FORM 10-K

Sunworks, Inc. - SUNW

Filed: March 14, 2016 (period: December 31, 2015)

Annual report with a comprehensive overview of the company

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

FORM 10-K

(Mark One)

☑ Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2015**

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period from ___________ to ___________

Commission File No. 000-49805

sunworks

Sunworks, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**01-05922991**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1010 Winding Creek Road, Suite 100
Roseville, CA 95678
(Address of principal executive office)

Registrant's telephone number, including area code **(916) 409-6900**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Par Value $0.001	The NASDAQ Stock Market LLC
(Title of class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and, (2) has been subject to such filing requirements for the past 90 days. Yes ☑ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and, will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	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 Act). Yes ☐ No ☑

The aggregate market value of the common stock held by non-affiliates as of June 30, 2015 was $59.3 million.

The outstanding number of shares of common stock as of March 11, 2016 was 19,762,844.

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Item 1. Business.

Forward-looking Statements

Statements in this annual report on Form 10-K that are not historical facts constitute forward-looking statements. Examples of forward-looking statements include statements relating to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, and may include certain assumptions that underlie forward-looking statements. Risks and uncertainties that may affect our future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements include, among other things, those listed under "Risk Factors" and elsewhere in this annual report.

These risks and uncertainties include but are not limited to:

- our limited operating history;
- our ability to raise additional capital to meet our objectives;
- our ability to compete in the solar electricity industry;
- our ability to sell solar electricity systems;
- our ability to arrange financing for our customers;
- government incentive programs related to solar energy;
- our ability to increase the size of our company and manage growth;
- our ability to acquire and integrate other businesses;
- relationships with employees, consultants and suppliers; and
- the concentration of our business in one industry in one geographic area.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology.

These statements are subject to business and economic risk and reflect management's current expectations, and involve subjects that are inherently uncertain and difficult to predict. Actual events or results may differ materially. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this annual report to conform these statements to actual results.

Business Introduction/Summary

References herein to "we," "us," "Sunworks," and "the Company" are to Sunworks, Inc. and its wholly-owned subsidiaries Sunworks United, Inc. ("Sunworks United"), MD Energy, Inc. ("MD Energy"), and Elite Solar Acquisition Sub, Inc. ("Elite Solar"). All dollar figures are in thousands (000's) unless otherwise specified.

We provide photo voltaic ("PV") based power systems for the residential, commercial and agricultural markets in California and Nevada. Through our operating subsidiaries, we design, arrange financing, integrate, install and manage systems ranging in size from 2kW (kilowatt) for residential loads to multi MW (megawatt) systems for larger commercial projects. Commercial installations have included office buildings, manufacturing plants, warehouses, and agricultural facilities such as farms, wineries and dairies. The Company provides a full range of installation services to our solar energy customers including design, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance.

We adhere to the business principles of:

1. Doing what is right for the customer
2. Delivering the best value in our industry; and
3. Doing what we say we will do.

We have installed over 850 systems in 2015 in California and Nevada, an approximately 18 MW of capacity, which is more than a 250% increase over the approximately 300 systems installations and 7MW of capacity in 2014.

Approximately 60% of our 2015 revenue was from sales to the commercial market, including the agricultural market, and approximately 40% of our revenue was from sales to the residential market.

In addition to our core solar integrator business, our technology division has developed a patent-pending 3-dimensional solar cell technology that we believe has the potential to increase PV conversion efficiency thereby reducing the cost of the electricity generated.

Recent Developments

Name Change

On March 1, 2016, we changed our name to Sunworks, Inc. with simultaneous NASDAQ stock symbol change from SLTD to SUNW. Also, on February 26, 2016, we changed the name of our subsidiary, Solar United Network, Inc. to Sunworks United, Inc.

Closing of Elite Solar Acquisition

On August 6, 2015, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Plan B Enterprises, Inc., a California corporation and d/b/a Universal Racking Solutions ("Plan B"), Kirk R. Short and Elite Solar Acquisition Sub., Inc., a wholly owned subsidiary of the Company (the "Surviving Corporation") whereby Plan B merged with and into the Surviving Corporation. The transactions contemplated by the Merger Agreement, as amended, closed on December 1, 2015. We paid a consideration of $7 million, with $2.5 million paid in cash and 1,506,024 in shares of our Series B Preferred Stock valued at $4.5 million.

Market Opportunity

We believe the following trends will contribute to the growth and prospects of our business:

- ***Growing Market for Solar Energy.*** The market for residential distributed solar energy is growing rapidly. According to research compiled by GTM Research, an industry research firm, and the Solar Energy Industries Association, or SEIA, 7.4 gigawatts of capacity will be installed within the U.S. solar energy market in 2015, up 19% over 2014. GTM Research/SEIA forecasts that installations in 2016 will be up 25-50% over 2015. We believe that the market is growing rapidly yet possesses significant growth opportunities since solar energy is still a small percentage of the U.S. energy market. We believe that there is a significant opportunity for distributed solar energy to increasingly displace traditional retail electricity generated from fossil fuels.

- ***Strong Regional Markets***. According to the U.S. Solar Market Insight Report, 4.1 gigawatts of solar power were installed in the US in the first 3 quarters of 2015, of which we believe, over half were installed in California and Nevada, our target market.

- ***Highly Fragmented Industry***. The solar installer industry is highly fragmented and populated with many companies that have been born out of the electrical contractors industry. The solar installer industry has already undergone significant consolidation with the number of installers in California alone dropping, according to the U.S. Department of Energy, from 1,000 between 2009 and 2013 to 600 in 2014. While we believe that some consolidation has occurred, we also believe that there is opportunity for further consolidation.

Strategy

Our strategy for growth is twofold. First, we plan to continue to expand the reach and penetration of our existing businesses. Second, we also to plan to selectively acquire PV installers that are financially stable, quality oriented, profitable and have a strong management team that is compatible with our existing team.

Our acquisition candidates primarily consist of small independent companies that generate between $15 million to $50 million of revenues profitably, but lack the resources to scale their businesses. This limits the exit options for the owners of these companies. We believe that a sale to us will offer them a liquidity opportunity and an opportunity to participate in the continued growth of the business with our resources through convertible notes issued in the acquisition.

Our acquisition criteria include the following:

- *Same Target Market* – Companies in the residential and commercial markets.
- *Willingness to Continue Participation* – Prefer management of acquired companies to continue in an operating role.
- *Compatible and Collaborative Management* – Target management must be willing to accept our best practices.
- *Profitable* – Companies that generate an operating profit.
- *Location* – Currently focused on the western states markets.

We believe the keys to success in acquiring companies are to buy the right company, with a good transaction structure, and with strong management in place. Our management team has experience in successfully executing a strategy of acquiring companies that have become successful enterprises under their new ownership.

Company Operations

Employees

We employ a total of approximately 200 full-time employees. We also utilize outside subcontractors to assist with providing solar systems to our customers. We split our direct labor between employees and contract labor. With each acquisition, we look to transition the majority of back office functions to our corporate headquarters to reduce costs and make our operations consistent across our subsidiaries. We believe that our strategy of consolidating such functions as purchasing, supplier relations, accounting, human resources and other basic functions help to realize cost reductions and strategic synergies.

Sales and Marketing

We have approximately 70 employees primarily focused on sales and marketing in California and Nevada. Over 60% of our commercial sales and approximately 40% of our sales to the residential market are generated by referrals.

In Northern California, we have specially-designed marketing efforts and tracking systems in place that enable us to attract new customers at a low cost and higher conversion rate than what we believe to be the industry average. The Company utilizes several marketing tools and business strategies to differentiate itself from its competitors and attract new customers, including its proprietary proposal tool, its proprietary CRM (customer relationship management software), radio shows and celebrity endorsements, our website, search engine optimization, social media, email marketing, direct mailers, its solar outreach division (canvassing, trade shows and events, solar open houses), call center, strategic partnerships/joint ventures, sponsorships, shared space in retail stores, solar stations (kiosks) and its referral program.

In our Southern California operations, we have a strong advantage in the commercial solar market given our extensive contact list resulting from our experience in the commercial and industrial construction market, which provides access to customer lists. Through our network of vendors and independent sales consultants, we now have a growing list of repeat clients, as well as an active and loyal referral network.

Financing

To promote sales, we assist customers in obtaining financing. Our objective is to arrange the most flexible terms that meet the needs and wants of the customer. Although we do not provide financing ourselves, we have relationships to arrange financing with numerous private and public sources, including PACE (Property Assessed Clean Energy) Programs, which are programs that involve both municipal governments and private financing companies that allow property owners to receive upfront funding for renewable energy projects, and Farm Credit financing offered by a network of lending institutions.

We believe it is best for customers to own their own systems, but some customers prefer not to own their systems. We also have the ability to arrange financing with third parties through power purchase agreements ("PPAs") and leases for our customers.

Suppliers

We purchase solar panels and materials directly from multiple manufacturers. We intend to further coordinate purchases and optimize supply relationships to realize the advantages of greater scale.

If one or more of our suppliers fail to meet our anticipated demand, or ceases or reduces production due to its financial condition, acquisition by a competitor or otherwise, it may be difficult to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected. We do not, however, rely on any single supplier and, we believe, we can obtain needed solar panels and materials from a number of different suppliers. Accordingly, we believe that the loss of any single supplier would not materially affect our business.

We also utilize strategic companies with subcontractors, such as Tiger Electric, Inc. for electrical installations, Aerotek Inc. for racking and module installations, as well as numerous subcontractors for grading, landscaping, and construction for our large commercial, industrial and agricultural customers.

Installation

We are a licensed contractor in the markets we serve, and we are responsible for every customer installation. We manage the entire process from permitting through inspection to interconnection to the power grid, thereby making the system installation process simple and seamless for our customers. Controlling every aspect of the installation process allows us to minimize costs, ensure quality and deliver high levels of customer satisfaction.

After-Sales Support

It is our intent to provide continuing operation and maintenance services for our installed residential and commercial PV system. We provide extended factory equipment technical support and act as a service liaison using our proprietary knowledge, technology and solar electric energy engineering staff. We do this through a 25 Year Limited Workmanship Warranty and Operations and Maintenance Program, which among other things provide a service and technical support line to our customers. We generally respond to our job site related issues within 24 hours and offer assistance as long as required to maintain customer satisfaction. Our price to customers includes this warranty, which is essentially a pass through of manufacturers' warranty.

Facilities

Our corporate headquarters was relocated from Santa Barbara, California to Roseville, California during the fourth quarter of 2015. We maintain sales and installation offices in Roseville, California, in Reno, Nevada, in Rancho Cucamonga, California and in Durham, California. We lease all of our offices and facilities.

Customers

Currently, the majority of our revenue comes from installations in California with a small amount in Nevada. Approximately 60% of our sales in 2015 were in the commercial/agricultural market and approximately 40% were generated by residential sales, but we expect that these percentages will vary from year to year.

Our residential operations address the needs of property owners installing systems smaller than 20kW. The typical residential system installed is about 6kW with an average cycle time of 45 days. We facilitate purchase or lease financing and offer product options to fit the specific needs of each customer.

We also install systems for the commercial market, which includes offerings to agricultural customers. We define small commercial projects as the installation of systems under 100kW, whereas large commercial projects involve the installation of systems greater than 100kW. Solar projects have received limited financing from traditional lending sources but we have been encouraged by municipal PACE programs in California which have drawn funding sources such as Ygrene and California First into the financing of energy projects. Cycle times vary from fifteen to twenty weeks, which is a common cycle for commercial projects. Larger projects typically have a longer cycle time than smaller projects. Agricultural system sizes vary significantly within this sector and can range from 10kW to multiple megawatts. Agricultural loans to farmers and tax-oriented leases are the primary funding sources within the industry. Similar to commercial installations, cycle times for agricultural projects may commonly range from fifteen to twenty weeks or longer for larger projects.

Competitors

In the solar installation market, we compete with companies that offer products similar to ours. Some of these companies have greater financial resources, operational experience and technical capabilities than us. When bidding for solar installation projects, however, our current experience suggests that there is no clear dominant or preferred competitor in the markets in which we compete. We do not believe that any competitor has more than 10% of the market across all of the areas that we operate. We compete with other solar installers on pricing, service and the ability to arrange financing. On a global scale, we also compete, on a cost basis, with traditional utilities that supply electricity to our potential customers and with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. Our advantage over traditional utilities is that we offer customers the opportunity to create their own electricity and detach from the traditional electrical grid.

Seasonality

Exposure to seasonality in our sales patterns is largely mitigated because of the breadth of our business offerings to residential, commercial and agricultural customers. We do find, however, that some customers tend to book projects by the end of a calendar year to realize the benefits of available subsidy programs prior to year-end. This results in fourth quarter sales being more robust usually at the expense of the first quarter. The first quarter in California often has rain, which also reduces our ability to install in that quarter relative to the remainder of the year.

Technology and Intellectual Property

Generally, the solar installation business is not dependent on intellectual property. With respect to our research efforts, patent applications have been filed for the Sunworks 3-dimensional solar cell technology for nationalization in the United States, China, Singapore, and India. The novel 3D cell, which is still in the development stage, is designed to collect sunlight from a wide angle and allow light to bounce around within 3-dimensional microstructures on the solar cell surface more fully absorbing the light than traditional solar cells. To commercialize this technology, we plan to work with a manufacturing partner that has the capability to assist with the remaining steps (prototyping and volume runs to verify and prove improvement in conversion efficiency). Research and development expense was $53 and $113 for the years ended December 31, 2015 and 2014, respectively.

During 2015, we have invested in the development and implementation of Vista by Viewpoint, a robust enterprise management system, to facilitate the efficient integration and management of our recent and any future acquisitions. We expect to begin working with the new software for 2016 operations and accounting.

Government Regulation and Incentives

Government Regulation

We are not regulated as a public utility in the United States under applicable national, state or other local regulatory regimes where we conduct business.

To operate our systems we obtain interconnection permission from the applicable local primary electric utility. Depending on the size of the solar energy system and local law requirements, interconnection permission is provided by the local utility and us and/or our customer. In almost all cases, interconnection permissions are issued on the basis of a standard process that has been pre-approved by the local public utility commission or other regulatory body with jurisdiction over net metering procedures. As such, no additional regulatory approvals are required once interconnection permission is given.

Our operations are subject to stringent and complex federal, state and local laws, including regulations governing the occupational health and safety of our employees and wage regulations. For example, we are subject to the requirements of the federal Occupational Safety and Health Act, as amended, or OSHA, the U.S. Department of Transportation, or DOT, and comparable state laws that protect and regulate employee health and safety.

Government Incentives

Federal, state and local government bodies provide incentives to owners, end users, distributors, system integrators and manufacturers of solar energy systems to promote solar energy in the form of rebates, tax credits and other financial incentives such as system performance payments, payments for renewable energy credits associated with renewable energy generation and exclusion of solar energy systems from property tax assessments. These incentives enable us to lower the price we charge customers for energy from, and to lease, our solar energy systems, helping to catalyze customer acceptance of solar energy as an alternative to utility-provided power.

The Federal government currently offers a 30% Investment Tax Credit ("ITC") under Section 48(a) of the Internal Revenue Code, or the ITC, for the installation of certain solar power facilities until December 31, 2016. By statute, this tax credit was scheduled to decrease to 10% on January 1, 2017, but was extended in December by Congress through 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021 and 10 percent in 2022.

The economics of purchasing a solar energy system are also improved by eligibility for accelerated depreciation, also known as the modified accelerated cost recovery system, or MACRS, depreciation, which allows for the depreciation of equipment according to an accelerated schedule set forth by the Internal Revenue Service. The acceleration of depreciation creates a valuable tax benefit that reduces the overall cost of the solar energy system and increases the return on investment.

Approximately half of the states offer a personal and/or corporate investment or production tax credit for solar energy that is additive to the ITC. Further, more than half of the states, and many local jurisdictions, have established property tax incentives for renewable energy systems that include exemptions, exclusions, abatements and credits. Many state governments, traditional utilities, municipal utilities and co-operative utilities offer a rebate or other cash incentive for the installation and operation of a solar energy system or energy efficiency measures. Capital costs or "up-front" rebates provide funds to solar customers based on the cost, size or expected production of a customer's solar energy system. Performance-based incentives provide cash payments to a system owner based on the energy generated by their solar energy system during a pre-determined period, and they are paid over that time period. Depending on the cost of the system and other site-specific variables, tax incentives can typically cover 30-40% of the cost of a commercial or residential solar system.

Many states also have adopted procurement requirements for renewable energy production. Thirty states and the District of Columbia have adopted a renewable portfolio standard that requires regulated utilities to procure a specified percentage of total electricity delivered to customers in the state from eligible renewable energy sources, such as solar energy systems, by a specified date. California's renewable portfolio standard requires all utilities in the state to source 33% of their electric generation from renewable resources by 2020.

In December 2015, the Nevada Public Utilities Commission, which regulates the state's energy market, announced a net metering rate change. Effective January 1, 2016, the new tariffs will gradually increase the monthly fees that solar users pay to use the electric grid and cut by 75% users' reimbursements for feeding electricity into the grid. The Commission's decision is retroactive. Following public outcry, the Commission agreed to hold hearings to reconsider imposing the new rates on existing solar users, and NV Energy Department announced that it would not insist on the immediate retroactive provision but will gradually phase in the new rates for all solar customers over a 12-year period. In response to the regulation, we have begun to shift focus from the residential to the commercial markets which we believe still have economic viability.

Corporate History

We were originally incorporated in Delaware on January 30, 2002 as MachineTalker, Inc. In September 2010, we shifted our engineering and research focus to developing a new means for generating solar-produced electrical power for use in the manufacture of highly efficient solar cells. In July 2010, we changed our company name to Solar3D, Inc. in order to better reflect our new business plan and filed for patent protection covering our new concepts for 3D solar cell designs. On January 31, 2014, we acquired 100% of the stock of Sunworks United, a California corporation. On March 2, 2015, we acquired MD Energy. On December 1, 2016, we acquired Plan B through a merger of Plan B Enterprises, Inc. into our wholly owned subsidiary, Elite Solar Acquisition Sub., Inc. On March 1, 2016 we changed our name to Sunworks, Inc. with simultaneous NASDAQ stock symbol change from SLTD to SUNW.

Our principal executive offices are located at 1010 Winding Creek Road, Suite 100, Roseville, CA 95678 and our telephone number is (916) 409-6900. Our web site address is www.sunworksusa.com. Information contained in or accessible through our website does not constitute part of this annual report on Form 10-K.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, referred to herein as the SEC. Our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available to the public free of charge over the Internet at our website at http://www.Sunworksusa.com or at the SEC's web site at http://www.sec.gov. Our SEC filings will be available on our website as soon as reasonably practicable after we have electronically filed or furnished them to the SEC. Information contained on our website is not incorporated by reference into this 10-K. You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can view our Code of Conduct and Ethics and the charters for each of our committees of the Board of Directors free of charge on the corporate governance section of our website.

Item 1A. Risk Factors.

Our business and operations are subject to a number of significant risks and uncertainties as described below. However, the risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we may currently deem immaterial, may become important factors that could harm our business, financial condition or results of operations. If any of the following risks actually occur, our business, financial condition or results of operations could suffer materially.

Risks Related to Our Financial Position and Capital Requirements

We have a limited operating history, which could make it difficult to accurately evaluate our business and prospects.

Although we were formed in January 2002, we did not begin selling solar systems until we acquired Solar United Networks in January 2014. Also, we acquired MD Energy in March 2015 and merged with Plan B Enterprises in December 2015. Management believes that our success will depend in large part on our ability to continue to successfully sell solar systems in California and Nevada against determined competition, to consummate synergistic acquisitions, and on the industry's acceptance of our 3-dimensional solar cell technology as an alternative to traditional energy sources. We intend to continue to invest in acquisitions, improvements in solar systems and in completing development of our 3-dimensional solar cell technology. We cannot assure you at this time that we will operate profitably or that we will have adequate working capital to meet our obligations as they become due.

We have incurred significant losses since inception.

We had an accumulated deficit of $39,763 and $40,819 on December 31, 2015 and December 31, 2014, respectively. We have discontinued research and development expenses related to our 3D solar cells. We incurred operating losses from our inception until mid-2015 when we became profitable, and we expect that profitability may increase as we: (i) consolidate our corporate infrastructure, (ii) continue to complete additional acquisitions and, (iii) continue to commercialize our products. As such, we are subject to all risks incidental to the sales and development of new solar energy products and related companion diagnostics, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business.

We may require substantial additional funding which may not be available to us on acceptable terms, or at all. If we fail to raise the necessary additional capital, we may be unable to complete the development and commercialization of our products, or continue our development programs.

Our operations have consumed substantial amounts of cash since inception. We may increase our spending to commercialize our products, including building our own commercial organizations to address certain markets. We will require additional capital for the further sale, development and commercialization of our products, as well as to fund our other operating expenses and capital expenditures.

We cannot be certain that additional funding will be available on acceptable terms, or at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us we may have to significantly delay, scale back or discontinue corporate acquisitions to commercialize our products. Any of these events could significantly harm our business, financial condition and prospects.

Our future capital requirements will depend on many factors, including:

- the progress of the sales and development to commercialize our products;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our plans to establish sales, marketing and/or manufacturing capabilities;
- the effect of competing technological and market developments;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- general market conditions for offerings from solar energy companies;
- our ability to establish, enforce and maintain selected strategic alliances and activities required for product commercialization;
- our revenues from successful sales, development and commercialization of our products; and
- the continued availability of government financial incentives and regulations encouraging customer orders for solar power installations.

In order to carry out our business plan and implement our strategy, we anticipate that we will need to obtain additional financing from time to time and may choose to raise additional funds through strategic collaborations, public or private equity or debt financing, bank lines of credit, asset sales, government grants, or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us or at all. Furthermore, any additional equity or equity-related financing may be dilutive to our stockholders, and debt or equity financing, if available, may subject us to restrictive covenants and significant interest costs.

Our inability to raise capital when needed could harm our business, financial condition and results of operations, and could cause our stock price to decline or require that we wind down our operations altogether.

Risks Related to Our Business and Industry

A material reduction in the retail price of traditional utility generated electricity or electricity from other sources could harm our business, financial condition, results of operations and prospects.

We believe that a significant number of our customers decide to buy solar energy because they want to pay less for electricity than what is offered by the traditional utilities. However, distributed residential solar energy has yet to achieve broad market adoption as evidenced by the fact that distributed solar has penetrated less than 1% of its total addressable market in the U.S. residential sector.

The customer's decision to choose solar energy may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the traditional utilities or from other renewable energy sources would harm our ability to offer competitive pricing and could harm our business. The price of electricity from traditional utilities could decrease as a result of:

- construction of a significant number of new power generation plants, including plants utilizing natural gas, nuclear, coal, renewable energy or other generation technologies;
- relief of transmission constraints that enable local centers to generate energy less expensively;
- reductions in the price of natural gas;
- utility rate adjustment and customer class cost reallocation;
- energy conservation technologies and public initiatives to reduce electricity consumption;
- development of new or lower-cost energy storage technologies that have the ability to reduce a customer's average cost of electricity by shifting load to off-peak times; or
- development of new energy generation technologies that provide less expensive energy.

A reduction in utility electricity prices would make the purchase or the lease of our solar energy systems less economically attractive. If the retail price of energy available from traditional utilities were to decrease due to any of these reasons, or other reasons, we would be at a competitive disadvantage, we may be unable to attract new customers and our growth would be limited.

Existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our solar energy systems.

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase our customers' cost to use our systems and make them less desirable, thereby harming our business, prospects, financial condition and results of operations. In addition, depending on the region, electricity generated by solar energy systems competes most effectively with expensive peak-hour electricity from the electric grid, rather than the less expensive average price of electricity. Modifications to the utilities' peak hour pricing policies or rate design, such as to a flat rate, would require us to lower the price of our solar energy systems to compete with the price of electricity from the electric grid.

