufficient to support operations and cash requirements until we have fully implemented our new consumer products strategy. We currently expect our increased sales and marketing costs to exceed our increase in revenue



while we expand our retail channels and increase our product line. During the first nine months of 2014, we used \$20.7 million in cash for operations. For the remainder of 2014, we expect to incur a base level of maintenance capital expenditures and relatively minor improvements to the existing asset base along with an increased sales effort. Our primary significant long term obligations consists of \$6.1 million to a financial institution secured by a mortgage on our headquarters and manufacturing building in Thornton, Colorado. Total payments of \$0.2 million, including principal and interest, on \$6.1 million note payable will come due in the remainder of 2014. Additionally, we owe \$1.5 million as of September 30, 2014 related to a litigation settlement reached in April 2014, which is being paid in equal installments over 40 months beginning in April 2014.

On June 30, 2014, we entered into a Service Agreement with Swyft, Inc. ("Swyft"). Swyft will sell consumer products through automated retail stores (kiosks), provide online and mobile retail channels through a website and mobile application, and provide visual and text based advertising through both physical and digital channels. We will provide financing to Swyft in the

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form of a three year 8% convertible note to purchase seventy five (75) automated retail stores at \$4,500 per store, or a total of \$337,500, from ZoomSystems, the manufacturer of automated retail machines. The first convertible loan financing for thirty eight (38) automated retail stores of \$171,000 was provided by us by July 31, 2014 and the second convertible loan financing for thirty seven (37) automated retail stores of \$166,500 will be provided by us by January 7, 2015. We also have an option to continue loan financing for each additional block of fifty (50) automated retail stores. The Service Agreement also required us to pay a one-time project set-up fee of \$125,000, which was paid during the third quarter.

Additional projected product revenues are not anticipated to result in a positive cash flow position for the year 2014 overall. However, the Company will have sufficient cash liquidity for the year ending December 31, 2014, given the aforementioned new financing and additional financing that is expected to be secured in the final quarter of the year. We have begun activities related to securing additional financing through strategic or financial investors, but there is no assurance we will be able to raise additional capital on acceptable terms or at all. Changes in the level of expected operating losses, the timing of planned capital expenditures or other factors may negatively impact cash flows and reduce current cash and investments faster than anticipated. If revenues do not increase rapidly, and/or additional financing is not obtained, we will be required to significantly curtail operations to reduce costs and/or sell assets. Such actions would likely have an adverse impact on our future operations.

The Company was previously not in compliance with the NASDAQ minimum \$1.00 bid price requirement. On March 27, 2014, we received approval to transfer our listing from the NASDAQ Global Market tier to the NASDAQ Capital Market tier, effective with opening of the market on March 28, 2014. Our common stock will continue to trade under the symbol "ASTI". The NASDAQ Capital Market is a continuous trading market that operates in substantially the same manner as the NASDAQ Global Market. Transfer of our listing to the NASDAQ Capital Market resulted in an additional 180-day period within which to regain compliance with the \$1.00 minimum bid price requirement, through September 15, 2014 (the "Compliance Date"). On September 11, 2014, the Company received notification from the Listing Qualifications Department of The Nasdaq Stock Market that the Company had regained compliance with the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2) after maintaining a closing bid price equal to or in excess of \$1.00 for a minimum of ten consecutive trading days and that the Company's noncompliance with that rule had been rectified.

#### Statements of Cash Flows Comparison of the Nine Months Ended September 30, 2014 and 2013

For the nine months ended September 30, 2014, our cash used in operations was \$20.7 million compared to \$15.0 million for the nine months ended September 30, 2013, an increase of \$5.7 million, which is primarily the result of an increase in net loss, partially offset by non-cash settlements and fair value changes on make-whole derivative liabilities. For the nine months ended September 30, 2014, our cash used in investing activities was \$0.6 million compared to \$0.9 million for the nine months ended September 30, 2013, a decrease of \$0.3 million, resulting primarily from a decrease in purchases of property, plant and equipment. During nine months ended September 30, 2014, negative operating cash flows of \$20.7 million was funded through \$19.2 million of net funding received from issuances of preferred stock and the use of cash and cash equivalents held at December 31, 2013.

#### Contractual Obligations

The following table presents our contractual obligations as of September 30, 2014. Our long-term debt obligation is related to our building loan and our litigation settlement reflecting both principal and interest. Our purchase obligations include orders for equipment, inventory and operating expenses.

| Contractual Obligations        | Total    | Payments Due by Year (in thousands) |           |           |                   |
|--------------------------------|----------|-------------------------------------|-----------|-----------|-------------------|
|                                |          | Less Than 1 Year                    | 1-3 Years | 3-5 Years | More Than 5 Years |
| Long-term debt obligations     | \$10,948 | \$1,293                             | \$3,181   | \$2,081   | \$4,393           |
| Operating lease obligations    | 163      | 163                                 | —         | —         | —                 |
| Purchase obligations           | 1,735    | 1,735                               | —         | —         | —                 |
| Total                          | \$12,846 | \$3,191                             | \$3,181   | \$2,081   | \$4,393           |
| Off Balance Sheet Transactions |          |                                     |           |           |                   |

As of September 30, 2014, we did not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk  
Foreign Currency Exchange Risk

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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.