In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our products and services. For example, certain jurisdictions have proposed assessing fees on customers purchasing energy from solar energy systems or imposing a new charge that would disproportionately impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. For example, California has adopted and implemented Assembly Bill 327, which has directly revised the caps on net metering applicable to each utility in the state, and further mandates that the California Public Utilities Commission, or CPUC, study net metering and craft an updated program that may result in future charges being imposed on our customers in California. It is possible these charges could be imposed on not just future customers but our existing customers, causing a potentially significant consumer relations problem and harming our reputation and business. Due to the concentration of almost all of our business in California, any such changes in these markets would be particularly harmful to our business, results of operations and future growth.

Our growth strategy depends on the widespread adoption of solar power technology.

The market for solar power products is emerging and rapidly evolving, and its future success is uncertain. If solar power technology proves unsuitable for widespread commercial deployment or if demand for solar power products fails to develop sufficiently, we would be unable to generate enough revenues to achieve and sustain profitability and positive cash flow. The factors influencing the widespread adoption of solar power technology include but are not limited to:

- cost-effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies;
- performance and reliability of solar power products as compared with conventional and non-solar alternative energy products;
- fluctuations in economic and market conditions which impact the viability of conventional and non-solar alternative energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- continued deregulation of the electric power industry and broader energy industry; and
- availability of governmental subsidies and incentives.

Our business currently depends on the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits and incentives would adversely impact our business.

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We rely on these governmental rebates, tax credits and other financial incentives to lower the cost of installing solar systems and to incent customers to purchase solar systems. These incentives enable us to lower the price we charge customers for energy and for our solar energy systems. However, these incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. These reductions or terminations often occur without warning.

The federal government recently extended the 30% investment tax credit under Section 48(a)(3) of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2019.

Reductions in, or eliminations or expirations of, governmental incentives could adversely impact our results of operations and ability to compete in our industry by increasing our cost of capital, causing us to increase the prices of our energy and solar energy systems, and reducing the size of our addressable market. In addition, this would adversely impact our ability to attract investment partners and to form new financing funds and our ability to offer attractive financing to prospective customers.

Net metering and related policies to offer competitive pricing to our customers in our current markets, and changes to net metering policies may significantly reduce demand for electricity from our solar energy systems.

Forty-four states have a regulatory policy known as net energy metering, or net metering. Each of the states where we currently serve customers has adopted a net metering policy. Net metering typically allows our customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility’s retail rate for energy generated by their solar energy system that is exported to the grid in excess of the electric load used by the customers. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Utilities operating in states without a net metering policy may receive solar electricity that is exported to the grid when there is no simultaneous energy demand by the customer without providing retail compensation to the customer for this generation.

Our ability to sell solar energy systems and the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering in states that have implemented it, the failure to adopt a net metering policy where it currently is not in place, the imposition of new charges that only or disproportionately impact customers that utilize net metering, or reductions in the amount or value of credit that customers receive through net metering. Our ability to sell solar energy systems and the electricity they generate also may be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid. If such charges are imposed, the cost savings associated with switching to solar energy may be significantly reduced and our ability to attract future customers and compete with traditional utility providers could be impacted.

Limits on net metering, interconnection of solar energy systems and other operational policies in key markets could limit the number of solar energy systems installed in those markets. For example, California utilities limit net metering credit to 5% of the utilities' aggregate customer peak demand. California has adopted legislation to establish a process and timeline for developing a new net metering program with no cap on participation. In December 2015, the Nevada Public Utilities Commission, which regulates the state's energy market, announced a net metering rate change. Effective January 1, 2016, the new tariffs will gradually increase the monthly fees over a 12-year period that solar users pay to use the electric grid and cut by 75% users' reimbursements for feeding electricity into the grid. This change in the net metering laws negatively impacted our residential business in Nevada by making the economics of installing residential solar less favorable to homeowners. While we have shifted our focus in Nevada to the commercial markets, which we believe still have economic viability, if the caps on net metering in California and other jurisdictions are reached or if the amount or value of credit that customers receive for net metering is significantly reduced, future customers will be unable to recognize the current cost savings associated with net metering. We rely substantially on net metering when we establish competitive pricing for our prospective customers and the absence of net metering for new customers would greatly limit demand for our solar energy systems.

Our business depends in part on the regulatory treatment of third-party owned solar energy systems.

Our leases and any power purchase agreements are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. Other challenges pertain to whether third-party owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems, whether third-party owned systems are eligible at all for these incentives, and whether third-party owned systems are eligible for net metering and the associated significant cost savings. Reductions in, or eliminations of, this treatment of these third-party arrangements could reduce demand for our systems, adversely impact our access to capital and could cause us to increase the price we charge our customers for energy.

Our ability to provide solar energy systems to customers on an economically viable basis depends on our ability to help customers arrange financing for such systems.

Our solar energy systems have been eligible for Federal ITCs or U.S. Treasury grants, as well as depreciation benefits. We have relied on, and will continue to rely on, financing structures that monetize a substantial portion of those benefits and provide financing for our solar energy systems. With the lapse of the U.S. Treasury grant program, we anticipate that our customers' reliance on these tax-advantaged financing structures will increase substantially. If, for any reason, our customers were unable to continue to monetize those benefits through these arrangements, we may be unable to provide and maintain solar energy systems for new customers on an economically viable basis.

The availability of this tax-advantaged financing depends upon many factors, including:

- the state of financial and credit markets;
- changes in the legal or tax risks associated with these financings; and
- non-renewal of these incentives or decreases in the associated benefits.

Under current law, the Federal ITC remain at 30% of the cost of the solar energy systems to the end of 2019 after which it will fall to 26 percent in 2020, 22 percent in 2021 and 10 percent in 2022. In addition, U.S. Treasury grants are no longer available for new solar energy systems. Changes in existing law and interpretations by the Internal Revenue Service and the courts could reduce the willingness of funding sources to provide funds to customers of these solar energy systems. We cannot assure you that this type of financing will be available to our customers. If, for any reason, we are unable to find financing for solar energy systems, we may no longer be able to provide solar energy systems to new customers on an economically viable basis. This would have a material adverse effect on our business, financial condition and results of operations.

Rising interest rates could adversely impact our business.

Increases in interest rates could have an adverse impact on our business by increasing our cost of capital, which would increase our interest expense and make acquisitions more expensive to undertake.

Further, rising interest rates may negatively impact our ability to arrange financing for our customers on favorable terms to facilitate our customers' purchases of our solar energy systems. The majority of our cash flows to date have been from the sales of solar energy systems. Rising interest rates may have the effect of depressing the sales of solar energy systems because many consumers finance their purchases.

As a result, an increase in interest rates may negatively affect our costs and reduce our revenues, which would have an adverse effect on our business, financial condition and results of operations.

Our inability to arrange financing could hurt our future business.

On a global scale, we also compete, on a cost basis, with traditional utilities that supply electricity to our potential customers and with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. Our advantage over traditional utilities is that we offer customers the opportunity to create their own electricity and detach from the traditional electrical grid. To offer customers the opportunity, we often have to arrange financing for our customers as solar projects have received limited financing from traditional lending sources. Our objective is to arrange the most flexible terms that meet the needs and wants of the customer. Although we do not provide financing ourselves, we have relationships to arrange financing with numerous private and public sources, including PACE (Property Assessed Clean Energy) Programs, which are programs that involve both municipal governments and private financing companies that allows property owners to receive upfront funding for renewable energy projects, and Farm Credit financing offered by a network of lending institutions. Our inability to arrange financing through these or other source could adversely affect our business and results of operations.

If we cannot compete successfully against other solar and energy companies, we may not be successful in developing and commercializing our technology and our business will suffer.

The solar and energy industries are characterized by intense competition and rapid technological advances, both in the United States and internationally. We will compete with a number of existing and future technologies and product candidates developed, manufactured and marketed by others. Many of these competitors have validated technologies with products already in various stages of development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs and/or have substantially greater financial resources than we do, as well as significantly greater experience.

We compete with solar companies with business models that are similar to ours. In addition, we compete with solar companies in the downstream value chain of solar energy. For example, we face competition from purely finance driven organizations that acquire customers and then subcontract out the installation of solar energy systems, from installation businesses that seek financing from external parties, from large construction companies and utilities, and increasingly from sophisticated electrical and roofing companies. Some of these competitors specialize in the residential solar energy market, and some may provide energy at lower costs than we do. Further, some of our competitors are integrating vertically in order to ensure supply and to control costs. Many of our competitors also have significant brand name recognition and have extensive knowledge of our target markets. For us to remain competitive, we must distinguish ourselves from our competitors by offering an integrated approach that successfully competes with each level of products and services offered by our competitors at various points in the value chain. If our competitors develop an integrated approach similar to ours including sales, financing, engineering, manufacturing, installation, maintenance and monitoring services, this could reduce our marketplace differentiation.

Because we will be competing against significantly larger companies with established track records, we will have to demonstrate that, based on experience, and other factors, our products, are competitive with other products or we may not be able to reach or maintain profitable sales levels.

Adverse economic conditions may have material adverse consequences on our business, results of operations and financial condition.

Unpredictable and unstable changes in economic conditions, including recession, inflation, increased government intervention, or other changes, may adversely affect our general business strategy. We rely upon our ability to generate additional sources of liquidity and we may need to raise additional funds through public or private debt or equity financings in order to fund existing operations or to take advantage of opportunities, including acquisitions of complementary businesses or technologies. Any adverse event would have a material adverse impact on our business, results of operations and financial condition.

Our business is concentrated in certain markets, putting us at risk of region specific disruptions.

As of December 31, 2015, 99% of our total installations were in California. We maintain offices in California and Nevada and expect much of our near-term future growth to occur in California and Nevada, further concentrating our customer base and operational infrastructure. Accordingly, our business and results of operations are particularly susceptible to adverse economic, regulatory, political, weather and other conditions in such markets and in other markets that may become similarly concentrated.

Substantially all of our business is conducted primarily using one channel, direct-selling.

While we are in the process of evaluating different distribution channels, currently substantially all of our business is conducted using direct selling. We compete against companies that sell solar energy systems to customers through a number of distribution channels, including homebuilders, home improvement stores, large construction, electrical and roofing companies and other third parties and companies that access customers through relationships with third parties in addition to other direct-selling companies. This single distribution channel may place us at a disadvantage with consumers who prefer to purchase products through these other distribution channels. Additionally, we are vulnerable to changes in laws related to direct marketing as regulations have limited unsolicited residential sales calls and may impose additional restrictions. If additional laws affecting direct marketing are passed in the markets in which we operate, it could take time to train our sales force to comply with such laws, and we may be exposed to fines or other penalties for violations of such laws. If we fail to compete effectively through our direct-selling efforts or are not successful in executing our strategy to sell our solar energy systems through other channels, our financial condition, results of operations and growth prospects will be adversely affected.

If we are unable to retain and recruit qualified technicians and advisors, or if our key executives, key employees or consultants discontinue his or her employment or consulting relationship with us, it may delay our development efforts or otherwise harm our business.

We may not be able to attract or retain qualified management or technical personnel in the future due to the intense competition for qualified personnel among solar, energy and other businesses. Our industry has experienced a high rate of turnover of management personnel in recent years. If we are not able to attract, retain and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the successful development of any product candidates, our ability to raise additional capital and our ability to implement our overall business strategy.

We are highly dependent on members of our management and technical staff. Our success also depends on our ability to continue to attract, retain and motivate highly skilled junior, mid-level, and senior managers as well as junior, mid-level, and senior technical personnel. The loss of any of our executive officers, key employees or consultants and our inability to find suitable replacements could impede the achievement of our research and development objectives, potentially harm our business, financial condition and prospects. We may be unable to attract and retain personnel on acceptable terms given the competition among solar and energy companies, universities and non-profit research institutions for experienced scientists. Certain of our current officers, directors, scientific advisors and/or consultants or certain of the officers, directors, scientific advisors and/or consultants hereafter appointed may from time to time serve as officers, directors, scientific advisors and/or consultants of other solar and energy companies. We do not maintain “key man” insurance policies on any of our officers or employees. Other than certain members of our senior management team, all of our employees are employed “at will” and, therefore, each employee may leave our employment and join a competitor at any time.

We plan to grant stock options, restricted stock grants, or other forms of equity awards in the future as a method of attracting and retaining employees, motivating performance and aligning the interests of employees with those of our stockholders. If we are unable to implement and maintain equity compensation arrangements that provide sufficient incentives, we may be unable to retain our existing employees and attract additional qualified candidates. If we are unable to retain our existing employees, including qualified scientific personnel, and attract additional qualified candidates, our business and results of operations could be adversely affected.

The execution of our business plan and development strategy may be seriously harmed if integration of our senior management team is not successful.

As we continue to grow and acquire new businesses like MD Energy and Elite Solar, we have experienced and we may continue to experience significant changes in our senior management team. Specifically, four new board members and our chief financial officer have joined us since December 2014. Further, we have added senior management through our acquisitions. As a result, our ability to integrate the board and senior management team and our ability to effectively manage our business may affect the successful operations of our business.

We may not successfully implement our business model.

Our business model is predicated on our ability to provide solar systems at a profit, and our growth through strategic acquisitions. We intend to continue to operate as we have previously with sourcing and marketing methods that we have used successfully in the past. However, we cannot assure that our methods will continue to attract new customers nor that we can maintain the same profitability in the very competitive solar systems marketplace. We are actively seeking to acquire additional companies that are complementary to ours, and that make a profit. We cannot guarantee that such companies are available or that we can sustain their performance after we acquire them.

Further, we intend to develop our proprietary technology. We intend to outsource manufacturing and/or to license the proprietary technology to customers for production in their own facilities. We cannot assure that customers will license our technology, to produce it in their own facilities or that various industries will adopt our 3D solar cell technology in the volume that we project, or that prospective customers will agree to pay the prices that we propose to charge.

In the event our customers resist paying the prices projected in our business plan to purchase solar installations or to license our 3D solar cell technology, our business, financial condition, and results of operations will be materially and adversely affected.

We will need to increase the size of our company and may not effectively manage our growth.

Our success will depend upon growing our business and our employee base. Over the next 12 months, we plan to add additional employees to assist us with operations, sales, finance, administration and research and development. Our future growth, if any, may cause a significant strain on our management, and our operational, financial and other resources. Our ability to manage our growth effectively will require us to implement and improve our operational, financial and management systems and to expand, train, manage and motivate our employees. These demands may require the hiring of additional management personnel and the development of additional expertise by management. Any increase in resources devoted to research and product development without a corresponding increase in our operational, financial and management systems could have a material adverse effect on our business, financial condition, and results of operations.

We may not realize the anticipated benefits of past or future acquisitions, and integration of these acquisitions may disrupt our business and management.

We acquired Sunworks United in January 2014 and completed our acquisition of MD Energy in March 2015 and merger with Elite Solar in December 2015. Our growth strategy is dependent on the success of these three acquisitions and in the future we may acquire additional companies, project pipelines, products or technologies or enter into joint ventures or other strategic initiatives. We may not realize the anticipated benefits of this acquisition or any other future acquisition, and any acquisition has numerous risks. These risks include the following:

- difficulty in assimilating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies or products with our current technologies;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company's accounting, management information and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;
- inability to retain key customers, vendors and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential failure of the due diligence processes to identify significant issues with product quality, intellectual property infringement and other legal and financial liabilities, among other things;
- potential inability to assert that internal controls over financial reporting are effective; and
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions.

Mergers and acquisitions of companies are inherently risky and, if we do not complete the integration of acquired businesses successfully and in a timely manner, we may not realize the anticipated benefits of the acquisitions to the extent anticipated, which could adversely affect our business, financial condition or results of operations.

A significant portion of our total assets consists of goodwill, which is subject to a periodic impairment analysis, and a significant impairment determination in any future period could have an adverse effect on our results of operations even without a significant loss of revenue or increase in cash expenses attributable to such period.

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We have goodwill totaling approximately $10.9 million associated with our acquisitions. We will be required to evaluate this goodwill for impairment based on the fair value of the operating business units to which this goodwill relates, at least once a year. This estimated fair value could change if we are unable to achieve operating results at the levels that have been forecasted, the market valuation of those business units decreases based on transactions involving similar companies, or there is a permanent, negative change in the market demand for the services offered by the business units. These changes could result in an impairment of the existing goodwill balance that could require a material non-cash charge to our results of operations.

We may be subject to claims arising from the operations of our various businesses for periods prior to the dates we acquired them.

We may be subject to claims or liabilities arising from the ownership or operation of acquired businesses for the periods prior to our acquisition of them, including environmental, employee-related and other liabilities and claims not covered by insurance. These claims or liabilities could be significant. Our ability to seek indemnification from the former owners of our acquired businesses for these claims or liabilities may be limited by various factors, including the specific time, monetary or other limitations contained in the respective acquisition agreements and the financial ability of the former owners to satisfy our indemnification claims. In addition, insurance companies may be unwilling to cover claims that have arisen from acquired businesses or locations, or claims may exceed the coverage limits that our acquired businesses had in effect prior to the date of acquisition. If we are unable to successfully obtain insurance coverage of third-party claims or enforce our indemnification rights against the former owners, or if the former owners are unable to satisfy their obligations for any reason, including because of their current financial position, we could be held liable for the costs or obligations associated with such claims or liabilities, which could adversely affect our financial condition and results of operations.

With respect to providing electricity on a price-competitive basis, solar systems face competition from traditional regulated electric utilities, from less-regulated third party energy service providers and from new renewable energy companies.

The solar energy and renewable energy industries are both highly competitive and continually evolving as participants strive to distinguish themselves within their markets and compete with large traditional utilities. We believe that our primary competitors are the traditional utilities that supply electricity to our potential customers. Traditional utilities generally have substantially greater financial, technical, operational and other resources than we do. As a result, these competitors may be able to devote more resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. Traditional utilities could also offer other value-added products or services that could help them to compete with us even if the cost of electricity they offer is higher than ours. In addition, a majority of utilities' sources of electricity is non-solar, which may allow utilities to sell electricity more cheaply than electricity generated by our solar energy systems.

We also compete with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. These energy service companies are able to offer customers electricity supply-only solutions that are competitive with our solar energy system options on both price and usage of renewable energy technology while avoiding the long-term agreements and physical installations that our current fund-financed business model requires. This may limit our ability to attract new customers; particularly those who wish to avoid long-term contracts or have an aesthetic or other objection to putting solar panels on their roofs.

As the solar industry grows and evolves, we will also face new competitors who are not currently in the market. Low technological barriers to entry characterize our industry and well-capitalized companies could choose to enter the market and compete with us. Our failure to adapt to changing market conditions and to compete successfully with existing or new competitors will limit our growth and will have a material adverse effect on our business and prospects.

Developments in alternative technologies or improvements in distributed solar energy generation may materially adversely affect demand for our offerings.

Significant developments in alternative technologies, such as advances in other forms of distributed solar power generation, storage solutions such as batteries, the widespread use or adoption of fuel cells for residential or commercial properties or improvements in other forms of centralized power production may materially and adversely affect our business and prospects in ways we do not currently anticipate. Any failure by us to adopt new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay deployment of our solar energy systems, which could result in product obsolescence, the loss of competitiveness of our systems, decreased revenue and a loss of market share to competitors.

Due to the limited number of suppliers in our industry, the acquisition of any of these suppliers by a competitor or any shortage, delay, price change, imposition of tariffs or duties or other limitation in our ability to obtain components or technologies we use could result in sales and installation delays, cancellations and loss of market share.

While we purchase our products from several different suppliers, if one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production due to its financial condition, acquisition by a competitor or otherwise, is unable to increase production as industry demand increases or is otherwise unable to allocate sufficient production to us, it may be difficult to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected. There are a limited number of suppliers of solar energy system components and technologies. While we believe there are other sources of supply for these products available, transitioning to a new supplier may result in additional costs and delays in acquiring our solar products and deploying our systems. These issues could harm our business or financial performance.

In addition, the acquisition of a component supplier or technology provider by one of our competitors could limit our access to such components or technologies and require significant redesigns of our solar energy systems or installation procedures and have a material adverse effect on our business.

There have also been periods of industry-wide shortages of key components, including solar panels, in times of rapid industry growth. The manufacturing infrastructure for some of these components has a long lead-time, requires significant capital investment and relies on the continued availability of key commodity materials, potentially resulting in an inability to meet demand for these components. The solar industry is currently experiencing rapid growth and, as a result, shortages of key components, including solar panels, may be more likely to occur, which in turn may result in price increases for such components. Even if industry-wide shortages do not occur, suppliers may decide to allocate key components with high demand or insufficient production capacity to more profitable customers, customers with long-term supply agreements or customers other than us and our supply of such components may be reduced as a result.

Typically, we purchase the components for our solar energy systems on an as-needed basis and do not operate under long-term supply agreements. All of our purchases are denominated in U.S. dollars. Since our revenue is also generated in U.S. dollars we are mostly insulated from currency fluctuations. However, since our suppliers often incur a significant amount of their costs by purchasing raw materials and generating operating expenses in foreign currencies, if the value of the U.S. dollar depreciates significantly or for a prolonged period of time against these other currencies this may cause our suppliers to raise the prices they charge us, which could harm our financial results. Since we purchase almost all of the solar photovoltaic modules we use from China, we are particularly exposed to exchange rate risk from increases in the value of the Chinese Renminbi. In addition, the U.S. government has recently imposed tariffs on solar cells manufactured in China and is investigating pricing practices concerning solar panels manufactured in China and Taiwan that contain solar cells produced in other countries, at the conclusion of which it could impose additional tariffs or duties. Any such tariffs or duties, or shortages, delays, price changes or other limitation in our ability to obtain components or technologies we use could limit our growth, cause cancellations or adversely affect our profitability, and result in loss of market share and damage to our brand.

Our business has benefited from the declining cost of solar panels, and our financial results may be harmed now that the cost of solar panels has stabilized and could increase in the future, including as a result of increases in the cost of solar panels or tariffs on imported solar panels imposed by the U.S. government.

The declining cost of solar panels and the raw materials necessary to manufacture them has been a key driver in the pricing of our solar energy systems and customer adoption of this form of renewable energy. With the stabilization or increase of solar panel and raw materials prices, our growth could slow, and our financial results could suffer. Further, the cost of solar panels and raw materials could increase in the future due to tariff penalties or other factors.

The U.S. government has imposed tariffs on solar cells manufactured in China. Based on determinations by the U.S. government under the 2012 solar trade case, the anti-dumping and countervailing tariff rates range from approximately 33%-255%. Such anti-dumping and countervailing tariffs are subject to annual review and may be increased or decreased. Under the most recent preliminary annual review, the tariff rates under the 2012 trade case covering solar cells manufactured in China have been decreased. These tariffs have increased the price of solar panels containing Chinese-manufactured solar cells. In the past, we purchased a significant portion of the solar panels used in our solar energy systems from manufacturers based in China. Currently, many of the solar panels we purchase contain components from China or Taiwan. The purchase price of solar panels containing solar cells manufactured in China reflects these tariff penalties. While solar panels containing solar cells manufactured outside of China are not subject to these tariffs, the prices of these solar panels are, and may continue to be, more expensive than panels produced using Chinese solar cells, before giving effect to the tariff penalties.

In addition, the U.S. government is conducting trade investigations relating to solar modules manufactured in China (with cells from other countries) and cells manufactured in Taiwan. In early January 2015, the U.S. government announced its affirmative final determinations in both the countervailing duty and anti-dumping cases against China and in the anti-dumping case again Taiwan. The new preliminary tariffs do not apply to modules with Chinese solar cells. Those modules are still covered by the existing tariffs from the first 2012 trade case.

If additional tariffs are imposed or other negotiated outcomes occur, our ability to purchase these products on competitive terms or to access specialized technologies from those countries could be limited. Any of those events could harm our financial results by requiring us to account for the cost of trade penalties or to purchase solar panels or other system components from alternative, higher-priced sources.

We act as the licensed general contractor for our customers and are subject to risks associated with construction, cost overruns, delays, regulatory compliance and other contingencies, any of which could have a material adverse effect on our business and results of operations.

We are a licensed contractor and we are responsible for every customer installation. We are the general contractor, electrician, construction manager and installer for all our solar energy systems. We may be liable to customers for any damage we cause to their home, belongings or property during the installation of our systems. For example, we penetrate our customers' roofs during the installation process and may incur liability for the failure to adequately weatherproof such penetrations following the completion of installation of solar energy systems. In addition, because the solar energy systems we deploy are high-voltage energy systems, we may incur liability for the failure to comply with electrical standards and manufacturer recommendations. Because our profit on a particular installation is based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected results or cover our costs for that project.

In addition, the installation of solar energy systems is subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building, fire and electrical codes, safety, environmental protection, utility interconnection and metering, and related matters. We also rely on certain of our employees to maintain professional licenses in many of the jurisdictions in which we operate, and our failure to employ properly licensed personnel could adversely affect our licensing status in those jurisdictions. It is difficult and costly to track the requirements of every authority having jurisdiction over our operations and our solar energy systems. Any new government regulations or utility policies pertaining to our systems, or changes to existing government regulations or utility policies pertaining to our systems, may result in significant additional expenses to us and our customers and, as a result, could cause a significant reduction in demand for our systems.

Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity.

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems. The evaluation and modification of buildings as part of the installation process requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead, mold or other materials known or believed to be hazardous to human health. We also maintain a fleet of trucks and other vehicles to support our installers and operations. There is substantial risk of serious injury or death if proper safety procedures are not followed. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, the U.S. Department of Transportation, or DOT, and equivalent state laws. Changes to OSHA or DOT requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures or suspend or limit operations. Because our installation employees are compensated on a per project basis, they are incentivized to work more quickly than installers that are compensated on an hourly basis. While we have not experienced a high level of injuries to date, this incentive structure may result in higher injury rates than others in the industry and could accordingly expose us to increased liability. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines. Any such accidents, citations, violations, injuries or failure to comply with industry best practices may subject us to adverse publicity, damage our reputation and competitive position and adversely affect our business.

Problems with product quality or performance may cause us to incur warranty expenses, damage our market reputation and prevent us from maintaining or increasing our market share.

If our products fail to perform as expected while under warranty, or if we are unable to support the warranties, sales of our products may be adversely affected or our costs may increase, and our business, results of operations and financial condition could be materially and adversely affected.

We may also be subject to warranty or product liability claims against us that are not covered by insurance or are in excess of our available insurance limits. In addition, quality issues can have various other ramifications, including delays in the recognition of revenue, loss of revenue, loss of future sales opportunities, increased costs associated with repairing or replacing products, and a negative impact on our goodwill and reputation. The possibility of future product failures could cause us to incur substantial expenses to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation and reduce our market share causing sales to decline.

A failure to comply with laws and regulations relating to our interactions with current or prospective residential customers could result in negative publicity, claims, investigations, and litigation, and adversely affect our financial performance.

Our business substantially focuses on contracts and transactions with residential customers. We must comply with numerous federal, state and local laws and regulations that govern matters relating to our interactions with residential consumers, including those pertaining to privacy and data security, consumer financial and credit transactions, home improvement contracts, warranties, and door-to-door solicitation. These laws and regulations are dynamic and subject to potentially differing interpretations, and various federal, state and local legislative and regulatory bodies may expand current laws or regulations, or enact new laws and regulations, regarding these matters. Changes in these laws or regulations or their interpretation could dramatically affect how we do business, acquire customers, and manage and use information we collect from and about current and prospective customers and the costs associated therewith. We strive to comply with all applicable laws and regulations relating to our interactions with residential customers. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Our non-compliance with any such law or regulations could also expose the company to claims, proceedings, litigation and investigations by private parties and regulatory authorities, as well as substantial fines and negative publicity, each of which may materially and adversely affect our business. We have incurred, and will continue to incur, significant expenses to comply with such laws and regulations, and increased regulation of matters relating to our interactions with residential consumers could require us to modify our operations and incur significant additional expenses, which could have an adverse effect on our business, financial condition and results of operations.

If we experience a significant disruption in our information technology systems or if we fail to implement new systems and software successfully, our business could be adversely affected.

We depend on information systems throughout our company to control our manufacturing processes, process orders, manage inventory, process and bill shipments and collect cash from our customers, respond to customer inquiries, contribute to our overall internal control processes, maintain records of our property, plant and equipment, and record and pay amounts due vendors and other creditors. If we were to experience a prolonged disruption in our information systems that involve interactions with customers and suppliers, it could result in the loss of sales and customers and/or increased costs, which could adversely affect our overall business operation.

Seasonality may cause fluctuations in our financial results.

We often find that some customers tend to book projects by the end of a calendar year to realize the benefits of available subsidy programs prior to year-end. This results in third and fourth quarter sales being more robust usually at the expense of the first quarter. The first quarter in California often has rain and Nevada snow, which also reduces our ability to install in that quarter relative to the remainder of the year. In the future this seasonality may cause fluctuations in our financial results. In addition, other seasonality trends may develop and the existing seasonality that we experience may change.

Risks Relating to our Common Stock

The market price of our common stock may fluctuate significantly, and investors in our common stock may lose all or a part of their investment.

The market prices for securities of solar and energy companies have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- our failure to commercialize our product candidates;
- unanticipated serious safety concerns related to the use of any of our product candidates;
- adverse regulatory decisions;
- changes in laws or regulations applicable to our product candidates;
- legal disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our product candidates, and the results of any proceedings or lawsuits, including patent or stockholder litigation;
- our dependence on third parties;
- announcements of the introduction of new products by our competitors;
- market conditions in the solar and energy sectors;
- announcements concerning product development results or intellectual property rights of others;
- future issuances of common stock or other securities;
- the addition or departure of key personnel;
- failure to meet or exceed any financial guidance or expectations regarding development milestones that we may provide to the public;

- actual or anticipated variations in quarterly operating results;
- our failure to meet or exceed the estimates and projections of the investment community;
- overall performance of the equity markets and other factors that may be unrelated to our operating performance or the operating performance of our competitors, including changes in market valuations of similar companies;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- issuances of debt or equity securities;
- sales of our common stock by us or our stockholders in the future;
- trading volume of our common stock;
- ineffectiveness of our internal controls;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- general political and economic conditions;
- effects of natural or man-made catastrophic events; and,
- other events or factors, many of which are beyond our control.

Further, the equity markets in general have recently experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility of our common stock might worsen if the trading volume of our common stock is low. The realization of any of the above risks or any of a broad range of other risks, including those described in these "Risk Factors," could have a dramatic and material adverse impact on the market price of our common stock.

A substantial number of shares of common stock may be sold in the market, which may depress the market price for our common stock or the warrants.

Sales of a substantial number of shares of our common stock in the public market could cause the market price of our common stock to decline. A substantial majority of the outstanding shares of our common stock are, and the shares of common stock included in the units, or issuable upon exercise of the warrants included in the units, sold in the March 2015 offering upon issuance will be, freely tradable without restriction or further registration under the Securities Act of 1933, as amended. Because the warrants are exercisable into our common stock, volatility or a reduction in the market price of our common stock could have an adverse effect on the market price of the warrants.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Sunworks United leases 19,140 square feet of mixed used space consisting of office and warehouse facilities in Roseville, California, at a monthly lease rate of $10. The lease expires in September 2019.

Sunworks United leases 2,340 square feet of mixed used space consisting of office and warehouse facilities in Reno, Nevada at monthly lease rate of $2. The lease expired in January 2016 and new mixed use space of 7,000 square feet was leased at a monthly lease rate of $4 and the lease expires in January 2019.

Sunworks United leases 2,846 square feet of retail space consisting in Rocklin, California, at a monthly lease rate of $9. The lease expires in August 2020.

Sunworks United leases 5,304 square feet of office space in Rocklin, California, at a monthly lease rate of $6. The lease expires in April 2019.

MD Energy leases approximately 6,400 square feet of mixed used space consisting of office and warehouse facilities in Rancho Cucamonga, California, at a monthly lease rate of $4. The lease expires in April 2016.

Elite Solar leases 15,600 square feet of mixed used space consisting of office and warehouse facilities in Durham, California, at a monthly lease rate of $8. The lease expires in December 2019.

Sunworks United leases various vehicles to perform installations and other purposes on 36-month terms with lease payments less than $1 monthly.

All of these properties are adequate for our current needs and we expect that we can extend our leases on these properties, or replace them with similar space, at approximately the same cost.

Item 3. Legal Proceedings.

We are not currently a party to any legal proceedings that, individually or in the aggregate, are deemed to be material to our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

On March 4, 2015 our common stock began to be traded on The NASDAQ Capital Market under the symbol SLTD that was changed on March 1, 2016 to SUNW simultaneously with our name change to Sunworks, Inc. Our common stock previously traded on the OTC QB under the symbol "SLTD." The market for our common stock was often sporadic, volatile and limited.

The following table shows the range of high and low sale prices for our common stock as reported on NASDAQ commencing in the first quarter ending March 31, 2015 through the fourth quarter ended December 31, 2015 and the high and low bid quotations for our common stock on the OTCQB for the quarters ended December 31, 2014. The prices are adjusted to reflect a 26:1 reverse stock split of our outstanding common stock effected in February 2015. The prices reflect inter-dealer quotations, without retail markup, markdown or commissions, and may not represent actual transactions.

	High	Low
Fiscal Year 2014		
First Quarter	$ 3.30	$ 0.78
Second Quarter	$ 2.16	$ 1.48
Third Quarter	$ 4.81	$ 1.57
Fourth Quarter	$ 8.19	$ 4.47
Fiscal Year 2015		
First Quarter	$ 8.88	$ 2.46
Second Quarter	$ 5.72	$ 3.55
Third Quarter	$ 4.57	$ 2.00
Fourth Quarter	$ 3.85	$ 2.66

Holders of Common Stock.

On March 11, 2016, we had 92 registered holders of record of our common stock.

Dividends and dividend policy.

We have never declared or paid any dividends on our common stock and we do not anticipate paying dividends on our common stock at the present time. We currently intend to retain earnings, if any, for use in our business. We do not anticipate paying dividends in the foreseeable future.

Securities authorized for issuance under equity compensation plans.

We do not currently have any equity compensation plans in place. We have granted options and restricted stock awards to our officers and directors, but such issuances have not been pursuant to an equity incentive plan and were granted prior to February 2015.

Recent Sales of Unregistered Securities.

None

Item 6. Selected Financial Data

As a smaller reporting company, we are not required to provide the information under this item, pursuant to Regulation S-K Item 301(c).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes appearing elsewhere in this annual report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this annual report on Form 10-K.

Overview

Sunworks provides photo voltaic ("PV") based power systems for the residential, commercial and agricultural markets in California and Nevada. We design, arrange financing, integrate, install and manage systems ranging in size from 2kW (kilowatt) for residential loads to multi MW (megawatt) systems for larger commercial projects. Commercial installations have included office buildings, manufacturing plants, warehouses, and agricultural facilities such as farms, wineries and dairies. The Company provides a full range of installation services to our solar energy customers including design, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance.

We have installed over 850 systems in 2015 in California and Nevada, with approximately 18 MW of capacity, which is more than a 250% increase over the approximately 300 systems installations in 2014 with approximately 7 MW of capacity.

Approximately 60% of Sunworks United 2015 revenue was from sales to the commercial market, including the agricultural market, and approximately 40% of its revenue was from sales to the residential market.

In addition to our core solar integrator business, Sunworks technology division has developed a patent-pending 3-dimensional solar cell technology that we believe has the potential to increase PV conversion efficiency thereby reducing the cost of the electricity generated.

The Company's business currently operates in one segment based upon the Company's organizational structure and the way in which the operations are managed and evaluated.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, plant and equipment, intangible assets, deferred tax assets and fair value computation using the Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include estimates used to review the Company's goodwill, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, inventory valuation, valuations of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Revenues and related costs on construction contracts are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts ("ASC 605-35"). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss, as it is determined. The Asset, "Costs and estimated earnings in excess of billings", represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, "Billings in excess of costs and estimated earnings", represents billings in excess of revenues recognized on contracts in progress.

Indefinite Lived Intangibles and Goodwill Assets

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests for indefinite lived intangibles and goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed a qualitative assessment of indefinite lived intangibles and goodwill at December 31, 2015 and 2014, and determined there was no impairment of indefinite lived intangibles and goodwill.

Business Combinations

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer lists, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

Results of Operations for the Years Ended December 31, 2015 and 2014

On February 25, 2015, the Company effected a 26:1 reverse stock split on its common stock. All share amounts have been retrospectively revised to reflect the twenty six-for-one (26:1) reverse stock split. All common stock share and per share information in this report, including the accompanying consolidated financial statements and notes thereto, have been adjusted to reflect retrospective application of the reverse split, unless otherwise indicated.

REVENUE AND COST OF REVENUES

For the year ended December 31, 2015 the Company had revenue of $53.7million with $36.7million in cost of revenues. The revenue includes 10 months of activity from MD Energy and 1 month of activity from Elite Solar which were acquired during the fiscal year ended December 31, 2015. Approximately 60% of 2015 revenue was from sales to the commercial market, including the agricultural market, and approximately 40% was from sales to the residential market.

For the year ended December 31, 2014 the Company had revenue of $20.2 million with $14.6 million in cost of revenues. The revenue represents 11 months of activity from Sunworks United which we acquired on January 31, 2014. Approximately 60% of our 2014 revenue was from sales to the commercial market, including the agricultural market, and approximately 40% was from sales to the residential market.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year ended December 31, 2015 were $5.9 million compared to $1.6 million for the year ended December 31, 2014. We have specially-designed marketing efforts and tracking systems in place that enable us to attract new customers at a low cost and higher conversion rate than what we believe to be the industry average. We utilize several marketing tools and business strategies to differentiate ourselves from our competitors and attract new customers. The significant rise in expense year over year represents increased activity to grow our business which has contributed to increased sales and backlog.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, 2015 were $8.6 million compared to $3.6 million for the year ended December 31, 2014. The 2015 increase of $5.0 million primarily represents expenses associated with 1 additional month of Sunworks United, 10 months of MD Energy and 1 month of Elite Solar compared to 11 months of Sunworks United operations in 2014. During 2015 we incurred approximately $1.3 million in expenses associated with our secondary stock offering and subsequent uplisting from the OTCQB to NASDAQ. We had approximately $.1 million non-cash expense related to issuance of stock through restricted stock grants compared to $.4 million in 2014. We incurred approximately $.2 million each year in acquisition costs associated with MD Energy and Elite Solar in 2015 and Sunworks United in 2014. With each acquisition, we look to transition the majority of back office functions to our corporate headquarters to reduce costs and make our operations consistent across our subsidiaries. We believe that our strategy of consolidating such functions as purchasing, supplier relations, accounting, human resources and other basic functions help to realize cost reductions and strategic synergies.

RESEARCH AND DEVELOPMENT

Research and development (“R&D”) costs decreased by $60 to $53 for the year ended December 31, 2015 compared to $113 for the year ended December 31, 2014. Our research costs have been for research and patent work for a 3-dimensional solar cell. The novel 3D cell is still in the development stage.

OTHER EXPENSES

Total other expenses decreased for the year ended December 31, 2015 to $1.3 million compared to $25.2 million for the year ended December 31, 2014. The decrease is due primarily to the $20.8 million non-cash expense in 2014 related to the change of fair value of the derivative liabilities. The Company previously sold convertible promissory notes to certain accredited investors in 2013 and 2014 with conversion prices that were not fixed but varied with market prices and other conditions. Effective December 2014, the Company entered into amendments to those convertible promissory notes to fix the conversion price which eliminated any further derivative gains/losses.

Interest expense also decreased for the year ended December 31, 2015 to $1.4 million compared to $4.2 million for the year ended December 31, 2014 due primarily to non-cash less beneficial conversion feature treated as interest for convertible promissory notes.

NET INCOME (LOSS)

Net income of $1.1 million for the year ended December 31, 2015, increased compared to a loss of $24.9 million for the year ended December 31, 2014. The improvement was primarily due to significant decreases in non-cash amortization of debt discount, lower non-cash interest expense associated with the beneficial conversion feature for debt financing and improved operating income. During 2015 operating income of $2.4 million increased by $2.0 million compared to $0.3 million for 2014.

Liquidity and Capital Resources

We had $12.0 million in cash at December 31, 2015, as compared to $0.4 million at December 31, 2014. We believe that the aggregate of our existing cash and cash equivalents, in addition to the funds available under our debt agreements and the funds raised in March 2015, will be sufficient to meet our operating cash requirements for at least the next 12 months.

During the year ended December 31, 2015, we generated $1.3 million of cash from operating activities compared to $0.4 million used in operating activities for the prior year ended December 31, 2014. The $1.7 million increase in cash generated from operating activities year over year was primarily the result of the difference in net income/(loss) net of the change in derivative liability and amortization of debt discount.

We used $3.0 million in investing activities for the current year ended December 31, 2015, as compared to $0.7 million used for the prior year ended December 31, 2014. The increase in cash used for investing in 2015 is primarily due to the amount of cash payments related to our acquisitions and the purchase of equipment compared to the prior year.

Cash provided by financing activities during the year ended December 31, 2015 was $13.4 million primarily from the issuance of common from our secondary offering in March 2015, and the convertible notes associated with the MD Energy acquisition as compared to $1.5 million for the prior year ended December 31, 2014, in the form of convertible notes associated with the Sunworks United acquisition.

On January 31, 2014, the Company entered into a securities purchase agreement providing for the sale of four 4% convertible promissory notes in the aggregate principal amount of $1,750 as part of the consideration to acquire 100% of the total outstanding stock of Sunworks United. The notes are convertible at any time after issuance into shares of our common stock. The conversion price is $0.52 per share until March 30, 2015, and thereafter the conversion price will be the greater of $0.52 or 50% of the average closing price of the common stock during the ten (10) consecutive trading days following the submission of the conversion notice. The notes are five (5) year notes and bear interest at the rate of 4% per annum.

In February and March 2014, $625 of the notes were converted into 1,201,923 shares of common stock, leaving a remaining balance of $1,125 and accrued interest of $12 as of December 31, 2014. The Company recorded amortization of the beneficial conversion feature as interest expense in the amount of $1,271, during the year ended December 31, 2014.

On March 3, 2015, the Company entered into an underwriting agreement with Cowen & Company, LLC, relating to the sale and issuance by the Company of 3,000,000 Units to the Underwriter in a firm commitment underwritten public offering. Each Unit consisted of one share of the Company's common stock and a warrant to purchase one share of the Company's common stock. The shares of common stock and Warrants were immediately separated and issued separately but were sold together as a Unit. The Warrants are exercisable during the period commencing from the date of issuance and ending on March 9, 2020 at an exercise price of $4.15 per share of common stock (subject to adjustment under certain circumstances).

On November 3, 2014, we entered into an asset purchase agreement with MD Energy and the members of MD Energy who held 100% of the outstanding membership interests to acquire the tangible and intangible assets of MD Energy, including cash and cash equivalents. The acquisition was completed on March 2, 2015. The purchase price was $3,500 comprised of $850 in cash and the issuance of a convertible promissory note in the principal amount of $2,650 with an interest rate of 4% that may be convertible at the seller's option based on a share conversion price of $2.60 per share.

On August 6, 2015, we entered into an Agreement and Plan of Merger with Plan B Enterprises, Inc., a California corporation and d/b/a Universal Racking Solutions ("Plan B"), Kirk R. Short and Elite Solar Acquisition Sub., Inc., a wholly owned subsidiary of the Company (the "Surviving Corporation") whereby Plan B merged with and into the Surviving Corporation. The transactions contemplated by the Merger Agreement, as amended, closed on December 1, 2015. We paid a consideration of $7 million, with $2.5 million paid in cash and 1,506,024 in shares of our Series B Preferred Stock valued at $4.5 million.

On December 31, 2015, we entered into a $2.5 million Credit Facility with JPMorgan Chase Bank, N.A. Availability under the Credit Facility is a Line of Credit with a Letter of Credit Sublimit up to $2.5 million. Upon execution the Company accessed $1.8 million that was repaid in full on January 5, 2016. The Note matures on November 30, 2017, but may be cancelled at any time by the Company. Loans are secured by a security interest in the Company's account held with the Lender. Interest on any unpaid balance accrues at the Prime Rate; provided that, on any given day, shall not be less than the Adjusted One Month LIBOR rate. Until the maturity date, the Company shall pay monthly interest only. While we currently generate sufficient cash to meet our operating cash requirements, we have the ability to access cash under the credit facility should our management determine to do so.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Item 8. Financial Statements and Supplementary Data.

SUNWORKS, INC. (FORMERLY SOLAR3D, INC.)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Sunworks, Inc. (formerly Solar3D, Inc.)
Roseville, California

We have audited the accompanying consolidated balance sheets of Sunworks, Inc. (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sunworks, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Liggett & Webb, P.A.
Liggett & Webb, P.A.