### Interest Rate Risk

Our exposure to market risks for changes in interest rates relates primarily to our cash equivalents. As of September 30, 2014, our cash equivalents consisted only of federally insured operating and savings accounts held with financial institutions. From time to time we hold money market funds, investments in 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.

### Credit Risk

From time to time we hold certain financial and derivative instruments that potentially subject us to credit risk. These consist primarily of cash, cash equivalents, restricted cash, investments and foreign currency option 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 forward foreign currency option 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 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms. Our management, including our Chief Executive Officer and Chief Financial Officer, 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 September 30, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2014, 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 September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 21, 2011, we were notified that a complaint (the “Lawsuit”) was filed by Jefferies against us in state court located in the County and State of New York.

In December 2010, we and Jefferies entered into an engagement agreement (the “Fee Agreement”) pursuant to which Jefferies was hired to act as our financial advisor in relation to certain potential transactions. In the Lawsuit, Jefferies claimed that it was entitled to receive an investment banking fee of \$3 million (plus expense reimbursement of approximately \$49,000) under the Fee Agreement in connection with the August 2011 investment and strategic alliance transaction (the “Financing”) between us and TFG Radiant. In addition, Jefferies claimed an award for attorney's fees and prejudgment interest in the approximate amount of \$1.2 million.

On April 16, 2014, the parties settled the Lawsuit. Under the settlement agreement, we have agreed to pay Jefferies \$50,000 per month in cash. We will have no further obligations to Jefferies if we make 40 timely monthly payments (aggregating to \$2.0 million). Otherwise, we will owe an aggregate of \$3.0 million to Jefferies.

Our obligations under the settlement agreement will be secured by a second mortgage lien on our headquarters and manufacturing building in Thornton, Colorado. Such second mortgage lien has been approved by the Colorado Housing and Finance Authority (“CHFA”), which holds the first mortgage lien on this building.

We record a liability in our financial statements for costs related to claims, including settlements and judgments, where we have assessed that a loss is probable and an amount can be reasonably estimated. We accrued \$1.7 million, the net present value of the \$2.0 million settlement, as of December 31, 2013. As of September 30, 2014, \$0.5 million was accrued for the short-term portion of this settlement, included in current liabilities, and \$1.0 million was recorded as Accrued litigation settlement, net of current portion, in the Condensed Balance Sheets.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the updated risk factors in our Annual Report on Form 10-K filed on March 28, 2014, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K filed on March 28, 2014 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 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Not required.

Item 3. Defaults Upon Senior Securities  
Not applicable.

Item 4. Mine Safety Disclosures  
Not applicable.

Item 5. Other Information  
Not applicable.

Item 6. Exhibits  
A list of exhibits is found on page 28 of this report.



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ASCENT SOLAR TECHNOLOGIES, INC.

SIGNATURES

Pursuant to the requirements 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 12th day of November, 2014.

ASCENT SOLAR TECHNOLOGIES, INC.

By: /S/ WILLIAM M. GREGORAK  
William M. Gregorak  
Vice President and Chief Financial Officer  
(Principal Financial Officer and Authorized  
Signatory)

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ASCENT SOLAR TECHNOLOGIES, INC.  
EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company, dated October 27, 2014 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated October 28, 2014).       |
| 3.2         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company, dated August 26, 2014. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed September 2, 2014).      |
| 10.1        | Stock Purchase Agreement, dated July 29, 2014, between the Company and SHTARD Enterprise Ltd. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K July 31, 2014).  |
| 10.2        | Securities Purchase Agreement, dated August 29, 2014, among the Company, Seng Wei Seow and TFG Radiant Investment Group Ltd. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed September 4, 2014). |
| 10.3        | Fifth Amended and Restated 2005 Stock Option Plan (incorporated by reference to Annex A of our definitive proxy statement dated October 22, 2014).  |
| 10.4        | Fifth Amended and Restated 2008 Restricted Stock Plan Stock Option Plan Plan (incorporated by reference to Annex B of our definitive proxy statement dated October 22, 2014).   |
| 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   |
| 101.INS**   | XBRL Instance Document  |
| 101.SCH**   | XBRL Taxonomy Extension Schema Document   |
| 101.CAL**   | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF**   | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB**   | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE**   | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Filed herewith.



\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

\*\*\* Denotes management or compensatory plan or arrangement.