March 11, 2016
New York, New York

SUNWORKS, INC. (FORMERLY SOLAR3D, INC.)
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(in thousands, except share and per share data)

	December 31, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	$ 12,040	$ 414
Restricted cash	37	-
Accounts receivable	7,023	2,023
Inventory	1,269	23
Costs in excess of billings	2,130	1,277
Other current assets	220	281
Total Current Assets	22,719	4,018
Property and Equipment, net	745	84
Other Assets		
Other deposits	36	20
Goodwill	10,864	2,599
Other intangible assets	500	-
Total Other Assets	11,400	2,619
Total Assets	$ 34,864	$ 6,721
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 5,033	$ 1,971
Billings in excess of costs	1,990	892
Customer deposits	394	52
Loan payable, current portion	2,028	-
Derivative liability	-	68
Acquisition convertible promissory notes, net of beneficial conversion feature of $1,767 and $234, respectively	750	891
Convertible promissory notes, net of debt discount of $0 and $1, respectively	850	887
Total Current Liabilities	11,045	4,761
Long Term Liabilities		
Loan payable	232	-
Warranty liability	45	-
Total Long Term Liabilities	277	-
Total Liabilities	11,322	4,761
Shareholders' Equity		
Preferred stock, $.001 par value; 5,000,000 authorized shares; 1,506,024 and 0 shares issued and outstanding, respectively	2	-
Common stock, $.001 par value; 1,000,000,000 authorized shares; 18,320,535 and 14,016,252 shares issued and outstanding, respectively	18	14
Additional paid in capital	63,285	42,765
Accumulated Deficit	(39,763)	(40,819)
Total Shareholders' Equity	23,542	1,960
Total Liabilities and Shareholders' Equity	$ 34,864	$ 6,721

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

SUNWORKS, INC. (FORMERLY SOLAR3D, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(in thousands, except share and per share data)

	2015	2014
Sales	$ 53,713	$ 20,190
Cost of Goods Sold	36,664	14,578
Gross Profit	17,049	5,612
Operating Expenses		
Selling and marketing expenses	5,941	1,575
General and administrative expenses	8,633	3,602
Research and development cost	53	113
Depreciation and amortization	51	10
Total Operating Expenses	14,678	5,300
Income/Loss before Other Income/(Expenses)	2,371	312
Other Income/(Expenses)		
Interest and other income	10	-
Other expense	(3)	(33)
Loss on settlement of debt	-	(187)
Gain (Loss) on change in fair value of derivative liability	69	(20,770)
Interest expense	(1,391)	(4,194)
Total Other Income/(Expenses)	(1,315)	(25,184)
Income (Loss) before Income Taxes	1,056	(24,872)
Income Tax Expense	-	-
Net Income (Loss)	$ 1,056	$ (24,872)
EARNINGS (LOSS) PER SHARE:		
Basic	$ 0.06	$ (2.15)
Diluted	$ 0.05	$ (2.15)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING		
Basic	16,966,921	11,589,412
Diluted	23,709,210	11,589,412

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

SUNWORKS, INC. (FORMERLY SOLAR3D, INC.)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(in thousands, except share and per share data)

	Series B Preferred stock Shares	Series B Preferred stock Amount	Common stock Shares	Common stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at December 31, 2013	-	$ -	8,203,472	$ 8	$ 12,492	$ (15,947)	$ (3,447)
Issuance of common stock for conversion of promissory notes, plus accrued interest	-	-	5,192,399	5	12,768	-	12,773
Issuance of common stock for exercise of warrants	-	-	75,049	-	-	-	-
Issuance of common stock for cashless exercise of warrants	-	-	62,217	-	-	-	-
Issuance of common stock for services at fair value	-	-	384,615	1	179	-	180
Issuance of common stock for services	-	-	31,193	-	122	-	122
Issuance of common stock for commitment fee	-	-	67,308	-	26	-	26
Beneficial conversion feature on convertible promissory note	-	-	-	-	1,750	-	1,750
Fair value of exchanged convertible notes	-	-	-	-	15,183	-	15,183
Stock based compensation	-	-	-	-	245	-	245
Net loss for the twelve months ended December 31, 2014	-	-	-	-	-	(24,872)	(24,872)
Balance at December 31, 2014	-	$ -	14,016,253	$ 14	$ 42,765	$ (40,819)	$ 1,960
Issuance of common stock for cash	-	-	3,000,000	3	11,576	-	11,579
Issuance of common stock for conversion of promissory notes, plus accrued interest	-	-	1,175,517	1	1,299	-	1,300
Issuance of common stock for services at fair value	-	-	57,529	-	239	-	239
Issuance of common stock for commitment fee	-	-	11,583	-	3	-	3
Issuance of common stock for exercise of warrants	-	-	3,000	-	12	-	12
Issuance of common stock for cashless exercise of options	-	-	53,649	-	-	-	-
Contributed capital	-	-	-	-	39	-	39
Beneficial conversion feature on convertible promissory note	-	-	-	-	2,718	-	2,718
Rounding shares due to reverse split	-	-	3,004	-		-	-
Issuance of preferred stock for Plan B acquisition	1,506,024	2	-	-	4,498	-	4,500
Stock based compensation	-	-	-	-	136	-	136
Net income for the twelve months ended December 31, 2015	-	-	-	-	-	1,056	1,056
Balance at December 31, 2015	1,506,024	$ 2	18,320,535	$ 18	$ 63,285	$ (39,763)	$ 23,542

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

SUNWORKS, INC. (FORMERLY SOLAR3D, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(in thousands, except share and per share data)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,056	$ (24,872)
Adjustments to reconcile net loss to net cash (used) in operating activities		
Depreciation and amortization	51	10
Stock based compensation	136	425
Common stock issued for services	239	76
(Gain) Loss on change in derivative liability	(69)	20,770
Amortization of debt discount	1,186	4,014
Loss on settlement of debt	-	187
Impairment of patents	-	23
Common stock issued for commitment fees	3	26
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Accounts receivable	(1,228)	(1,457)
Inventory	(690)	(23)
Other current assets	76	(271)
Cost in excess of billings	(28)	(1,137)
Other receivable	-	39
Other asset	(37)	(13)
Accounts payable and accrued liabilities	368	990
Billings in excess of cost	(197)	666
Other liabilities	387	138
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,253	(409)
NET CASH FLOWS USED IN INVESTING ACTIVITIES:		
Net cash paid for acquisitions,	(2,814)	(572)
Purchase of property and equipment	(224)	(80)
NET CASH USED IN INVESTING ACTIVITIES	(3,038)	(652)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable net of payments	1,780	-
Proceeds from convertible promissory notes	-	1,465
Proceeds from conversion of warrants	13	-
Capital contribution	39	-
Proceeds from issuance of common stock, net of cost	11,579	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	13,411	1,465
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,626	404
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	414	10
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,040	$ 414
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS		
Convertible promissory notes and Preferred Shares issued for acquisitions	$ 7,150	$ 1,750
Issuance of common stock upon conversion of debt at fair value	$ 1,300	$ 12,773
Issuance of common stock upon a cashless exercise of stock options	$ -	$ 1
Issuance of common stock upon a cashless conversion of warrants	$ -	$ 1
Fair value of exchanged convertible notes	$ -	$ 15,184

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

SUNWORKS, INC. (FORMERLY SOLAR3D, INC.)
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

1. ORGANIZATION AND LINE OF BUSINESS

Organization
Sunworks, Inc. (the "Company") was incorporated in the state of Delaware on January 30, 2002. The Company, based in Santa Barbara, California, began operations on January 30, 2002. We were originally formed in January 2002 as MachineTalker, Inc. in order to pursue the development of new wireless process control technology. In September 2010, we shifted our engineering and research focus to developing a new means for generating solar-produced electrical power, which we plan to patent and perfect for use in the manufacture of highly efficient solar cells. In July 2010, we changed our company name to Solar3D, Inc. and in March 2016, we changed our company name to Sunworks, Inc. in order to better reflect our new business plan.

Line of Business
Through the acquisitions of Sunworks United, Inc. (d/b/a Sunworks United), MD Energy, LLC, and Elite Solar Acquisition, Inc. the Company provides solar photovoltaic installation and consulting services to residential, commercial, and agricultural properties. The work is performed under fixed price bid contracts, cost-plus contracts and negotiated price contracts. The Company performed all of its work in California during 2014 and opened an office in Reno, Nevada in 2015.

We are also developing and marketing a new three-dimensional version of solar cell technology in order to maximize the conversion of sunlight into electricity. We have applied for patent protection on what we believe to be a breakthrough design for the next generation in solar cell technology with increased efficiency and resulting in a lower cost per watt of electricity produced. To commercialize this technology, we plan to work with a manufacturing partner that has the capability to assist with the remaining steps (prototyping and volume runs to verify and prove improvement in conversion efficiency).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Sunworks, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of Sunworks, Inc., and its wholly owned operating subsidiaries, Sunworks United, Inc. (d/b/a Sunworks United), MD Energy, Inc., and Elite Solar Acquisition Sub, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include estimates used to review the Company’s goodwill, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, inventory valuation, debt beneficial conversion features, valuations of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition
Revenues and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The Asset, “Costs in excess of billings”, represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billings in excess of costs”, represents billings in excess of revenues recognized on contracts in progress. At December 31, 2015 and December 31, 2014, the costs in excess of billings balance were $2,130 and $1,277, and the billings in excess of costs balance were $1,990 and $892, respectively.

Contract receivables are recorded on contracts for amounts currently due based upon progress billings, as well as retention, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs. Retention receivable is the amount withheld by a customer until a contract is completed. Retention receivables of $218 and $0 were included in the balance of trade accounts receivable as of December 31, 2015 and December 31, 2014, respectively.

Contract Receivable

The Company performs ongoing credit evaluation of its customers. Management closely monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information, and records bad debts using the direct write-off method. Generally accepted accounting principles require the allowance method be used to reflect bad debts, however, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. Accounts receivable are presented net of an allowance for doubtful accounts of $0 at December 31, 2015, and 2014.

Cash and Cash Equivalent

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Depreciation for property and equipment commences when it's put into service and are depreciated using the straight line method over its estimated useful lives:

Machinery & equipment	5 Years
Furniture & fixtures	5-7 Years
Computer equipment	3-5 Years
Vehicles	5-7 Years
Leaseholder improvements	7-15 Years

Depreciation expenses as of December 31, 2015 and 2014 was $51 and $10, respectively.

Concentration Risk

Cash includes amounts deposited in financial institutions in excess of insurable Federal Deposit Insurance Corporation (FDIC) limits. At times throughout the year, the Company may maintain cash balances in certain bank accounts in excess of FDIC limits. As of December 31, 2015, the cash balance in excess of the FDIC limits was $10,879. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

Inventory

Inventory is valued at the lower of cost or market and is determined by the first-in, first-out method. Inventory primarily consists of panels and other materials.

Advertising and Marketing

The Company expenses advertising and marketing costs as incurred. Advertising and marketing costs include printed material, direct mail, radio, telemarketing, tradeshow costs, magazine and catalog advertisement. Advertising and marketing costs for the years ended December 31, 2015 and 2014 were $2,915 and $637, respectively.

Research and Development Costs

Research and development costs are expensed as incurred. These costs consist primarily of consulting fees, salaries and direct payroll related costs. The costs for the years ended December 31, 2015 and 2014 were $53 and $113, respectively.

Fair Value of Financial Instruments

Disclosures about fair value of financial instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of December 31, 2015 and 2014, the amounts reported for cash, accrued interest and other expenses, and notes payable approximate the fair value because of their short maturities.

We adopted ASC Topic 820 (originally issued as SFAS 157, "Fair Value Measurements") for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at December 31, 2015 and 2014:

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

Beginning balance as of January 1, 2014	$	2,822
Fair value of derivative liabilities issued		1,465
Conversion of notes payable		(24,989)
Loss on change in derivative liability		20,770
Ending balance as of December 31, 2014	$	68
Fair value of derivative liabilities issued		-
Conversion of notes payable		(76)
Loss on change in derivative liability		8
Ending balance as of December 31, 2015	$	-

We evaluated the financing transactions in accordance with ASC Topic 815, Derivatives and Hedging, and determined that the conversion features within certain convertible promissory notes was not afforded the exemption for conventional convertible instruments due to its variable conversion rate. The note has no explicit limit on the number of shares issuable so they did not meet the conditions set forth in current accounting standards for equity classification. The Company elected to recognize the note under paragraph 815-15-25-4, whereby, there would be a separation into a host contract and derivative instrument. The Company elected to initially and subsequently measure the note in its entirety at fair value, with changes in fair value recognized in earnings. The derivative liability is adjusted periodically according to the stock price fluctuations. At the time of conversion, any remaining derivative liability will be charged to additional paid-in capital.

For purpose of determining the fair market value of the derivative liability, the Company used Black Scholes option valuation model. During the year ended December 31, 2015 and 2014, the significant assumptions used in the Black Scholes valuation of the derivative are as follows:

		2015		2014
Stock Price on valuation dates	$	5.00	$	1.66 - $2.60
Conversion price for the debt	$	0.52	$	0.34 - $1.30
Dividend yield		0.00%		0.00%
Years to maturity		-		6 months - 1 year
Risk free rate		0.05%		.03% - .13%
Expected volatility		142.25%		54.43% - 256.72%

Warranty Liability
The Company establishes warranty liability reserves to provide for estimated future expenses as a result of installation and product defects, product recalls and litigation incidental to the Company's business. Liability estimates are determined based on management's judgment, considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and discussions with the Company's general counsel and outside counsel retained to handle specific product liability cases. Solar panel manufacturers currently provide substantial warranties between ten to twenty-five years with full reimbursement to replace and install replacement panels while inverter manufacturers currently provide warranties covering ten to fifteen year replacement and installation. Warranty costs and associated liabilities for the years ended December 31, 2015 and 2014 were $45 and $0, respectively.

Stock-Based Compensation
The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

Basic and Diluted Net Income (Loss) per Share Calculations
Income (Loss) per Share dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The shares for employee options, warrants and convertible notes were used in the calculation of the income per share.

As of December 31, 2014, potentially dilutive securities have been excluded from the computations of weighted average shares outstanding including 957,266 stock options, 700,000 restricted stock grants and shares underlying convertible notes.

Dilutive per share amounts are computed using the weighted-average number of common shares outstanding and potentially dilutive securities, using the treasury stock method if their effect would be dilutive.

The following schedule reconciles the denominators of the Company's calculation for basic and diluted net income per share:

	Twelve months ended December 31, 2015
Shares used in basic per share computation	16,966,921
Effect of dilutive common stock options outstanding	599,677
Effect of dilutive conversion options	4,636,588
Effect of dilutive conversion of Series B Preferred Stock	1,506,024
Shares used in diluted per share computation	23,709,210

Long-Lived Assets
The Company reviews its property and equipment and any identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The test for impairment is required to be performed by management at least annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted operating cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Indefinite Lived Intangibles and Goodwill Assets
The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, “Business Combinations,” where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests for indefinite lived intangibles and goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed a qualitative assessment of indefinite lived intangibles and goodwill at December 31, 2015 and 2014, and determined there was no impairment of indefinite lived intangibles and goodwill.

Business Combinations
We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer lists, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Income Taxes
The Company uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized.

Segment Reporting
Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision making group, in deciding the method to allocate resources and assess performance. The Company currently has one reportable segment for financial reporting purposes, which represents the Company's core business.

Recently Issued Accounting Pronouncements
On June 19, 2014, the Company adopted the amendment to (Topic 718) *Stock Compensation*: *Accounting for Share-Based Payments* when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendment for accounting for share based payments, when an award provides that a performance target that affects vesting could be achieved after an employee completes the requisite service period shall be accounted for as a performance condition. The performance target shall not be reflected in estimating the fair value of the award at the grant date, and compensation cost shall be recognized in the period in which it becomes probable that the performance target will be achieved and will represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost shall be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period shall reflect the number of awards that are expected to vest and shall be adjusted to reflect the awards that ultimately vest. The Company does not believe the accounting standards currently adopted will have a material effect on the accompanying condensed financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU provides guidance for revenue recognition and affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry specific guidance. The standard's core principle is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers" (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements and disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards (IFRS), which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, Elements of Financial Statements, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Company is currently evaluating the effects of adopting this ASU, if it is deemed to be applicable.

Management reviewed currently issued pronouncements during the twelve months ended December 31, 2015, and does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements.

3. BUSINESS ACQUISITION

Solar United Network, Inc. (Sunworks United)

On January 31, 2014, the Company acquired 100% of the issued and outstanding stock of Solar United Network, Inc. (Sunworks United) for cash in the amount of $1,062 and by issuance of convertible promissory notes in the principal amount of $1,750. The acquisition was accounted for under ASC 805. Sunworks United provides solar photovoltaic installation and consulting services to residential, commercial and agricultural properties. The acquisition is designed to enhance our services for solar technology. Sunworks United became a wholly-owned subsidiary of the Company.

Under the purchase method of accounting, the transactions were valued for accounting purposes at $2,812, which was the fair value of Sunworks United at time of acquisition. The assets and liabilities of Sunworks United were recorded at their respective fair values as of the date of acquisition. Since the Company determined there were no other separately identifiable intangible assets, any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The acquisition date estimated fair value of the consideration transferred consisted of the following:

Closing cash payment	$	1,062
Convertible promissory notes		1,750
Total purchase price	$	2,812
Tangible assets acquired	$	1,253
Liabilities assumed		(1,040)
Net tangible assets		213
Goodwill		2,599
Total purchase price	$	2,812

Key factors that make up the goodwill created by the transaction include knowledge and experience of the acquired workforce and infrastructure.

MD Energy, LLC (MD Energy)

On March 2, 2015, the Company acquired 100% of the tangible and intangible assets of MD Energy, LLC (MD Energy), for cash in the amount of $850, a convertible promissory note in the principal amount of $2,650, and payment of working capital surplus in the amount of $437. The acquisition was accounted for under ASC 805. MD Energy designs, arranges financing, monitors and maintains solar systems, but outsources the physical construction of the systems. The acquisition is designed to enhance our services for solar technology. MD Energy is now a wholly-owned subsidiary of the Company.

Under the purchase method of accounting, the transactions were valued for accounting purposes at $3,937, which was the fair value of the Company at time of acquisition. Since the Company determined there were no other separately identifiable intangible assets, any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The acquisition date estimated fair value of the consideration transferred consisted of the following:

Closing cash payment	$	850
Working capital surplus		437
Convertible promissory notes		2,650
Total purchase price	$	3,937
Tangible assets acquired	$	1,442
Liabilities assumed		(799)
Net tangible assets		643
Goodwill		3,294
Total purchase price	$	3,937

Plan B Enterprises, Inc. (Plan B)

On August 6, 2015, the Company entered into an Agreement and Plan of Merger (the “Merger”) with Plan B Enterprises, Inc., a California corporation and d/b/a Elite Solar, Universal Racking Solutions (collectively, “Plan B”), Kirk R. Short (the “Plan B Shareholder”) and Elite Solar Acquisition Sub, Inc., a wholly owned subsidiary of the Company (“Acquisition Sub”) whereby Plan B was merged with and into Acquisition Sub, with Acquisition Sub surviving as the Surviving Corporation. Plan B is engaged in the business of designing and installing photovoltaic systems for residential, commercial, agricultural and municipal customers.

On December 1, 2015, the Company acquired 100% of the issued and outstanding stock of Plan B for cash in the amount of $2,500 and by issuance of 1,506,024 shares of convertible preferred stock in the principal amount of $4,500. The acquisition was accounted for under ASC 805. Plan B provides solar photovoltaic installation and consulting services to residential, commercial and agricultural properties. The acquisition is designed to enhance our services for solar technology. Plan B was merged into Acquisition Sub that is now a wholly-owned subsidiary of the Company.

Under the purchase method of accounting, the transactions were valued for accounting purposes at $7,000, which was the fair value of Plan B at time of acquisition. The assets and liabilities of Plan B were recorded at their respective fair values as of the date of acquisition. Since the Company determined there were no other separately identifiable intangible assets, any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The acquisition date estimated fair value of the consideration transferred consisted of the following:

Closing cash payment	$	2,500
Preferred share value / Series B		4,500
Total purchase price		7,000
Tangible assets acquired		5203
Liabilities assumed		(3,674)
Net tangible assets		1,529
Goodwill		4,971
Other intangible assets		500
Total purchase price	$	7,000

The above estimated fair value of the intangible assets of MDE and Plan B is based on a preliminary purchase price allocation prepared by management. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. After the preliminary purchase price allocation period, we record adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in our operating results in the period in which the adjustments were determined.

Pro forma results

The following tables set forth the unaudited pro forma results of the Company as if the acquisition of Sunworks United, MDE and Plan B had taken place on the first day of the periods presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies been combined as of the first day of the periods presented.

	Year ended, December 31, 2015	Year ended, December 31, 2014
Total revenues	$ 66,981	$ 36,017
Net Income (loss)	1,858	(23,472)
Basic and diluted net income (loss) per common share	$ 0.10	$ (2.02)

4. PROPERTY AND EQUIPMENT, NET

Property and equipment is summarized as follows at December 31, 2015 and 2014:

	2015	2014
Leasehold improvements	$ 48	$ 20
Vehicles	221	26
Office equipment & furniture	552	41
Computers and software	65	80
	886	167
Less accumulated depreciation	(141)	(83)
	$ 745	$ 84

Depreciation expense for the years ended December 31, 2015 and 2014 was $51 and $10, respectively.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2015 and 2014 are as follows:

	2015	2014
Trade payables	$ 4,273	$ 1,500
Accrued payroll and commissions	295	295
Accrued expenses	465	176
Total	$ 5,033	$ 1,971

6. LOANS PAYABLE

Plan B, a subsidiary of the Company, established a line of credit prior to the acquisition on March 10, 2014, with Tri Counties Bank to borrow up to $200 maturing on March 10, 2015. The maturity date was subsequently extended to March 10, 2016. The minimum monthly payment is dependent upon the outstanding balance due. This was a variable rate revolving line of credit with a minimum interest rate of 4.75%. The outstanding balance at December 31, 2015 is $137. Subsequent to year-end the outstanding balance was paid in full before the maturity date.

Plan B, a subsidiary of the Company, entered into a business loan agreement prior to the acquisition with Tri Counties Bank dated March 14, 2014, in the original amount of $130, bearing interest at 4.95%. The loan agreement called for monthly payments of $2 and was scheduled to mature on March 14, 2019. Proceeds from the loan were used to purchase a pile driver and related equipment and is secured by the equipment. The outstanding balance at December 31, 2015, is $88.

Plan B, a subsidiary of the Company, entered into a Business loan agreement prior to the acquisition with Tri Counties Bank dated April 9, 2014, in the original amount of $250, bearing interest at 4.95%. The loan agreement calls for monthly payments of $5 and is scheduled to mature on April 9, 2019. Proceeds from the loan were used to purchase racking inventory and related equipment. The loan is secured by the inventory and equipment. The outstanding balance at December 31, 2015, is $173.

MDE, a subsidiary of the Company, entered into notes payable in October 2014, secured by transportation equipment, requiring combined monthly payments of $1, including principal and interest at various rates of interest per annum. Principal and any accrued interest are payable until September 2019. The outstanding balance at December 31, 2015, is $61.

On December 31, 2015, the Company entered into a $2.5 million Credit Facility with JPMorgan Chase Bank, N.A. Availability under the Credit Facility is a Line of Credit with a Letter of Credit Sublimit up to $2.5 million. Upon execution the Company accessed $1.8 million that was repaid in full on January 5, 2016. The Note matures on November 30, 2017, but may be cancelled at any time by the Company. Loans are secured by a security interest in the Company's account held with the Lender. Interest on any unpaid balance accrues at the Prime Rate; provided that, on any given day, shall not be less than the Adjusted One Month LIBOR rate. Until the maturity date, the Company shall pay monthly interest only. The Credit Facility provides for the payment of certain fees, including fees applicable to each standby letter of credit and standard transaction fees with respect to any transactions occurring on account of any letter of credit. Subject to customary carve-outs, the Credit Agreement contains customary negative covenants and restrictions for agreements of this type on actions by the Company including, without limitation, restrictions on indebtedness, liens, investments, loans, consolidation, mergers, dissolution, asset dispositions outside the ordinary course of business, change in business and restriction on use of proceeds. In addition, the Credit Agreement requires compliance by the Company of covenants including, but not limited to, furnishing the lender with certain financial reports. The Credit Agreement contains customary events of default, including, without limitation, non-payment of principal or interest, violation of covenants, inaccuracy of representations in any material respect and cross defaults with certain other indebtedness and agreements.

As of December 31, 2015 and December 31, 2014, loans payable are summarized as follows:

	2015	2014
Business line dated March 10, 2014	$ 137	$ -
Business loan agreement dated March 14, 2014	88	-
Business loan agreement dated April 9, 2014	174	-
Equipment notes payable	61	
Line of credit	1,800	-
Subtotal	2,260	-
Less: Current position	(2,028)	-
Long-term position	$ 232	$ -

7. ACQUISITION CONVERTIBLE PROMISSORY NOTE

On January 31, 2014, the Company entered into a securities purchase agreement providing for the sale of four 4% convertible promissory notes in the aggregate principal amount of $1,750 as part of the consideration paid to acquire 100% of the issued and outstanding stock of Sunworks United. The notes are convertible at any time after issuance into shares of fully paid and non-assessable shares of common stock. The conversion price is $0.52 per share until March 30, 2015, which has been amended to extend to March 31, 2016, and thereafter the conversion price will be the greater of $0.52 or 50% of the average closing price of the common stock during the ten (10) consecutive trading days following the submission of the conversion notice. The Notes are five (5) year notes and bear interest at the rate of 4% per annum. As amended on June 30, 2015, the Company will make quarterly payments of principal and interest payable over a three-year period commencing March 31, 2016. In February and March 2014, $625 of the notes was converted into 1,201,923 shares of common stock, leaving a remaining balance of $1,125 as of December 31, 2014. During the twelve months ended December 31, 2015, the Company issued 721,154 shares of common stock upon conversion of principal in the amount of $375. The principal balance remaining as of December 31, 2015 is $750. The Company recorded amortization of the beneficial conversion feature as interest expense in the amount of $234 during the twelve months ended December 31, 2015. Subsequent to year-end in March 2016, the notes were fully converted to 1,442,308 shares of common stock.

On February 28, 2015, the Company entered into a securities purchase agreement providing for the sale of a 4% convertible promissory note in the aggregate principal amount of $2,650 as part of the consideration paid to acquire 100% of the total outstanding stock of MD Energy. The note is convertible into shares of common stock on or after each of the following dates: November 30, 2015, November 30, 2016 and November 30, 2017. The conversion price shall be $2.60 per share. A beneficial conversion feature of $2,650 was calculated and capped at the value of the note based on effective conversion price of $3.20. In November 2015, the Company issued 339,743 shares of common stock upon conversion of the principal amount of $883. Commencing on March 31, 2015, and on the last day of each quarter thereafter during the first two (2) years of the note, the Company will make quarterly interest only payments to the shareholder for interest accrued on the Note during the quarter. Commencing with the quarter ending on June 30, 2017, the Company will make quarterly payments of interest accrued on the Note during the prior quarter plus $221, with the final payment of all outstanding principal and accrued but unpaid interest on the Note due and payable on February 28, 2020 (the maturity date). The Company recorded amortization of the beneficial conversion feature as interest expense in the amount of $952 during the twelve months ended December 31, 2015. The debt discount will be amortized over the life of the Convertible Note, or until such time that the Convertible Notes are converted, in full or in part, into shares of common stock of the Company with any unamortized debt discount continuing to be amortized in the event of any partial conversion thereof and any unamortized debt discount being expensed at such time of full conversion thereof.

We evaluated the foregoing financing transactions in accordance with ASC Topic 470, *Debt with Conversion and Other Options*, and determined that the conversion feature of the convertible promissory note was afforded the exemption for conventional convertible instruments due to its fixed conversion rate. The convertible promissory notes have explicit limits on the number of shares issuable so they did meet the conditions set forth in current accounting standards for equity classification. The convertible promissory notes were issued with non-detachable conversion options that are beneficial to the investors at inception, because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The accounting for the beneficial conversion feature requires that the beneficial conversion feature be recognized by allocating the intrinsic value of the conversion option to additional paid-in-capital, resulting in a discount on the convertible notes, which will be amortized and recognized as interest expense.

8. CONVERTIBLE PROMISSORY NOTES

Convertible promissory note at December 31, 2015 and 2014 are as follows:

	2015	2014
Convertible promissory notes payable	$ 850	$ 888
Less, debt discount	-	(1)
Convertible promissory notes payable, net	$ 850	$ 887

On March 1, 2013, the Company entered into a securities purchase agreement providing for the sale of a 5% convertible promissory note in the aggregate principal amount of $8, for consideration of $8. The note is convertible into shares of common stock of the Company at a price equal to a variable conversion price equal to the lesser of $0.52 per share or the lowest closing price after the effective date. The note matured on March 31, 2015. As of December 31, 2015, the Company had issued 16,987 shares of common stock for principal in the amount of $8, plus accrued interest of $1.

On January 29, 2014, the Company entered into a securities purchase agreement providing for the sale of a 10% convertible promissory note in the principal amount of up to $100. Upon execution of the note, the Company received an initial advance of $90. On December 4, 2014, the Company issued 192,543 shares of common stock upon conversion of $60 in principal, plus interest of $5. As of December 31, 2014, the remaining balance is $30. The note was convertible into shares of common stock of the Company at a price equal to a variable conversion price equal to the lesser of $0.338 per share, or fifty percent (50%) of the lowest trading price after the effective date. The Company issued 97,633 shares of common stock upon conversion of principal in the amount of $30, plus accrued interest of $3 during the twelve months ended December 31, 2015

On January 31, 2014, the Company entered into a securities purchase agreement providing for the sale of a 10% convertible promissory note in the principal amount of up to $500, for consideration of $500. The proceeds were restricted and were used for the purchase of Solar United Network, Inc. During the year ended December 31, 2014, the Company issued 1,567,606 shares of common stock upon conversion of $500 in principal, plus $30 in accrued interest. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $500 during the year ended December 31, 2014.

On January 31, 2014, the Company entered into a securities purchase agreement providing for the sale of a 10% convertible promissory note in the principal amount of up to $750, for consideration of $750. The proceeds were restricted and were used for the purchase of Solar United Network, Inc. The note was convertible into shares of common stock of the Company at a price equal to a variable conversion price equal to the lesser of $1.30 per share, or fifty percent (50%) of the lowest trading price after the effective date. As of September 30, 2014, the note was exchanged for a new note with a fix price of $0.338, and convertible into shares of common stock. Per ASC 815, the derivative liability on the note was extinguished and the new note was re-valued per ASC 470 as a beneficial conversion feature, which was expensed in the statement of operations during the prior year. The note matured on October 28, 2014, with an extension of three months. The note matured on January 31, 2015, and was extended to June 30, 2016, and in March 2016 was subsequently extended to June 30, 2019 with zero interest. The Company recorded interest expense in the amount of $75 and $69, during the twelve months ended December 31, 2015 and 2014, respectively.

On February 11, 2014, the Company entered into a securities purchase agreement providing for the sale of a 10% convertible promissory note in the principal amount of up to $100. Upon execution of the note, the Company received an initial advance of $20. In February and March, the Company received additional advances in an aggregate amount of $80 for an aggregate total of $100. The note was convertible into shares of common stock of the Company at a price equal to a variable conversion price equal to the lesser of $1.30 per share, or fifty percent (50%) of the lowest trading price after the effective date. As of September 30, 2014, the note was exchanged for a new note with a fixed price of $0.338, and convertible into shares of common stock. Per ASC 815, the derivative liability on the note was extinguished and the new note was re-valued per ASC 470 as a beneficial conversion feature. The note matured on various dates from the effective date of each advance with respect to each advance. At the sole discretion of the lender, the lender was able to modify the maturity date to be twelve (12) months from the effective date of each advance. The note matured on various dates in 2014, and was extended to June 30, 2016, and in March 2016 was subsequently extended to June 30, 2019 with zero interest. The Company recorded interest expense in the amount of $10 and $8, during the twelve months ended December 31, 2015 and 2014, respectively.

At the time of issuance, the Company evaluated the financing transactions in accordance with ASC Topic 815, Derivatives and Hedging, and determined that the conversion feature of the convertible promissory note was not afforded the exemption for conventional convertible instruments due to its variable conversion rate. The notes had no explicit limit on the number of shares issuable so they did not meet the conditions set forth in current accounting standards for equity classification. The Company elected to recognize the note under paragraph 815-15-25-4, whereby, there would be a separation into a host contract and derivative instrument. The Company elected to initially and subsequently measure the note in its entirety at fair value, with changes in fair value recognized in earnings. The derivative liability was adjusted periodically according to the stock price fluctuations.

9. CAPITAL STOCK

Reverse Stock Split

On February 25, 2015, the Company effected a 26:1 reverse stock split on its issued and outstanding shares of common stock. All share and per share dollar amounts have been retrospectively revised to reflect the twenty six-for-one (26:1) reverse stock split.

Preferred Stock

On November 25, 2015, the Company established a new series of the authorized preferred stock designated as Series B Preferred Stock, $0.001 par value per share, and which will consist of 1,700,000 shares. The Certificate of Designation was filed with the Secretary of State of the State of Delaware. Pursuant to the Certificate of Designation and subject to the rights of any other series of preferred stock to be established by the Board of Director, holders of Series B Preferred Stock (the "Holders") will have liquidation preference over the holders of the Company's Common Stock in any distribution upon winding up, dissolution, or liquidation. Holders will also be entitled to receive dividends, if, when and as declared by the Board of Director, which dividends shall be payable in preference and priority to any payment of any dividend to holders of Common Stock. Holders will be entitled to convert each share of Series B Preferred Stock into one (1) share of Common Stock, and will also entitled to vote together with the holders Common Stock on all matters submitted to shareholders at a rate of one (1) vote for each share of Series B Preferred Stock. In addition, so long as at least 100,000 shares of Series B Preferred Stock are outstanding, the Company may not, without the consent of the Holders of at least a majority of the shares of Series B Preferred Stock then outstanding: (i) amend, alter or repeal any provision of the Certificate of Incorporation or bylaws of the Company or the Certificate of Designation so as to adversely affect any of the rights, preferences, privileges, limitations or restrictions provided for the benefit of the Holders or (ii) issue or sell, or obligate itself to issue or sell, any additional shares of Series B Preferred Stock, or any securities that are convertible into or exchangeable for shares of Series B Preferred Stock. 1,506,024 shares of Series B Preferred stock, at a fair value of $4,500, were issued in December 2015 in connection with the acquisition of Plan B. See Note 3.

Twelve months ended December 31, 2015

During the year ended December 31, 2015, the Company issued 3,000,000 shares of common stock at $4.15 per share in an underwritten offering. The net proceeds to the Company were $11,579.

During the year ended December 31, 2015, the Company issued 1,175,517 shares of common stock conversion of principal for convertible promissory notes in the amount of $1,300.

During the year ended December 31, 2015, the Company issued 57,529 shares of restricted common stock valued at $239 for services.

During the year ended December 31, 2015, the Company issued 11,583 shares of common stock valued at $3 in conversion of restricted common stock for commitment fees.

During the year ended December 31, 2015, the Company issued 3,000 shares of common stock valued at $12 in exercise of common stock warrants.

During the year ended December 31, 2015, the Company issued 53,649 shares of common stock for the cashless exercise of options.

During the year ended December 31, 2015, the Company received $39 in contributed capital which was the disgorged profits related to Company stock transactions by an officer within a 180 day period.

During the year ended December 31, 2015, the Company issued 3,004 shares of common stock for rounding associated with the 26:1 reverse split.

Twelve months ended December 31, 2014

During the year ended December 31, 2014, the Company issued 5,192,399 shares of common stock at prices per share ranging from $0.338 to $2.60 for conversion of principal for convertible promissory notes in the amount of $1,921, plus accrued interest payable of $95, and recognized a loss on change in derivative of $10,757.

During the year ended December 31, 2014, the Company issued 62,217 shares of common stock at fair value for a cashless exercise of 76,923 common stock purchase warrants.

During the year ended December 31, 2014, the Company issued 75,049 shares of common stock for the cashless exercise of 81,197 stock options.

During the year ended December 31, 2014, the Company issued 384,615 shares of common stock valued at $180 in conversion of restricted common stock for services.

During the year ended December 31, 2014, the Company issued 28,846 shares of common stock valued at $112 for settlement of accrued expenses for services in the amount of $47.

During the year ended December 31, 2014, the Company issued 2,347 shares of common stock for services in the amount of $10.

During the year ended December 31, 2014, the Company issued 67,308 shares of common stock with a fair value of $26 for a price adjustment for the shares issued to investors.

10. STOCK OPTIONS, RESTRICTED STOCK AND WARRANTS

Options

As of December 31, 2015, the Company has 899,574 non-qualified stock options outstanding to purchase 899,574 shares of common stock, per the terms set forth in the option agreements. The stock options vest at various times, and are exercisable for a period of seven years from the date of grant at exercise prices ranging from $0.26 to $4.42 per share, the market value of the Company's common stock on the date of each grant. The Company determined the fair market value of these options by using the Black Scholes option valuation model.

A summary of the Company's stock option activity and related information follows:

	December 31, 2015		December 31, 2014	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning January 1, 2015	957,266	$ 2.20	961,539	$ 1.04
Granted	-	-	76,924	4.42
Exercised	(53,649)	0.26	(81,197)	0.69
Expired	(4,043)	0.26	-	-
Outstanding, end of December 31, 2015	899,574	1.30	957,266	2.20
Exercisable at the end of December 31, 2015	822,650	1.13	808,761	1.09
Weighted average fair value of options granted during period		-		4.42

The following summarizes the options to purchase shares of the Company's common stock which were outstanding at December 31, 2015:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$ 1.300	576,923	576,923	1.59
$ 0.260	192,308	192,308	3.01
$ 0.468	53,419	29,914	4.73
$ 4.420	76,923	23,505	5.96
	899,574	822,650	

Aggregate intrinsic value of options outstanding and exercisable at December 31, 2015 and 2014 was $2,042 and $3,437, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was $3.70 and $4.60 as of December 31, 2015 and 2014, respectively, and the exercise price multiplied by the number of options outstanding.

Restricted Stock CEO

During the year ended December 31, 2013, the Company entered into a restricted stock grant agreement ("or RSGA") with its Chief Executive Officer, James B. Nelson, intended to provide and incentivize Mr. Nelson to improve the economic performance of the Company and to increase its value and stock price. All shares issuable under the RSGA are performance-based shares. The RSGA provides for the issuance of up to 769,230 shares of the Company's common stock to Mr. Nelson provided certain milestones are met in certain stages. As of September 30, 2014, two of the stages were met, when the Company's market capitalization exceeded $10,000, and the consolidated gross revenue, calculated in accordance with GAAP, equaled or exceeded $10,000 for the trailing twelve-month period. The Company issued 384,615 shares of common stock to Mr. Nelson, which was exercised through a cashless exercise at fair value of $786 during the year ended December 31, 2014. If the Company's consolidated net profit, calculated in accordance to GAAP, equals or exceeds $2,000 for a trailing twelve month period, the Company will issue an additional 384,615 shares of the Company's common stock to Mr. Nelson. We have not recognized any cost associated with the second milestone due to not being able to estimate the probability of it being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

Restricted Shares to Shareholders
During the year ended December 31, 2014, the Company entered into a RSGA with the Shareholders of Sunworks United (Sunworks United Shareholders), intended to provide incentive to the recipients to ensure economic performance of the Company. All shares issuable under the RSGA are performance based shares and none have yet vested nor have been issued. The RSGA's provide for the issuance of up to 276,923 shares of the Company's common stock in the aggregate to the Sunworks United Shareholders provided certain milestones are met in certain stages as follows: a) If the Company's aggregate net income from operations, for any trailing four (4) quarters equals or exceeds $2,000, the Company will issue 92,308 shares of common stock in the aggregate; b) If the Company's aggregate net income from operations, for any trailing four (4) quarters exceeds $3,000, the Company will issued 92,308 shares of common stock in the aggregate; c) If the Company's aggregate net income from operations, for any trailing four (4) quarters exceeds $4,000, the Company will issue 92,307 in the aggregate. Based on the probability that the first milestone will be achieved during the year 2015 the Company recognized $100 in stock compensation expense. We have not recognized any cost associated with the last two milestones as we are not yet able to estimate the probability of such milestones being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

Restricted Shares to Employees
During the year ended December 31, 2014, the Company entered into a RSGA with the employees of Sunworks United, intended to provide incentive to the recipients to ensure certain economic performance of the Company. All shares issuable under the RSGA are performance based shares and none have yet vested nor have been issued. The RSGA provides for the issuance of up to 38,462 shares of the Company's common stock provided certain milestones are met in certain stages as follows: a) If the Company's aggregate net income from operations, for any trailing four (4) quarters equals or exceeds $2,000, the Company will issue 12,821 shares of common stock; b) If the Company's aggregate net income from operations, for any trailing four (4) quarters exceeds $3,000, the Company will issued 12,821 shares of common stock; c) If the Company's aggregate net income from operations, for any trailing four (4) quarters exceeds $4,000, the Company will issue 12,820. Based on the probability that the Company will reach the $2,000 in aggregate income for the four (4) trailing quarters, the Company recognized $33 in stock compensation expense. We have not recognized any cost associated with the last two milestones as we are not yet able to estimate the probability of such milestones being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

Restricted Shares to CFO
On February 1, 2015, the Company entered into a RSGA with the Chief Financial Officer ("CFO) of Sunworks United, intended to provide incentive to the CFO to ensure certain economic performance of the Company. All shares issuable under the RSGA are performance-based shares and none have yet vested nor have been issued. The RSGA provides for the issuance of up to 115,385 shares of the Company's common stock provided certain milestones are met in certain stages as follows: a) If the Company's aggregate net income from operations, for any trailing four (4) quarters equals or exceeds $2,000, the Company will issue 38,462 shares of common stock; b) If the Company's aggregate net income from operations, for any trailing four (4) quarters exceeds $3,000, the Company will issued 38,462 shares of common stock; c) If the Company's aggregate net income from operations, for any trailing four (4) quarters exceeds $4,000, the Company will issue 38,461. We have not recognized any cost associated as we are not yet able to estimate the probability of such milestones being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

The total stock-based compensation expense recognized in the statement of operations during the twelve months ended December 31, 2015 and 2014 was $136 and $107, respectively.

Warrants

During the twelve months ended December 31, 2015, we issued 3,000,000 common stock purchase warrants. The warrants were issued as part of the units sold by the Company in a public offering in March 2015. The warrants are exercisable at a price of $4.15 per share. As of December 31, 2015, the Company had 2,997,000 common stock purchase warrants outstanding.

A summary of the Company's warrant activity and related information follows:

	December 31, 2015		December 31, 2014	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Outstanding, beginning of period	0		115,385	$ 0.91
Granted	3,000,000	4.15	-	-
Exercised	3,000	4.15	(76,923)	0.39
Expired			(38,462)	1.95
Outstanding, end of period	2,997,000	$ 4.15	-	$ -
Exercisable at the end of period	2,997,000	$ 4.15	-	$ -
Weighted average fair value of options granted during the period		$ 4.15		$ 0.00

11. INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2012.

Deferred income taxes have been provided by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets for amounts when the realization is uncertain. Included in the balances at December 31, 2015 and 2014, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the periods ended December 31, 2015 and 2014, the Company did not recognize interest and penalties.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the year ended December 31, 2015 and 2014 due to the following:

	2015	2014
Net income (loss)	$ 415	$ (9,973)
Depreciation and amortization	301	(112)
Stock Compensation Expense	53	168
(Gain) Loss on Derivative	(27)	8,225
Amortization of Debt Discount	466	1,590
Gain/Loss on Settlement of Debt	-	74
Research and development costs	-	4
Acquisition change in tax method	-	(63)
Other	-	5
Valuation Allowance	(1,208)	82
Income tax expense	$ -	$ -

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

At December 31, 2015, the Company had net operating loss carry-forwards of approximately $3.4 million that may be offset against future taxable income through 2033. No tax benefit has been reported in the December 2015 financial statements, since the potential tax benefit is offset by a valuation allowance of the same amount.

Net deferred tax liabilities consist of the following components as of December 31, 2015 and 2014:

	2015	2014
Deferred tax assets:		
NOL carryover	$ 1,347	$ 2,754
R&D carryover	167	167
Other	30	21
Deferred tax liabilities:		
Amortization	(196)	-
Depreciation	(180)	(112)
	1,168	2,830
Less valuation allowance	(1,168)	(2,830)
Net deferred tax asset	$ -	$ -

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry-forwards for federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carry-forwards may be limited as to use in future years.

12. COMMITMENTS AND CONTINGENCIES

Sunworks United leases 19,140 square feet of mixed used space consisting of office and warehouse facilities in Roseville, California, at a monthly lease rate of $10. The lease expires in September 2019.

Sunworks United leases 2,340 square feet of mixed used space consisting of office and warehouse facilities in Reno, Nevada at monthly lease rate of $2. The lease expired in January 2016 and new mixed use space of 7,000 square feet was leased at a monthly lease rate of $4 and the lease expires in January 2019.

Sunworks United leases 2,846 square feet of retail space consisting in Rocklin, California, at a monthly lease rate of $9. The lease expires in May 2021.

Sunworks United leases 5,304 square feet of office space in Rocklin, California, at a monthly lease rate of $6. The lease expires in April 2019.

MD Energy leases approximately 6,400 square feet of mixed used space consisting of office and warehouse facilities in Rancho Cucamonga, California, at a monthly lease rate of $4. The lease expires in April 2016.

Elite Solar leases 15,600 square feet of mixed used space consisting of office and warehouse facilities from an entity controlled by the former sole shareholder of Plan B Enterprises, Inc. and current Series B Preferred Shareholder of the Company in Durham, California, at a monthly lease rate of $8. The lease expires in December 2019.

Sunworks United leases various vehicles to perform installations and other purposes on 36-month terms with lease payments less than $1 monthly.

At December 31, 2015, commitments for minimum property rental and vehicle payments were as follows:

For the twelve months ended:	
2016	$ 458,527
2017	503,104
2018	532,454
2019	351,635
2020 and thereafter	367,350
Total	$ 2,213,070

13. MAJOR CUSTOMER/SUPPLIERS

For the years ended December 31, 2015 and 2014 we had no customers that represented more than 10% of sales.

For the years ended December 31, 2015 and 2014 the following suppliers represented more than 10% of direct material costs:

	2015	2014
Wesco Distribution	6.9%	14.2%
SunPower	22.9%	10.1%
Canadian Solar	10.7%	0%

14. RELATED PARTY TRANSACTIONS

In October 2015, the Company entered into a consulting agreement with John Van Slooten, a Board member. The consulting services include, but are not be limited to, consulting on and assisting with sourcing, assessing, modeling, due diligence and documentation with respect to potential acquisition candidates for the Company. The agreement is subject to the provisions for termination with the term of the Agreement commencing on October 1, 2015, and shall continue until September 30, 2018. The Company agreed to pay Mr. Van Slooten, $33 upon signing and $9 per month plus out-of-pocket expenses. The Company may, in its discretion and at its option terminate this Agreement at any time.

15. SUBSEQUENT EVENTS

On March 1, 2016, Solar3D, Inc. changed its name to Sunworks, Inc. with simultaneous NASDAQ stock symbol change from SLTD to SUNW.

During March 2016, all of the convertible note holders from the Sunworks United acquisition converted their remaining $750 aggregate convertible notes into 1,442,309 shares of Common Stock.

On March 1, 2016, one of the Company's outstanding convertible notes in the principal amount of $100 plus accrued interest of $20 and a maturity date of June 30, 2016, was amended to provide that the note will become interest free and the maturity date extended to June 30, 2019.

On March 1, 2016, one of the Company's outstanding convertible notes in the principal amount of $750 plus accrued interest of $155 and a maturity date of June 30, 2016, was amended to provide that the note will become interest free and the maturity date extended to June 30, 2019.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the required time periods specified in the Commission's rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. During the quarter ended December 31, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation and due to the lack of segregation of duties and failure to implement accounting controls of acquired businesses, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this report.

To address the material weaknesses, we performed additional analysis and other post-closing procedures in an effort to ensure our consolidated financial statements included in this annual report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management has identified control deficiencies regarding the lack of segregation of duties and the need for a stronger internal control environment. Management of the Company believes that these material weaknesses are primarily due to the continued integration of the 2015 acquisitions of Plan B Enterprises, Inc. and MD Energy LLC. The small size of the Company's accounting staff may prevent adequate controls in the future, such as segregation of duties, due to the cost/benefit of such remediation. We do expect to retain additional personnel to remediate these control deficiencies in the future.

Because of the above material weakness, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2015, based on the criteria established in "Internal Control-Integrated Framework" issued by the COSO.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

No Attestation Report by Independent Registered Accountant

The effectiveness of our internal control over financial reporting as of December 31, 2015 has not been audited by our independent registered public accounting firm by virtue of our exemption from such requirement as a smaller reporting company.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following persons are our executive officers and directors, and hold the offices set forth opposite their names.

Name	Age	Position
James B. Nelson	63	Chief Executive Officer, President and Director
Tracy M. Welch	60	Chief Financial Officer
Abe Emard	38	Chief Operating Officer and Director
Mark J. Richardson	62	Director
Frank L. Hunt	65	Director
John D. Van Slooten	55	Director
Brigham Tomco	36	Director
Shane Mace	50	Director

The following is a brief account of the business experience during the past five years of each of our directors and executive officers:

James B. Nelson has been a director and Chief Executive Officer of Sunworks since October 2010. Mr. Nelson also served as Interim Chief Financial Officer from August 2012 until February 2014. Mr. Nelson is also a director of Sunworks United, a position he has held since February 1, 2014. Mr. Nelson began his executive career 30 years ago at Bain and Company, a business strategy consulting firm, where he managed a team of consultants on four continents solving CEO-level programs for global companies. Prior to joining Sunworks, he spent 20 years working in the private equity industry as both a capital partner and operating CEO to portfolio companies. Mr. Nelson was a general partner at Peterson Partners (2007-2009) and at Millennial Capital Partners (1991-2010--previously known as Invest West Capital). In addition to his responsibilities in acquisition and divestiture, Mr. Nelson worked as an executive of a number of portfolio companies. He served as chief executive officer of Euro-Tek Store Fixture, LLC, chairman of the board of American Retail Interiors, chairman of the board and chief executive officer of Panelview Inc. and chairman of the board of Critical Power Exchange, as well as sitting on numerous boards both in and out of the private equity funds' portfolios. Prior to his years in private equity, Mr. Nelson served as Vice President of Marketing at Banana Republic/The Gap, where he managed company-wide marketing, as well as the initial international expansion of Banana Republic. He was also general manager for Banana Republic's catalog division. He also served as Vice President of Marketing and Corporate Development at Saga Corporation, a multi-billion dollar food service company. Mr. Nelson received his MBA from Brigham Young University, where he graduated summa cum laude and was named the Outstanding Master of Business Administration Graduate.

The Board believes that Mr. Nelson is qualified to serve as a director because of his extensive experience as an executive and as a strategic consultant.

Tracy M. Welch was appointed as Chief Financial Officer effective February 6, 2015. Mr. Welch began his executive career 34 years ago with Marathon Oil, a fully integrated oil & gas publically held Fortune 100 company where he spent nine years in a variety of roles. Tracy recently served as the Controller of Maverik, a $2.4 billion Utah retail company with 270 locations from June, 2014 until February, 2015. From 2011 until 2013, Welch served as the Chief Financial Officer of Ambre Energy North America, a $400 million energy and mining firm, where he oversaw all financial reporting, investment and public offering activities. From 2010 until 2011, Mr. Welch served as the Treasurer of Verso Paper, a public paper manufacturer, where Mr. Welch oversaw financing and risk management activities. From 2009 until 2010, Mr. Welch served as the Treasurer of Hawkeye Energy, a $1 billion Iowa ethanol company and from 2007 until 2008 served as the Chief Financial Officer of Global Ethanol, a $400 million Minnesota ethanol company. Mr. Welch worked for the Schwan Food Company (2002-2007) a $3.5 billion global frozen food manufacturer and distributor as Corporate Treasurer and later as Senior Vice-President, and Chief Financial Officer of their Global Food Service division where he oversaw the creation of the company's treasury department, facilitated and structured company M&A activities, and oversaw risk management activities for the company. Mr. Welch previously worked from 1999 to 2001 as Treasurer of Iomega, Inc. a public $2 billion high tech manufacturer where he also oversaw investor relations. Earlier in his career Mr. Welch worked for large publicly held energy and manufacturing companies. Tracy received a Bachelor of Science degree in accounting from Utah State University and his MBA from the University of Utah. Mr. Welch was also previously a Certified Public Accountant in the State of Ohio.

Abe Emard is a co-founder and served as the CEO of Sunworks United Inc., a division of Sunworks, from the company's inception in February 2011 until February 2016, when he was named Chief Operating Officer of Sunworks. He is actively engaged in the design, installation and management of solar energy solutions for commercial, agricultural and residential customers. From 2000 until co-founding Sunworks United, he worked for Emard Electric, Inc. as its Project Manager, Vice President and Business Development Officer. Mr. Emard is pursuing a construction management degree from the University of California at Davis extension program and holds the Company's electrical C-10 License. He is a certified installer for Canadian Solar, Sharp, AE Solaron, SunPower and PV Powered.

The Company's Board of directors believes that Mr. Emard is qualified to serve as a Director because of his background with more than fifteen years' electrical and solar construction management experience.

Mark J. Richardson has served as a director of the Company since July 2014 and previously served as a director of Solar3D from October 2008 through February 2014. Mr. Richardson has been a securities lawyer since he graduated from the University of Michigan Law School in 1978. He practiced as an associate and partner in large law firms until 1993, when he established his own practice under the name Richardson & Associates. He has been the principal securities counsel on a variety of equity and debt placements for corporations, partnerships, and real estate companies. His practice includes public and private offerings, venture capital placements, debt restructuring, compliance with federal and state securities laws, representation of publicly traded companies, Nasdaq filings, corporate law, partnerships, joint ventures, mergers, asset acquisitions, and stock purchase agreements. As a partner in a major international law firm in the 1980's, Mr. Richardson participated in the leveraged buyout and recapitalization of a well-known producer of animated programming for children, financed by Prudential Insurance and Bear Stearns, Inc. He was also instrumental in restructuring the public debentures of a real estate company without resorting to a bankruptcy proceeding. From 1986 to 1993 Mr. Richardson was a contributing author to State Limited Partnerships Laws – California Practice Guide, Prentice Hall Law and Business. Prior to receiving his Juris Doctor degree cum laude from the University of Michigan Law School in 1978, Mr. Richardson received a Bachelor of Science degree summa cum laude in Resource Economics from the University of Michigan School of Natural Resources in 1975, where he earned the Bankstrom Prize for academic excellence and achieved Phi Beta Kappa honors. Mr. Richardson is an active member of the Los Angeles County and California State Bar Associations, including the Section on Corporations, Business and Finance and the Section on Real Estate.

The Board of Directors believes that Mr. Richardson is qualified to serve as a Director because of his background as a securities attorney with over twenty years' experience representing small and mid-sized companies.

John Van Slooten has served as a director of the Company since December 2014. Mr. Van Slooten is the Managing Partner of Intrepid Equity Partners since 2013. From 2007 until 2013 he served as the Managing Partner of Atlanta-based VVS Capital. Previously, Mr. Van Slooten served as a Managing Director at SunTrust Robinson Humphrey Capital Markets. He has over 25 years' experience in private equity and the capital markets. He has executed private equity investments in a variety of industries. He has worked for Standard Chartered Bank and First Interstate Bank Ltd. He holds a Bachelor of Science in Accounting and an MBA from Brigham Young University.

Mr. Van Slooten's twenty-five years of experience in management, public finance and private equity bring to the Board a broad knowledge of public company management, and investment community relationships among institutional investors, analysts and investment bankers.

Frank Hunt has served as a director of the Company since December 2014. Mr. Hunt is the owner of Hunt Business Consulting, a company that provides consultation to companies regarding current requirements under GAAP, where Mr. Hunt provides consulting service since 2010. Mr. Hunt has over 30 years of experience as a CPA and served as a member (partner) of HJ & Associates, LLC, a public accounting firm, from 1995 to 2010. Mr. Hunt has previously served on the board and advisory committee for both public and private companies. Currently, Mr. Hunt is serving on the advisory board for Independent Stock Market and American Gunity companies. Mr. Hunt served as the Audit Committee Chairman for Cereplast, Inc., a public company, from September 2010 until March 2014. Mr. Hunt received a Bachelor of Science degree from Brigham Young University.

Mr. Hunt's thirty years of experience in public accounting bring to the Board a broad knowledge of public finance, audit processes, and compliance expertise.

Brigham Tomco has served as a director of the Company since April 2015. Since 2010, Mr. Tomco has served as the Chairman and Founder of Zylun Global, a private equity backed investment holding company, and is the Founder of its operating entities Zylun Staffing, Zylun Insights, and Emmersion Learning. Zylun Staffing is an offshore technical outsourcing firm with offices in Utah and the Philippines. Zylun Insights is a market and opinion research firm with offices in Utah and Idaho. Emmersion Learning is a language education company focused on live one-on-one teaching. In addition, Mr. Tomco sits on multiple boards including the Presidents Advancement Council at BYU-Idaho, Foundation Investment Committee at Utah Valley University, Q-Sciences, and Oxzen Media. From 2011 until 2012, he was an Adjunct Professor at Brigham Young University-Marriott School teaching Financing New Ventures. Prior to Zylun, Brigham worked at Ocean Road Advisors and Meyer Ventures, an $800+ million portfolio investing in public and private equities, hedge funds, real estate, venture capital, high-yield debt, and fixed income. He earned his JD/MBA and Accounting degrees at Brigham Young University and an AA in Management from Ricks College.

Mr. Tomco's six years of experience as an entrepreneur, CEO and educational background brings to the Board a broad knowledge of public finance, audit processes, and compliance expertise.

Shane Mace has served as a director of the Company since October 2015. Since 2004, Mr. Mace has been a member owner of Buffalo Hump, LLC, based in Meridian, Idaho, which is engaged in real estate development and property management. In 2013, Mr. Mace became a member owner of Long Rod Equipment, LLC, also based in Meridian, Idaho, which is engaged in aircraft and construction equipment leasing. Immediately prior to his current positions, from 2002-2012, Mr. Mace was the Founder, President, and Chief Executive Officer of Track Utilities, LLC ("Track") in Meridian, Idaho. Track provides mission-critical electric and telecommunications infrastructure services in the Northwest and Intermountain West through its skilled labor force. Mr. Mace holds a BS degree in finance from the College of Idaho and is well versed in financial statements and analysis with more than twenty-six (26) years of experience performing accounting and financial tasks.

Mr. Mace qualifies to serve on the Company's Board of Directors because of his extensive experience as a member/owner of other businesses and his accounting and financial background.

Family Relationships

There are no family relationships among our executive officers and directors with the exception that Mr. Nelson is the first cousin of Mr. Hunt's wife.

Involvement in Certain Legal Proceedings

During the past ten years, none of our directors, executive officers, promoters, control persons, or nominees has been:

- the subject of any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- convicted in a criminal proceeding or is subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or any Federal or State authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
- found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law.
- the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (a) any Federal or State securities or commodities law or regulation; (b) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or (c) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Compliance with Section 16(a) of Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. These persons are required by regulation to furnish us with copies of all Section 16(a) reports that they file. Based on our review of the copies of these reports received by us, or written representations from the reporting persons that no other reports were required, we believe that, during fiscal 2015, all filing requirements applicable to our current officers, directors and greater than 10% beneficial owners were complied with.

Code of Conduct and Ethics

We have adopted a code of conduct that applies to all of our directors, officers and employees. The text of the code of conduct has been posted on our internet website and can be viewed at www.Sunworks.com. Any waiver of the provisions of the code of conduct for executive officers and directors may be made only by the audit committee and, in the case of a waiver for members of the audit committee, by the board of directors. Any such waivers will be promptly disclosed to our shareholders.

Committees of the Board of Directors

Audit Committee. The Board has a standing Audit Committee, consisting of Messrs. Frank Hunt (Chairman), Brigham Tomco and Shane Mace. The Audit Committee acts under a written charter, which more specifically sets forth its responsibilities and duties, as well as requirements for the Audit Committee's composition and meetings. The audit committee charter is available on the Company's website (www.sunworksusa.com). The Audit Committee held 4 meetings during the fiscal year ended December 31, 2015.

The Audit Committee's responsibilities include (1) the integrity of the Company's financial statements and disclosures; (2) the independent auditor's qualifications and independence; (3) the performance of the Company's internal audit function and independent registered public accounting firm; (4) the adequacy and effectiveness of the Company's internal controls; (5) the Company's compliance with legal and regulatory requirements; and (6) the processes utilized by management for identifying, evaluating, and mitigating strategic, financial, operational, regulatory, and external risks inherent in the Company's business. The Audit Committee also prepares the Audit Committee report that is required pursuant to the rules of the SEC.

The Board has determined that each member of the audit committee is "independent," as that term is defined by applicable SEC rules. In addition, the Board has determined that each member of the audit committee is "independent," as that term is defined by the rules of the Nasdaq Stock Market.

The Board has determined that Mr. Hunt is an "audit committee financial expert" serving on its Audit Committee, and is independent, as the SEC has defined that term in Item 407 of Regulation S-K.

Corporate Governance/Nominating Committee. The Board has a standing Corporate Governance/Nominating Committee. The Nominating and Governance Committee consists of Messrs. John Van Slooten, Frank L. Hunt, and Mark J. Richardson (Chairman). The Nominating and Governance Committee acts under a written charter, which more specifically sets forth its responsibilities and duties, as well as requirements for its composition and meetings. The corporate governance/nominating committee charter is available on the Company's website (ir.sunworksusa.com/corporate-governance). The Corporate Governance/Nominating Committee held 3 meetings during the fiscal year ended December 31, 2015.

The Corporate Governance/Nominating Committee has been established by the Board in order, among other things to: (1) develop and recommend to the Board the Corporate Governance Guidelines of the Company and oversee compliance therewith; (2) assist the Board in effecting Board organization, membership and function including identifying qualified Board nominees; (3) assist the Board in effecting the organization, membership and function of Board committees including the composition of Board committees and recommending qualified candidates therefor; (4) evaluate and provide successor planning for the Chief Executive Officer and other executive officers; and (5) to develop criteria for Board membership, such as independence, term limits, age limits and ability of former employees to serve on the Board and the evaluation of candidates' qualifications for nominations to the Board its committees as well as removal therefrom, respectively.

The Corporate Governance/Nominating Committee does not have a formal policy that requires it to consider any director candidates that might be recommended by stockholders, but adheres to the Company's By-Laws provisions and Securities and Exchange Commission rules relating to proposals by shareholders. The Corporate Governance/Nominating Committee of the Board of Directors is responsible for identifying and selecting qualified candidates for election to the Board of Directors prior to each annual meeting of the Company's stockholders. In identifying and evaluating nominees for director, the Corporate Governance/Nominating Committee considers each candidate's qualities, experience, background and skills, as well as other factors, such as the individual's ethics, integrity and values which the candidate may bring to the Board of Directors.

The Board has determined that all of the members of the Corporate Governance/Nominating Committee are "independent" under the current listing standards of NASDAQ.

Compensation Committee. The Board has a standing Compensation Committee. The Compensation Committee of the Board is composed entirely of directors who are not our current or former employees, each of whom meets the applicable definition of "independent" as defined by the rules of the Nasdaq Stock Market. None of the members of the Compensation Committee during fiscal 2014 (i) had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of related party transactions or (ii) was an executive officer of a company of which an executive officer of the Company is a director. The current members of the Compensation Committee are Messrs. John Van Slooten (Chairman) and Mark J. Richardson. The Compensation Committee has no interlocks with other companies. The compensation committee charter is available on the Company's website (ir.sunworksusa.com/corporate-governance). The Compensation Committee held 2 meetings during the fiscal year ended December 31, 2015.

The purpose of the Compensation Committee is to discharge the Board's responsibilities relating to compensation of the Company's directors and executive officers. The Committee has overall responsibility for evaluating the Company's compensation and benefit plans, policies and programs and insuring overall alignment to the corporate compensation philosophy. The Compensation Committee also is responsible for preparing any report on executive compensation required by the rules and regulations of the SEC.

The Board has determined that all of the members of the Compensation Committee are "independent" under the current listing standards of NASDAQ.

Board of Directors Leadership Structure and Role in Risk Oversight.

Our Board is responsible for the selection of the Chairman of the Board and the Chief Executive Officer. Our Board does not have a policy on whether or not the roles of Chief Executive Officer and Chairman should be separate and, if they are to be separate, whether the Chairman should be selected from the non-employee directors or be an employee. Our Board has not selected a Chairman of the Board.

While management is responsible for managing the day-to-day issues faced by the Company, our Board has an active role, directly and through its committees, in the oversight of the Company's risk management efforts. The Board carries out this oversight role through several levels of review. The Board regularly reviews and discusses with members of management information regarding the management of risks inherent in the operation of the Company's business and the implementation of the Company's strategic plan, including the Company's risk mitigation efforts.

Each of the Board's committees also oversees the management of the Company's risks that are under each committee's areas of responsibility. For example, the Audit Committee oversees management of accounting, auditing, external reporting, internal controls, and cash investment risks. The Nominating and Governance Committee oversees the Company's compliance policies, Code of Conduct and Ethics, conflicts of interests, director independence and corporate governance policies. The Compensation Committee oversees risks arising from compensation practices and policies. While each committee has specific responsibilities for oversight of risk, the Board is regularly informed by each committee about such risks. In this manner the Board is able to coordinate its risk oversight.

Changes in Nominating Procedures

None.

Item 11. Executive Compensation.

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the material elements of compensation for our executive officers identified in the Summary Compensation Table ("Named Executive Officers"), and executive officers that we may hire in the future. As more fully described above, the Compensation Committee is responsible for recommendations relating to compensation of the Company's directors and executive officers.

Compensation Program Objectives and Rewards

Our compensation philosophy is based on the premise of attracting, retaining, and motivating exceptional leaders, setting high goals, working toward the common objectives of meeting the expectations of customers and stockholders, and rewarding outstanding performance. Following this philosophy, in determining executive compensation, we consider all relevant factors, such as the competition for talent, our desire to link pay with performance in the future, the use of equity to align executive interests with those of our stockholders, individual contributions, teamwork and performance, and each executive's total compensation package. We strive to accomplish these objectives by compensating all executives with total compensation packages consisting of a combination of competitive base salary and incentive compensation.

The primary purpose of the compensation and benefits described below is to attract, retain, and motivate highly talented individuals when we do hire, who will engage in the behaviors necessary to enable us to succeed in our mission while upholding our values in a highly competitive marketplace. Different elements are designed to engender different behaviors, and the actual incentive amounts, which may be awarded to each Named Executive Officer are subject to the annual review of the board of directors. The following is a brief description of the key elements of our planned executive compensation structure.

- Base salary and benefits are designed to attract and retain employees over time.
- Incentive compensation awards are designed to focus employees on the business objectives for a particular year.
- Equity incentive awards, such as stock options and non-vested stock, focus executives' efforts on the behaviors within the recipients' control that they believe are designed to ensure our long-term success as reflected in increases to our stock prices over a period of several years, growth in our profitability and other elements.
- Severance and change in control plans are designed to facilitate a company's ability to attract and retain executives as we compete for talented employees in a marketplace where such protections are commonly offered. We currently have not given separation benefits to any of our Name Executive Officers.

Benchmarking

We have not yet adopted benchmarking but may do so in the future. When making compensation decisions, our board of directors may compare each element of compensation paid to our Named Executive Officers against a report showing comparable compensation metrics from a group that includes both publicly-traded and privately-held companies. Our board believes that while such peer group benchmarks are a point of reference for measurement, they are not necessarily a determining factor in setting executive compensation as each executive officer's compensation relative to the benchmark varies based on scope of responsibility and time in the position. We have not yet formally established our peer group for this purpose.

The Elements of Sunworks' Compensation Program

Base Salary

Executive officer base salaries are based on job responsibilities and individual contribution. The board reviews the base salaries of our executive officers, including our Named Executive Officers, considering factors such as corporate progress toward achieving objectives (without reference to any specific performance-related targets) and individual performance experience and expertise. None of our Named Executive Officers have employment agreements with us. Additional factors reviewed by the board of directors in determining appropriate base salary levels and raises include subjective factors related to corporate and individual performance. For the year ended December 31, 2015, the board of directors approved all executive officer base salary decisions.

Our board of directors determines base salaries for the Named Executive Officers at the beginning of each fiscal year, and the board proposes new base salary amounts, if appropriate, based on its evaluation of individual performance and expected future contributions. We do not have a 401(k) Plan, but we plan to adopt one during 2016, and base salary would be the only element of compensation that would be used in determining the amount of contributions permitted under the 401(k) Plan.

Incentive Compensation Awards

Some Named Executives have been paid some discretionary bonuses but our Compensation Committee has not yet established a formal compensation policy for the determination of bonuses. If our revenue grows and bonuses become affordable and justifiable, we expect to use the following parameters in justifying and quantifying bonuses for our Named Executive Officers and our other officers: (1) the growth in our revenue, (2) the growth in our earnings before interest, taxes, depreciation and amortization, as adjusted ("EBITDA"), and (3) our stock price. Our compensation committee has not adopted specific performance goals and target bonus amounts for any of our fiscal years, but may do so in the future.

Equity Incentive Awards

Our board has not yet adopted an equity incentive plan. We have however granted stock options to certain of our Executive Officers and Directors. In the future we plan to adopt a formal equity incentive plan pursuant to which we plan to grant stock options and make restricted stock awards to our employees, including members of management, which would not be assignable during the executive's life, except for certain gifts to family members or trusts that benefit family members. These equity incentive awards, we believe, would motivate our employees to work to improve our business and stock price performance, thereby further linking the interests of our senior management and our stockholders. Our compensation committee will consider several factors in determining whether awards are granted to an executive officer, including those previously described, as well as the executive's position, his or her performance and responsibilities, and the amount of options or other awards, if any, currently held by the officer and their vesting schedule. Our policy will prohibit backdating options or granting them retroactively.

Benefits and Prerequisites

At this stage of our business we have limited benefits and no prerequisites for our employees other than health insurance and vacation benefits that are generally comparable to those offered by other small private and public companies or as may be required by applicable state employment laws. We do not have a 401(k) Plan or any other retirement plan for our Named Executive Officers. We may adopt these plans and confer other fringe benefits for our executive officers in the future if our business grows sufficiently to enable us to afford them.

Separation and Change in Control Arrangements

At the date of each acquisition of our subsidiaries, we established three-year employment agreements with the owners and have entered into employment agreements with the three of the former owners of Sunworks United, Abe Emard, Emil Beitpolous and Mikhail Podnebesnyy; the former owner of MD Energy, Danny Mitchell and the former owner of Elite, Kirk Short. None of these employees are eligible for specific benefits or payments if their employment or engagement terminates in a separation or if there is a change of control.

Executive Officer Compensation

The following table sets forth the total compensation paid in all forms to the executive officers of the Company and includes two of the most highly compensated officers other than our principal executive officer, our principal operating officer and our principal financial officer during the periods indicated:

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)(3)	Option Awards(2)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total
James B. Nelson, Chief Executive Officer and President	2015	$ 294	$ 250	$	$ 0	0	0	0	$ 544
	2014	276	0	180	0	0	0	0	456
Abe Emard, Chief Operating Officer	2015	$ 129	$ 136	0	0	0	0		$ 265
	2014	105	42	0	0	0	0	0	147
Tracy Welch, Chief Financial Officer	2015	$ 174	$ 30	0	0	0	0		$ 204
			0	0	0	0	0	0	
Emil Beitpolous, President of Residential	2015	$ 125	$ 77			0	0		$ 202
	2014	105	41	0	0	0	0		145
Mikhail Podnebesnyy, Director of Engineering	2015	$ 125	$ 77				0	0	$ 202
	2014	105	35	0	0	0	0	0	140

(1) The amount reflected in this column is the compensation cost recognized by the Company during fiscal years 2014 and 2015 under Statement of Financial Accounting Standard No. 123R (*Share-Based Payment*) for grants made in 2015 and 2014. The fair value of each restricted stock grant is estimated on the date of grant using the closing price of our common stock on the date of the grant as reported on the OTCQB.

(2) The amount reflected in this column is the compensation cost recognized by the Company during fiscal years 2014 and 2015 under Statement of Financial Accounting Standard No. 123R (*Share-Based Payment*) for grants made in 2015 and 2014. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model.

(3) On September 23, 2013, Mr. Nelson was granted 769,231 restricted shares of our common stock. These shares vest according to a schedule of performance goals, which is described below under "Restricted Stock." As of December 31, 2015, half of the restricted stock in this award had vested and issued, based on the achievement of two performance milestones: the achievement of $10,000 in revenues in a 12-month period of time and the achievement of $10,000 in market value. The vesting of the second half of the shares is based on the achievement of $2,000 in GAAP Net Profit in a 12-month period.

Employment Agreements

We have not entered into any employment agreements with our executive officers to date, except for employment agreements at will with the executive officers of our subsidiaries as follows:

We entered into employment agreements with three executive officers of Sunworks United, the Company's wholly owned subsidiary. Each of these employment agreements provides for a base annual salary of $100 with the potential for periodic bonuses and equity incentive awards at the discretion of the Company's board of directors. In October 2014, our Board of Directors approved increases in the annual base salaries to $120 and in January 2016 the base salaries of two of the officers was increased to $140 and to $175 for Abe Emard who assumed the role of our Chief operating Officer.

We entered into an employment agreement at will with the chief executive officer of MD Energy, Inc., a wholly owned subsidiary acquired on March 2, 2015. The employment agreement provides for a base annual salary of $150 with the potential for periodic bonuses and equity incentive awards at the discretion of the Company's board of directors.

We entered into an employment agreement at will with the chief executive officer of Elite Solar Acquisition Sub., Inc., another wholly owned subsidiary acquired on December 1, 2015. The employment agreement provides for a base annual salary of $140 with the potential for periodic bonuses and equity incentive awards at the discretion of the Company's board of directors.

Outstanding Equity Awards

The following table sets forth information with respect to unexercised stock options, stock that has not vested, and equity incentive plan awards held by our executive officers at December 31, 2015.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards				Stock Awards	
Name and Principal Position	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares of Stock that Have not Vested	Market Value of Shares of Stock that Have not Vested
James B. Nelson,	$ 576,923 (1)	$ 0	$ 1.30	7/22/17	$	
Chief Executive Officer and President	192,308 (2)	0	0.26	11/1/19	384,616 (3)	$ 1,423,079 (4)

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(1) On July 22, 2010, Mr. Nelson was granted nonqualified stock options to purchase 576,923 shares of our common stock at an exercise price of $1.30 per share exercisable until July 22, 2017 in consideration for his services to us. These stock options vest 1/36th per month, commencing on August 21, 2010, on a monthly basis for as long as Mr. Nelson is an employee or consultant of Sunworks.

(2) On November 1, 2012, Mr. Nelson was granted nonqualified stock options to purchase 192,308 shares of our common at an exercise price of $0.26 per share exercisable on a cash or cashless basis until November 1, 2019 for his services to us. These stock options vest according to the following schedule: 53,419 on the date of grant, 5,342 on the first day of each month thereafter commencing on December 1, 2012 until December 1, 2014, and then 5,342 on January 1, 2015; provided Mr. Nelson is an employee or consultant of Sunworks. As of January 1, 2015, all of Mr. Nelson's options are fully vested.

(3) On September 23, 2013, Mr. Nelson was granted 769,231 restricted shares of our common stock. These shares vest according to a schedule of performance goals, which is described below under "Restricted Stock." As of December 31, 2014, half of the restricted stock in this award had vested and issued, based on the achievement of two performance milestones: the achievement of $10,000 in revenues in a 12-month period of time and the achievement of $10,000 in market value. The vesting of the second half of the shares is based on the achievement of $2,000 in GAAP Net Profit in a 12-month period.

(4) Based on the last sale price of the Company's common stock as quoted on the NASDAQ Market at the closing on December 31, 2015, which was $3.70 per share.

Restricted Stock

During fiscal year ended December 31, 2015, we did not grant any restricted stock awards to our employees.

Option Exercises and Stock Vested

During the fiscal year ended December 31, 2015, Chang Won Son, our former Technology Director, exercised 53,649 stock options and during the fiscal year ended December 31, 2014, Mark Richardson, a director, exercised 23,504 stock options.

Director Compensation

The following table sets forth certain information regarding the compensation paid to our directors during the fiscal year ended December 31, 2015:

Director Compensation

Name	Fees earned or cash paid	Stock Awards	Option Awards	All other compensation	Total
Mark J. Richardson	$ 5				5
Frank Hunt	5		38,462		5
John Van Slooten	5		38,462	61	66
Brigham Tomco	5				5
Shane Mace	2				2

Commencing in December 2014, our non-employee Board members are paid $1,500 for attendance in-person or telephonically at each board meeting. Directors may also be reimbursed their expenses for travelling, hotel and other expenses reasonably incurred in connection with attending board or committee meetings or otherwise in connection with the Company's business.

In October 2015, the Company entered into a consulting agreement with John Van Slooten, a Board member. The consulting services include, but are not be limited to, consulting on and assisting with sourcing, assessing, modeling, due diligence and documentation with respect to potential acquisition candidates for the Company. The agreement is subject to the provisions for termination with the term of the Agreement commencing on October 1, 2015, and shall continue until September 30, 2018. The Company agreed to pay Mr. Van Slooten, $33 upon signing and $9 per month plus out-of-pocket expenses. The Company may, in its discretion and at its option terminate this Agreement at any time.

There are currently no other cash compensation arrangements in place for members of the Board of Directors acting as such.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table is based upon 19,762,844 shares of common stock outstanding as of March 8, 2016, and sets forth, based on the public filings of such individuals and entities and our knowledge of securities issued by us to them, certain information concerning the ownership of voting securities of: (i) each current member of the Board, (ii) our Chief Executive Officer and other executive officers named in the Summary Compensation Table, (iii) all of our current directors and executive officers as a group and (iv) each beneficial owner of more than 5% of the outstanding shares of any class of our voting securities.

	Common Stock		Preferred Stock		All Stock	
Name of Beneficial Owner (1)	**Number of Shares Owned (2)**	**Percentage Owned (2)(3)**	**Number of Shares Owned (2)(4)**	**Percentage Owned (2)(3) (4)**	**Number of Votes (2)(4)**	**Percentage Owned (2)(3) (4)**
James Nelson	167,324	.8%	-	-%	167,324	.8%
Tracy Welch (5)	6,000	*		*	6,000	*
Mark Richardson	32,626	.2%	-	*	32,626	.2%
Emil Beitpolous	817,308	4.1%	-	*	817,308	4.1%
Abe Emard	710,344	3.6%	-	*	710,344	3.6%
Frank Hunt	4,273	*	-	*	4,273	*
Daniel Mitchell	339,744	1.7%			339,744	1.7%
Mikhail Podnebesnyy	645,463	3.3%			645,463	3.3%
John Van Slooten	33,762	.2%	-	*	33,762	.2%
All officers and directors as a group (9 persons)	2,756,844	13.9%	-	-%	2,756,844	13.9%
Kirk Short			1,506,024	100.0%		

(1) The address for our officers and directors is c/o of the Company, 1010 Winding Creek Road, Suite 100, Roseville, California 95678.

(2) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of March 8, 2016 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(3) Percentage based on 19,762,844 shares of Common Stock issued and outstanding at March 8, 2016.

(4) James Nelson was issued 4,400 shares of Series A Preferred Stock by the Company on January 9, 2015, which were automatically redeemed and converted to 170 shares of Common Stock upon the listing of the Company’s common stock for trading on the Nasdaq Capital Market which occurred on March 4, 2015.

(5) Mr. Welch has been issued a restricted stock grant of 115,384 shares that has not vested.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The following is a description of transactions since January 1, 2014, to which we have been a party in which the amount involved exceeded or will exceed $120 and in which any of our directors, executive officers, beneficial holders of 5% or more of our capital stock, or entities affiliated with them, had or will have a direct or indirect material interest:

In October 2015, the Company entered into a consulting agreement with John Van Slooten, a Board member. The consulting services include, but are not be limited to, consulting on and assisting with sourcing, assessing, modeling, due diligence and documentation with respect to potential acquisition candidates for the Company. The agreement is subject to the provisions for termination with the term of the Agreement commencing on October 1, 2015, and shall continue until September 30, 2018. The Company agreed to pay Mr. Van Slooten, $33 upon signing and $9 per month plus out-of-pocket expenses. The Company may, in its discretion and at its option, terminate this Agreement at any time.

On January 31, 2014, the Company closed the acquisition of 100% of the issued and outstanding common stock of Sunworks United from Abe Emard, the Company’s COO and three other shareholders, in consideration for cash and convertible promissory notes. Three of the sellers of the common stock of SUNworks also received employment agreements with us. The terms and conditions of the acquisition and employment, and copies of the related material agreements, are included in reports on Form 8-K filed by us with the Securities and Exchange Commission on November 1, 2013 and February 3, 2014.

Director Independence

Our Board of Directors presently consists of seven members. Our Board of Directors has determined that each of Messrs Hunt, Van Slooten, Richardson, Tomco and Mace are “independent," as defined by SEC rules adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and as determined in accordance with Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market, Inc.

Item 14. Principal Accountant Fees and Services.

Audit Fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years ending December 31, 2015 and 2014 were: $108 and $110, respectively. The fees were billed by Liggett & Webb, P.A., our independent auditors for the years ended December 31, 2015 and 2014 audits were $108 and $70, respectively. HJ Associates & Consultants, LLP billed $40 for the year ended December 31, 2014, who served as the Company’s independent auditors until January 15, 2015.

Audit-Related Fees

The aggregate fees billed in either of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported under item (1) for the fiscal years ending December 31, 2015 and 2014 were $65, and $0, respectively. Audit related fees primarily include fees due to the acquisition audits for Plan B Enterprises, Inc. and MD Energy, LLC.

Tax Fees

The aggregate fees were billed for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning for the fiscal years ending December 31, 2015 was $8 and $0 for 2014.

All Other Fees

Other fees billed for professional services provided by the principal accountant, other than the services reported above, for the fiscal years ending December 31, 2015 and 2014 were $0 and $0.

Pre-Approval Policies and Procedures of Audit and Non-Audit Services of Independent Registered Public Accounting Firm

The audit committee’s policy is to pre-approve, typically at the beginning of our fiscal year, all audit and non-audit services, other than de minimis non-audit services, to be provided by an independent registered public accounting firm. These services may include, among others, audit services, audit-related services, tax services and other services and such services are generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the full board of directors regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. As part of the board’s review, the board will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and approve or reject each service, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor’s independence from management. At audit committee meetings throughout the year, the auditor and management may present subsequent services for approval. Typically, these would be services such as due diligence for an acquisition, that would not have been known at the beginning of the year.

The audit committee has considered the provision of non-audit services provided by our independent registered public accounting firm to be compatible with maintaining their independence. The audit committee will continue to approve all audit and permissible non-audit services provided by our independent registered public accounting firm.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(1) Financial Statements.

The financial statements required by item 15 are submitted in a separate section of this report, beginning on Page F-1, incorporated herein and made a part hereof.

(2) Financial Statement Schedules.

Schedules have been omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements or notes thereto.

(3) Exhibits.

The following exhibits are filed with this report, or incorporated by reference as noted:

2.1	Agreement and Plan of Merger dated August 6, 2015 with Plan B Enterprises, Inc. d/b/a Universal Racking Solutions, Kirk R. Short and Elite Solar Acquisition Sub., Inc. (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on August 12, 2015).
2.2	Amendment No.1 dated October 30, 2015 to Agreement and Plan of Merger dated August 6, 2015(Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2015).
2.3	Amendment No.2 dated November 30, 2105 to Agreement and Plan of Merger dated August 6, 2015(Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2015).
3.1	Certificate of Incorporation (Incorporated by reference to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission dated August 1, 2005).
3.2	Amendments to Certificate of Incorporation (Incorporated by reference to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission dated August 1, 2005).
3.3	Amendment to Certificate of Incorporation (Incorporated by reference to the Form 10K filed with the Securities and Exchange Commission, dated July 15, 2009).
3.4	Amendment to Certificate of Incorporation (Incorporated by reference from the Definitive Information Statement on Schedule 14Cfiled by the Company with the Securities and Exchange Commission, dated August 30, 2010).
3.5	Amendment to Certificate of Incorporation filed with the Secretary of State on February 24, 2015 (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2015)
3.6	Amendment to Certificate of Incorporation filed with the Secretary of State on April 16, 2015 (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on April 21, 2015)
3.7	Amendment to Certificate of Incorporation filed with the Secretary of State on February 12, 2016 (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on March 1, 2016)
3.8	Certificate of Designation of Series A Preferred Stock filed with the Secretary of State on January 9, 2015 (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on January 13, 2015)
3.9	Certificate of Designation of Series B Preferred Stock filed with the Secretary of State on January 9, 2015 (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2015)
3.10	Bylaws (Incorporated by reference to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission dated August 1, 2005).
4.1	Form of Warrant Agreement between Sunworks United, Inc., Computershare Inc., and Computershare Trust Company, N.A. (Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on March 5, 2015).
4.2	Form of Non-Qualified Stock Option Agreement (Incorporated by reference to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission dated August 1, 2005)
10.1	Nonstatutory Stock Option Agreement with James B. Nelson, dated July 22, 2010 (Incorporated by reference from the Report on Form 8-K filed by the Company with the Securities and Exchange Commission, dated August 5, 2010)
10.2	Assignment of Intangible Assets and Assumption of Liabilities by and between Sunworks United, Inc., a Delaware corporation and Wideband Detection Technologies, Inc., a Florida corporation, dated as of June 28, 2011 (Incorporated by reference to the Form 8-K filed with the Securities and Exchange Commission, dated June 30, 2011)
10.3	Patent Assignment by and between Sunworks United, Inc., a Delaware corporation, as assignor and Wideband Detection Technologies, Inc., a Florida corporation, as assignee (Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated June 30, 2011)

10.4	Stock Purchase Agreement by and between Sunworks United, Inc., a Delaware corporation, as seller, and Roland F. Bryan, as buyer, dated as of June 30, 2011 (Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated June 30, 2011)
10.5	Restricted Stock Grant Agreement, dated September 23, 2013, by and between Sunworks United, Inc., a Delaware corporation, as Grantor, and James B. Nelson, as Grantee (Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated September 26, 2013)
10.6	Stock Purchase Agreement by and among Solar United Network, Inc., Emil Beitpolous, Abe Emard, Richard Emard, Mikhail Podnebesnyy, and Sunworks United, Inc., dated October 31, 2013 (Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated November 6, 2013)
10.7	Addendum to Stock Purchase Agreement by and among Solar United Network, Inc., Emil Beitpolous, Abe Emard, Richard Emard, Mikhail Podnebesnyy, and Sunworks United, Inc., dated January 31, 2014 (Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated January 31, 2014)
10.8	Amendment to Restricted Stock Grant Agreement, dated May 1, 2014 by and between Sunworks United, Inc. and James B. Nelson (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission, dated May 2, 2014)
10.9	Second Amendment to Restricted Stock Grant Agreement, dated August 26, 2014 by and between Sunworks United, Inc. and James B. Nelson (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission, dated August 29, 2014)
10.10	Form of Restricted Stock Grant Agreement in connection with grants to Abe Emard, Emil Beitpolous and Mikhail Podnebesnyy (Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission, dated October 3, 2014)
10.11	Asset Purchase Agreement dated November 3, 2014 between MD Energy, LLC, Daniel Mitchell, Andrea Mitchell and Solar 3D, Inc. (Incorporated by reference to the quarterly report on Form 10-Q filed on November 10, 2014)
10.12	Amended and Restated Asset Purchase Agreement dated February 28, 2015 between MD Energy, LLC, Daniel Mitchell, Andrea Mitchell and Sunworks United, Inc. (Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on March 3, 2015)
10.13	Employment Agreement dated February 28, 2015 between MD Energy, Inc. and Daniel Mitchell
10.14	Convertible Promissory Note issued February 28, 2105 (Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on March 3, 2015)
10.14	Restricted Stock Grant Agreement, dated February 6, 2015, by and between Sunworks United, Inc., a Delaware corporation, as Grantor, and Tracy Welch, as Grantee (Incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 31, 2015).
*10.16	Credit Agreement between Sunworks United, Inc. and JP Morgan Chase Bank, N.A. dated December 31, 2015
16.1	Letter from HJ Associates & Consultants (Incorporated by reference to the current report on Form 8-K filed on January 21, 2015)
*21.1	Subsidiaries
*31.1	Certification of Principal Executive Officer
*31.2	Certification of Principal Financial Officer
*32.1	Section 1350 Certificate of President and Chief Financial Officer

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
101.LAB XBRL Taxonomy Extension Labels Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.

(b) Exhibits.

See (a)(3) above.

(c) Financial Statement Schedules.

See (a)(2) above.

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SIGNATURES

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

SUNWORKS, INC.

By: /s/ James Nelson
Chief Executive Officer & President

Date: March 14, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James Nelson James Nelson	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)	March 14, 2016
/s/ Tracy Welch Tracy Welch	Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2016
/s/ Abe Emard Abe Emard	Chief Operating Officer. and Director	March 14, 2016
/s/ Mark J. Richardson Mark J. Richardson	Director	March 14, 2016
/s/ Frank Hunt Frank Hunt	Director	March 14, 2016
/s/ John D. Van Slooten John D. Van Slooten	Director	March 14, 2016
/s/ Brigham Tomco Brigham Tomco	Director	March 14, 2016
/s/ Shane Mace Shane Mace	Director	March 14, 2016

Credit Agreement

This agreement dated as of December 16, 2015 is between JPMorgan Chase Bank, N.A. (together with its successors and assigns, the **"Bank"**), whose address is 1415 L Ste STE 650, Floor 6, Sacramento, CA 95814, and SOLAR3D, INC. (individually, the **"Borrower"** and if more than one, collectively, the **"Borrowers"**), whose address is 1010 Winding Creek Rd., Suite 100, Roseville, CA 95678.

1. Credit Facilities.

1.1 Scope. This agreement governs Facility A, and, unless otherwise agreed to in writing by the Bank and the Borrower or prohibited by any Legal Requirement (as hereafter defined), governs the Credit Facilities as defined below. Advances under any Credit Facilities shall be subject to the procedures established from time to time by the Bank. Any procedures agreed to by the Bank with respect to obtaining advances, including automatic loan sweeps, shall not vary the terms or conditions of this agreement or the other Related Documents regarding the Credit Facilities.

1.2 Facility A (Line of Credit). The Bank has approved a credit facility to the Borrower in the principal sum not to exceed $2,500,000.00 in the aggregate at any one time outstanding (**"Facility A"**). Credit under Facility A shall be repayable as set forth in a Line of Credit Note executed concurrently with this agreement, and any renewals, modifications, extensions, rearrangements, restatements thereof and replacements or substitutions therefor.

1.3 Letter of Credit Sub-Limit. At any time the Borrower is entitled to an advance under Facility A, the Bank agrees to issue letters of credit (all letters of credit issued for the account of the Borrower which are outstanding on the date of the Line of Credit Note and any letter of credit issued under this agreement, together with any and all amendments, modifications, renewals, extensions, increases, restatements and rearrangements of and substitutions and replacements for, any of the foregoing, a **"Letter of Credit"** or **"Letters of Credit"**)for the account of the Borrower in an amount not in excess of the maximum advance that it would then be entitled to obtain under Facility A, provided that (a) the aggregate maximum amount which is drawn and remains unreimbursed under all Letters of Credit plus the aggregate maximum available amount which may be drawn under all Letters of Credit which are outstanding at any time (the **"L/C Obligations"**), shall not exceed $2,500,000.00, (b) the issuance of any Letter of Credit with an expiration date beyond the maturity date of the Line of Credit Note shall be subject to the approval of the Bank, (c) any Letter of Credit shall be a standby letter of credit and the form of the requested Letter of Credit shall be satisfactory to the Bank, and (d) the Borrower shall have executed an application and reimbursement agreement for any Letter of Credit in a form satisfactory to the Bank. While any Letter of Credit is outstanding, the maximum amount of advances that may be outstanding under the Line of Credit Note shall be automatically reduced by the L/C Obligations. The Borrower shall pay the Bank a fee for each standby letter of credit that is issued, calculated at the rate of 1.00% per annum (based on a year deemed to be comprised of 360 days, unless the calculation would result in a usurious interest rate, in which case interest will be calculated on the basis of a 365 or 366 day year, as the case may be) of the original maximum amount available of such standby Letter of Credit, with the fee being calculated on the basis of a 360-day year and the actual number of days in the period during which the standby Letter of Credit will be outstanding; provided, however, that such fee shall not be less than the Bank's standard issuance fee for each Letter of Credit. No credit shall be given for fees paid due to early termination of any Letter of Credit. The Borrower shall also pay the Bank's standard transaction fees with respect to any transactions occurring on account of any Letter of Credit. Each fee shall be payable when the related letter of credit is issued, and transaction fees shall be payable upon completion of the transaction as to which they are charged. All fees may be debited by the Bank to any deposit account of the Borrower with the Bank without further authority and, in any event, shall be paid by the Borrower within ten (10) days following billing. The Bank is authorized, but not obligated to make an advance under the Line of Credit Note without notice to the Borrower, to make payment on a drawing under any Letter of Credit. References in this agreement to the principal amount outstanding under the Credit Facilities shall include L/C Obligations.

1.4 Borrowing Base. The aggregate principal amount of advances outstanding at any one time under the Line of Credit Note (and any and all renewals, modifications, extensions, rearrangements, restatements thereof and replacements or substitutions therefor) evidencing Facility A plus L/C Obligations (the **"Aggregate Outstanding Amount"**) shall not exceed the Borrowing Base or the maximum principal amount then available under Facility A, whichever is less (the **"Maximum Available Amount"**). If at any time the Aggregate Outstanding Amount exceeds the Maximum Available Amount, the Borrower shall immediately pay the Bank an amount equal to such excess. If the Aggregate Outstanding Amount still exceeds the Maximum Available Amount after the Line of Credit Note balance is reduced to zero (that is, L/C Obligations exceed the Maximum Available Amount), the Borrower shall provide cash collateral to the Bank for the L/C Obligations in an amount sufficient to eliminate the excess. **"Borrowing Base"** means the value of the account balance held in Account No. 3356735208 which account is held at the Bank and in which the Bank has a first priority continuing perfected Lien.

2. Definitions and Interpretations.

2.1 Definitions. As used in this agreement, the following terms have the following respective meanings:

A. "Account" means a trade account, account receivable, other receivable, or other right to payment for goods sold or leased or services rendered.

B. "Account Debtor" means the Person obligated on an Account.

C. "Affiliate" means any Person which, directly or indirectly Controls or is Controlled by or under common Control with, another Person, and any director or officer thereof. The Bank is under no circumstances to be deemed an Affiliate of the Borrower or any of its Subsidiaries.

D. "Anti-Corruption Laws" means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

E. "Authorizing Documents" means certificates of authority to transact business, certificates of good standing, borrowing resolutions, appointments, officer's certificates, certificates of incumbency, and other documents which empower and authorize or evidence the power and authority of all Persons (other than the Bank) executing any Related Document or their representatives to execute and deliver the Related Documents and perform the Person's obligations thereunder.

F. "Collateral" means all Property, now or in the future subject to any Lien in favor of the Bank, securing or intending to secure, any of the Liabilities.

G. "Control" as used with respect to any Person, means the power to direct or cause the direction of, the management and policies of that Person, directly or indirectly, whether through the ownership of Equity Interests, by contract, or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

H. "Credit Facilities" means all extensions of credit from the Bank to the Borrower, whether now existing or hereafter arising, including but not limited to those described in Section 1, if any, and those extended contemporaneously with this agreement.

I. "Distributions" means all dividends and other distributions made to any Equity Owners, other than salary, bonuses, and other compensation for services expended in the current accounting period.

J. "Eligible Accounts" means, at any time, all of the Borrower's Accounts in which the Bank has a first priority continuing perfected Lien and which are earned and invoiced within thirty (30) days of being earned and which contain selling terms and conditions satisfactory to the Bank, are payable on ordinary trade terms, and are not evidenced by a promissory note, other instrument or chattel paper. The net amount of any Eligible Account against which the Borrower may borrow shall exclude all returns, discounts, credits, and offsets of any nature. Unless otherwise agreed to by the Bank in writing, Eligible Accounts do not include Accounts: (1) which are not owned by the Borrower free and clear of all Liens, constructive trust, statutory priorities not in favor of the Bank, and claims of Persons other than the Bank; (2) with respect to which the Account Debtor is an Affiliate of the Borrower or otherwise affiliated with or related to the Borrower, including without limitation, any employee, officer, director, Equity Owner or agent of the Borrower; (3) with respect to which goods are placed on consignment, guaranteed sale, bill-and-hold, sale-and-return, sale on approval, cash-an-delivery or other terms by reason of which the payment by the Account Debtor may be conditional; (4) with respect to which the Account Debtor is not a resident of the United States, except to the extent such Accounts are otherwise Eligible Accounts and are supported by insurance, bonds or other assurances satisfactory to the Bank; (5) subject to the U.S. Office of Foreign Asset Control Special Designated Nationals and Blocked Person's List, or with respect to which the Account Debtor is otherwise a Person with whom the Borrower or the Bank is prohibited from doing business by any applicable Legal Requirement; (6) which are not payable in U.S. Dollars; (7) with respect to which the Borrower is or may become liable to the Account Debtor for goods sold or services rendered by the Account Debtor to the Borrower ; (8) which are subject to dispute, counterclaim , deduction, withholding, defense, or setoff; (9) with respect to which the goods have not been shipped or delivered , or the services have not been rendered, to the Account Debtor, or which otherwise constitute pre-billed Accounts; (10) which constitute retainage, or are bonded Accounts;(11) with respect to which the Bank determines the creditworthiness, financial or business condition of the Account Debtor to be unsatisfactory; (12) of any Account Debtor who is the subject of any state or federal bankruptcy, insolvency, or debtor-in-relief acts, or who has had appointed a trustee, custodian, or receiver for the assets of such Account Debtor, or who has made an assignment for the benefit of creditors or has become insolvent or fails generally to pay its debts (including its payrolls) as such debts become due; (13) with respect to which the Account Debtor is the United States government or any department or agency of the United States; (14) otherwise determined to be ineligible by the Bank and (15) which have not been paid in full within ninety (90) days from the invoice date. In no event will the balance of any Account of any single Account Debtor be eligible whenever the portion of the Accounts of such Account Debtor which have not been paid within ninety (90) days from the invoice date is in excess of25% of the total amount outstanding on all Accounts of such Account Debtor.

K. "Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

L. "Equity Owner" means a shareholder, partner, member, holder of a beneficial interest in a trust or other owner of any Equity Interests.

M. "GAAP" means generally accepted accounting principles in effect from time to time in the United States of America, consistently applied.

N. "Legal Requirement" means any law, ordinance, decree, requirement, order, judgment, rule, Sanctions, regulation (or interpretation of any of the foregoing) of any foreign governmental authority, the United States of America, any state thereof, any political subdivision of any of the foregoing or any agency, department, commission, board, bureau , court or other tribunal having jurisdiction over the Bank, any Pledgor or any Obligor or any of its Subsidiaries or their respective Properties or any agreement by which any of them is bound.

O. "Liabilities" means all indebtedness, liabilities and obligations of every kind and character of the Borrower to the Bank, whether the obligations, indebtedness and liabilities are individual, joint and several, contingent or otherwise, now or hereafter existing, including, without limitation, all liabilities, interest, costs and fees, arising under or from any note, open account, overdraft, credit card, lease, Rate Management Transaction, letter of credit application, endorsement, surety agreement, guaranty, acceptance, foreign exchange contract or depository service contract, whether payable to the Bank or to a third party and subsequently acquired by the Bank, any monetary obligations (including interest) incurred or accrued during the pendency of any bankruptcy. insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations , rearrangements, restatements , replacements or substitutions of any of the foregoing.

P. "Lien" means any mortgage, deed of trust, pledge, charge, encumbrance, security interest, collateral assignment or other lien or restriction of any kind.

Q. "Notes" means all promissory notes, instruments and/or contracts now or hereafter evidencing the Credit Facilities.

R. "Obligor" means any Borrower, guarantor, surety, co-signer, endorser, general partner or other Person who may now or in the future be obligated to pay any of the Liabilities.

S. "Organizational Documents" means, with respect to any Person , certificates of existence or formation, documents establishing or governing the Person or evidencing or certifying that the Person is duly organized and validly existing in accordance with all applicable Legal Requirements, including all amendments , restatements, supplements or modifications to such certificates and documents as of the date of the Related Document referring to the Organizational Document and any and all future modifications thereto approved by the Bank.

T. "Permitted Investments" means (1) readily marketable direct obligations of the United States of America or any agency thereof with maturities of one year or less from the date of acquisition; (2) fully insured (if issued by a bank other than the Bank) certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank operating in the United States of America having capital and surplus in excess of $500,000,000.00; and (3) commercial paper of a domestic issuer if at the time of purchase such paper is rated in one of the two highest rating categories of Standard and Poor's Corporation or Moody's Investors Service.

U. "Person" means any individual, corporation, partnership, limited liability company, joint venture , joint stock association, association, bank, business trust, trust, unincorporated organization, any foreign governmental authority, the United States of America, any state of the United States and any political subdivision of any of the foregoing or any other form of entity.

V. **"Pledgor"** means any Person providing Collateral.

W. **"Property"** means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

X. **"Rate Management Transaction"** means any transaction (including an agreement with respect thereto) that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction , floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option , derivative transaction or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

Y. **"Related Documents"** means this agreement, the Notes, Letters of Credit, applications for letters of credit, all loan agreements, credit agreements, reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, and any other instrument or document executed in connection with this agreement or with any of the Liabilities.

Z. **"Sanctions"** means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

AA. **"Sanctioned Country"** means, at any time, a country or territory which is the subject or target of any Sanctions.

BB. **"Sanctioned Person"** means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person.

CC. **"Subsidiary"** means, as to any particular Person (the "parent"), a Person the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of the date of determination, as well as any other Person of which fifty percent (50%) or more of the Equity Interests is at the time of determination directly or indirectly owned, Controlled or held, by the parent or by any Person or Persons Controlled by the parent, either alone or together with the parent.

2.2 **Interpretations.** Whenever possible, each provision of the Related Documents shall be interpreted in such manner as to be effective and valid under applicable Legal Requirements. If any provision of this agreement cannot be enforced, the remaining portions of this agreement shall continue in effect. In the event of any conflict or inconsistency between this agreement and the provisions of any other Related Documents, the provisions of this agreement shall control. Use of the term "including" does not imply any limitation on (but may expand) the antecedent reference. Any reference to a particular document includes all modifications, supplements, replacements, renewals or extensions of that document, but this rule of construction does not authorize amendment of any document without the Bank's consent. Section headings are for convenience of reference only and do not affect the interpretation of this agreement. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP. Whenever the Bank's determination, consent, approval or satisfaction is required under this agreement or the other Related Documents or whenever the Bank may at its option take or refrain from taking any action under this agreement or the other Related Documents , the decision as to whether or not the Bank makes the determination, consents, approves, is satisfied or takes or refrains from taking any action, shall be in the sole and exclusive discretion of the Bank, and the Bank's decision shall be final and conclusive.

3. Conditions Precedent to Extensions of Credit.

3.1 **Conditions Precedent to Initial Extension of Credit under each of the Credit Facilities.** Before the first extension of credit governed by this agreement and any initial advance under any of the Credit Facilities, whether by disbursement of a loan, issuance of a letter of credit, or otherwise, the Borrower shall deliver to the Bank, in form and substance satisfactory to the Bank:

A. Loan Documents. The Notes, and as applicable, the letter of credit applications, reimbursement agreements, the security agreements, the pledge agreements, financing statements, mortgages or deeds of trust, the guaranties, the subordination agreements, and any other documents which the Bank may reasonably require to give effect to the transactions described in this agreement or the other Related Documents;

B. Organizational and Authorizing Documents. The Organizational Documents and Authorizing Documents of the Borrower and any other Persons (other than the Bank) executing the Related Documents in form and substance satisfactory to the Bank that at a minimum: (i) document the due organization, valid existence and good standing of the Borrower and every other Person (other than the Bank) that is a party to this agreement or any other Related Document; (ii) evidence that each Person (other than the Bank) which is a party to this agreement or any other Related Document has the power and authority to enter into the transactions described therein; and (iii) evidence that the Person signing on behalf of each Person that is a party to the Related Documents (other than the Bank) is duly authorized to do so; and

C. Liens. The termination, assignment or subordination, as determined by the Bank, of all Liens on the Collateral in favor of any secured party (other than the Bank).

3.2 Conditions Precedent to Each Extension of Credit. Before any extension of credit governed by this agreement, whether by disbursement of a loan, issuance of a letter of credit or otherwise, the following conditions must be satisfied:

A. Representations. The representations of the Borrower and any other parties, other than the Bank, in the Related Documents are true on and as of the date of the request for and funding of the extension of credit;

B. No Event of Default. No default, event of default or event that would constitute a default or event of default but for the giving of notice, the lapse of time or both, has occurred in any provision of this agreement, the Notes or any other Related Documents and is continuing or would result from the extension of credit;

C. Additional Approvals, Opinions, and Documents. The Bank has received any other approvals, opinions and documents as it may reasonably request; and

D. No Prohibition or Onerous Conditions. The making of the extension of credit is not prohibited by and does not subject the Bank, any Obligor, or any Subsidiary of the Borrower to any penalty or onerous condition under, any Legal Requirement.

4. Affirmative Covenants. The Borrower agrees to do, and cause each of its Subsidiaries to do, each of the following:

4.1 Insurance. Maintain insurance with financially sound and reputable insurers, with such insurance and insurers to be satisfactory to the Bank, covering its Property and business against those casualties and contingencies and in the types and amounts as are in accordance with sound business and industry practices, and furnish to the Bank, upon request of the Bank, reports on each existing insurance policy showing such information as the Bank may reasonably request.

4.2 Existence. Maintain its existence and business operations as presently in effect in accordance with all applicable Legal Requirements, pay its debts and obligations when due under normal terms, and pay on or before their due date, all taxes, assessments, fees and other governmental monetary obligations, except as they may be contested in good faith if they have been properly reflected on its books and, at the Bank's request, adequate funds or security has been pledged or reserved to insure payment.

4.3 Financial Records. Maintain proper books and records of account, in accordance with GAAP, and consistent with financial statements previously submitted to the Bank.

4.4 Inspection. Permit the Bank, its agents and designees to: (a) inspect and photograph its Property, to examine and copy files, books and records , and to discuss its business, operations, prospects, assets, affairs and financial condition with the Borrower's or its Subsidiaries' officers and accountants, at times and intervals as the Bank reasonably determines; (b) perform audits or other inspections of the Collateral, including the records and documents related to the Collateral ; and (c) confirm with any Person any obligations and liabilities of the Person to the Borrower or its Subsidiaries .The Borrower will, and will cause its Subsidiaries to cooperate with any inspection or audit. The Borrower will pay the Bank the reasonable costs and expenses of any audit or inspection of the Collateral (including fees and expenses charged internally by the Bank for asset reviews) promptly after receiving the invoice.

4.5 Financial Reports. Furnish to the Bank whatever information, statements, books and records the Bank may from time to time reasonably request, including at a minimum:

A. Within forty-five (45) days after each quarterly period, the consolidated financial statements of the Borrower and its Subsidiaries prepared and presented in accordance with GAAP, including a balance sheet as of the end of that period, and income statement for that period, and, if requested at any time by the Bank, statements of cash flow and retained earnings for that period, all certified as correct by one of its authorized agents.

B . Within ninety (90) days after and as of the end of each of its fiscal years, the consolidated financial statements of the Borrower and its Subsidiaries prepared and presented in accordance with GAAP, including a balance sheet and statements of income, cash flow and retained earnings, such financial statements to be audited by an independent certified public accountant of recognized standing satisfactory to the Bank.

C. Compliance Certificates. Provide the Bank, together with each interim financial statement and fiscal year end financial statement provided by the Borrower to the Bank pursuant to the requirements of this agreement and at such other times as the Bank may request, with a Compliance Certificate in form satisfactory to the Bank, certified and executed by Borrower's chief financial officer, or other officer or an individual satisfactory to the Bank. In the event of a conflict between this agreement and the Compliance Certificate, the terms of this agreement shall control.

4.6 Notices of Claims, Litigation, Defaults, etc. Promptly inform the Bank in writing of: (1) all existing and all threatened litigation, claims, investigations, administrative proceedings and similar actions or changes in Legal Requirements affecting it which could materially affect its business, assets, affairs, prospects or financial condition; (2) the occurrence of any event which gives rise to the Bank's option to terminate the Credit Facilities; (3) the institution of steps by it to withdraw from, or the institution of any steps to terminate, any employee benefit plan as to which it may have liability; (4) any reportable event or any prohibited transaction in connection with any employee benefit plan; (5) any additions to or changes in the locations of its businesses; and (6) any alleged breach by the Bank of any provision of this agreement or of any other Related Document.

4.7 Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between it and any other Person.

4.8 Title to Assets and Property. Maintain good and marketable title to all of its Properties, and defend them against all claims and demands of all Persons at any time claiming any interest in them.

4 . 9 Additional Assurances. Promptly make, execute and deliver any and all agreements, documents, instruments and other records that the Bank may request to evidence any of the Credit Facilities, cure any defect in the execution and delivery of any of the Related Documents, perfect any Lien, comply with any Legal Requirement applicable to the Bank or the Credit Facilities or describe more fully particular aspects of the agreements set forth or intended to be set forth in any of the Related Documents.

4 . 1 0 Employee Benefit Plans. Maintain each employee benefit plan as to which it may have any liability, in compliance with all Legal Requirements.

4.11 Banking Relationship. Establish and maintain its primary banking depository and disbursement relationship with the Bank.

4.12 Compliance with Anti-Corruption Laws and Sanctions. Maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

5. Negative Covenants.

5.1 Unless otherwise noted, the financial requirements set forth in this section will be computed in accordance with GAAP applied on a basis consistent with financial statements previously submitted by the Borrower to the Bank.

5.2 Without the written consent of the Bank, the Borrower will not and no Subsidiary of the Borrower will:

A. Sale of Equity Interests. Issue, sell or otherwise dispose of its Equity Interests.

B. Debt. Incur, contract for, assume, or permit to remain outstanding, indebtedness for borrowed money, installment obligations, or obligations under capital leases or operating leases, other than (I) unsecured trade debt incurred in the ordinary course of business, (2) indebtedness owing to the Bank, (3) indebtedness reflected in its latest financial statement furnished to the Bank prior to execution of this agreement and that is not to be paid with proceeds of borrowings under the Credit Facilities, and (4) indebtedness outstanding as of the date hereof that has been disclosed to the Bank in writing and that is not to be paid with proceeds of borrowings under the Credit Facilities.

C. Guaranties. Guarantee or otherwise become or remain secondarily liable on the undertaking of another, except for endorsement of drafts for deposit and collection in the ordinary course of business.

D. Liens. Create or permit to exist any Lien on any of its Property except: existing Liens known to and approved by the Bank; Liens to the Bank; Liens incurred in the ordinary course of business securing current non- delinquent liabilities for taxes, worker's compensation, unemployment insurance, social security and pension liabilities.

E. Use of Proceeds. Use, or permit any proceeds of the Credit Facilities to be used, directly or indirectly, for: (l) any personal, family or household purpose; or (2) the purpose of "purchasing or carrying any margin stock" within the meaning of Federal Reserve Board Regulation U. At the Bank's request, it will furnish a completed Federal Reserve Board Form U-1. Furthermore, the Borrower will not and no Subsidiary of the Borrower will request any Credit Facility or use, or permit any proceeds of the Credit Facilities to be used, directly or indirectly, by the Borrower or any of its Subsidiaries or its or their respective directors, officers, employees and agents: (I) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws; (2) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, to the extent such activities, businesses or transaction would be prohibited by Sanctions if conducted by a corporation incorporated in the United States; or (3) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

F. Continuity of Operations. (I) Engage in any business activities substantially different from those in which it is presently engaged; (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other Person, change its name, dissolve, or sell any assets out o f the ordinary course of business; (3) enter into any arrangement with any Person providing for the leasing by it of Property which has been sold or transferred by it to such Person; (4) change its business organization, the jurisdiction under which its business organization is formed or organized, or its chief executive office, or any places of its businesses; or (5) if the Borrower is an individual, change the name on his/her driver's license or state issued identification card, as applicable, without notifying the Bank within thirty (30) days of the change, or change the state of his/her principal residence, without notifying the Bank within thirty (30) days of the change.

G. Limitation on Negative Pledge Clauses. Enter into any agreement with any Person other than the Bank which prohibits or limits its ability to create or permit to exist any Lien on any of its Property, whether now owned or hereafter acquired.

H. Conflicting Agreements. Enter into any agreement containing any provision which would be violated or breached by the performance of its obligations under this agreement or any of the other Related Documents.

I. Transfer of Ownership. Permit any pledge of any Equity Interest in it or any sale or other transfer of any Equity Interest in it.

J . Limitation on Loans, Advances to and Investments in Others and Receivables from Others. Purchase, hold or acquire any Equity Interest or evidence of indebtedness of, make or permit to exist any loans or advances to, permit to exist any receivable from, or make or permit to exist any investment or acquire any interest whatsoever in, any Person, except: (1) extensions of trade credit to customers in the ordinary course of business on ordinary terms; (2) Permitted Investments; and (3) loans, advances, investments and receivables existing as of the date of this agreement that have been disclosed to and approved by the Bank in writing and that are not to be paid with proceeds of borrowings under the Credit Facilities.

K. Organizational Documents. Alter, amend or modify any of its Organizational Documents.

L . Government Regulation.(I) Be or become subject at any time to any Legal Requirement or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits the Bank from making any advance or extension of credit to it or from otherwise conducting business with it, or (2) fail to provide documentary and other evidence of its identity as may be requested by the Bank at any time to enable the Bank to verify its identity or to comply with any applicable Legal Requirement, including, without limitation, Section 326 of the USA Patriot Act of2001, 31 U.S.C. Section 5318.

5.3 Financial Covenants. Without the written consent of the Bank, the Borrower will not:

Intentionally omitted.

6. Representations.

6.1 Representations and Warranties by the Borrower. To induce the Bank to enter into this agreement and to extend credit or other financial accommodations under the Credit Facilities, the Borrower represents and warrants as of the date of this agreement and as of the date of each request for credit under the Credit Facilities that each of the following statements is and shall remain true and correct throughout the term of this agreement and until all Credit Facilities and all Liabilities under the Notes and other Related Documents are paid in full: (a) its principal residence or chief executive office is at the address shown above, (b) its name as it appears in this agreement is its exact name as it appears in its most recently filed public organic record and other Organizational Documents, and if the Borrower is an individual, its name as it appears in this agreement is its exact name as is indicated on his/her most recently issued, valid driver's license or identification card issued by such Borrower's principal state of residence stated above, (c) the execution and delivery of this agreement and the other Related Documents to which it is a party, and the performance of the obligations they impose, do not violate any Legal Requirement, conflict with any agreement by which it is bound, or require the consent or approval of any other Person, (d) this agreement and the other Related Documents have been duly authorized, executed and delivered by all parties (other than the Bank) and are valid and binding agreements of those Persons, enforceable according to their terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, (e) all balance sheets, profit and loss statements, and other financial statements and other information furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the Persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates, (f) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) is pending or threatened against it, and no other event has occurred which may in any one case or in the aggregate materially adversely affect it or any of its Subsidiaries' financial condition, properties, business, affairs or operations, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by the Bank in writing, (g) all of its tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being contested by it in good faith and for which adequate reserves have been provided, (h) it is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended, (i) there are no defenses or counterclaims, offsets or adverse claims, demands or actions of any kind, personal or otherwise, that it could assert with respect to this agreement or the Credit Facilities, (j) it owns, or is licensed to use, all trademarks, trade names, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted, (k) the execution and delivery of this agreement and the Notes and the performance of the obligations they impose, if the Borrower is other than a natural Person (i) are within its powers, (ii) have been duly authorized by all necessary action of its governing body, and (iii) do not contravene the terms of its Organizational Documents or other agreement or document governing its affairs; and (1) with respect to the Borrowing Base, (i) each asset represented by it to be eligible for Borrowing Base purposes of this agreement conforms to the eligibility definitions set forth in this agreement (ii) all asset values delivered to the Bank will be true and correct, subject to immaterial variance ; and be determined on a consistent accounting basis; (iii) except as agreed to the contrary by the Bank in writing, each asset is now and at all times hereafter will be in its physical possession and shall not be held by others on consignment, sale or approval, or sale or return; (iv) except as reflected in schedules delivered to the Bank, each asset is now and at all times hereafter will be of good and merchantable quality, free from defects; and (v) each asset is not now and will not at any time hereafter be stored with a bailee, warehouseman, or similar Person without the Bank's prior written consent, and in such event, it will concurrently at the time of bailment cause any such bailee, warehouseman, or similar Person to issue and deliver to the Bank, warehouseman receipts in the Bank's name evidencing the storage of the assets.

6.2 Representations and Warranties Regarding Anti-Corruption Laws and Sanctions. The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and their respective officers and employees and to the knowledge of the Borrower its directors and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) the Borrower, any Subsidiary or to the knowledge of the Borrower or such Subsidiary any of their respective directors, officers or employees, or (b) to the knowledge of the Borrower, any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person. No advance, letter of credit, use of proceeds or other transaction contemplated by the Credit Facilities will violate Anti-Corruption Laws or applicable Sanctions.

7. Default/Remedies.

7.1 Events of Default/Acceleration. If any of the following events occurs, the Notes shall become due immediately, without notice, at the Bank's option:

A. Any Obligor fails to pay when due any of the Liabilities or any other debt to any Person, or any amount payable with respect to any of the Liabilities, or under any Note, any other Related Document, or any agreement or instrument evidencing other debt to any Person.

B. Any Obligor or any Pledgor: (i) fails to observe or perform or otherwise violates any other term, covenant, condition or agreement of any of the Related Documents; (ii) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; (iii) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank; or (iv) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by the Related Documents) and the effect of such default will allow the creditor to declare the debt due before its stated maturity.

C. In the event (i) there is a default under the terms of any Related Document, (ii) any Obligor terminates or revokes or purports to terminate or revoke its guaranty or any Obligor's guaranty becomes unenforceable in whole or in part, (iii) any Obligor fails to perform promptly under its guaranty, or (iv) any Obligor fails to comply with, or perform under any agreement, now or hereafter in effect, between the Obligor and the Bank, or any Affiliate of the Bank or their respective successors and assigns.

D. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance.

E. Any event occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of any Obligor or any Subsidiary of any Obligor.

F. Any Obligor or any of its Subsidiaries or any Pledgor: (i) becomes insolvent or unable to pay its debts as they become due; (ii) makes an assignment for the benefit of creditors; (iii) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its Property; (iv) commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws; (v) conceals or removes any of its Property, with intent to hinder, delay or defraud any of its creditors; (vi) makes or permits a transfer of any of its Property, which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or (vii) makes a transfer of any of its Property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid.

G. A custodian, receiver, or trustee is appointed for any Obligor or any of its Subsidiaries or any Pledgor or for a substantial part of their respective Property.

H. Any Obligor or any of its Subsidiaries, without the Bank's written consent: (i) liquidates or is dissolved; (ii) merges or consolidates with any other Person; (iii) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business; (iv) leases, purchases, or otherwise acquires a material part of the assets of any other Person, except in the ordinary course of its business; or (v) agrees to do any of the foregoing; provided, however, that any Subsidiary of an Obligor may merge or consolidate with any other Subsidiary of that Obligor, or with the Obligor, so long as the Obligor is the survivor.

I. Proceedings are commenced under any bankruptcy, reorganization, liquidation, or similar laws against any Obligor or any of its Subsidiaries or any Pledgor and remain undismissed for thirty (30) days after commencement; or any Obligor or any of its Subsidiaries or any Pledgor consents to the commencement of those proceedings.

J. Any judgment is entered against any Obligor or any of its Subsidiaries, or any attachment, seizure, sequestration, levy, or garnishment is issued against any Property of any Obligor or any of its Subsidiaries or of any Pledgor or any Collateral.

K. Any individual Obligor or Pledgor dies or a guardian or conservator is appointed for any individual Obligor or Pledgor or all or any portion of their respective Property, or the Collateral.

L. Any material adverse change occurs in: (i) the reputation, Property, financial condition, business, assets, affairs, prospects, liabilities, or operations of any Obligor or any of its Subsidiaries; (ii) any Obligor's or Pledgor's ability to perform its obligations under the Related Documents; or (iii) the Collateral.

7.2 Remedies. At any time after the occurrence of a default, the Bank may do one or more of the following: (a) cease permitting the Borrower to incur any Liabilities; (b) terminate any commitment of the Bank evidenced by any of the Notes; (c) declare any of the Notes to be immediately due and payable, without notice of acceleration, presentment and demand or protest or notice of any kind, all of which are hereby expressly waived; (d) exercise all rights of setoff that the Bank may have contractually, by law, in equity or otherwise; and (e) exercise any and all other rights pursuant to any of the Related Documents, at law, in equity or otherwise.

A. Generally. The rights of the Bank under this agreement and the other Related Documents are in addition to other rights (including without limitation, other rights of setoff) the Bank may have contractually, by law, in equity or otherwise, all of which are cumulative and hereby retained by the Bank. Each Obligor agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on any Collateral.

B. Bank's Right of Setoff. The Borrower grants to the Bank a security interest in the Deposits, and the Bank is authorized to setoff and apply, all Deposits, Securities and Other Property, and Bank Debt against any and all Liabilities. This right of setoff may be exercised at any time from time to time after the occurrence of any default, without prior notice to or demand on the Borrower and regardless of whether any Liabilities are contingent, unmatured or unliquidated. In this paragraph: (a) the term **"Deposits"** means any and all accounts and deposits of the Borrower (whether general, special, time, demand, provisional or final) at any time held by the Bank (including all Deposits held jointly with another, but excluding any IRA or Keogh Deposits, or any trust Deposits in which a security interest would be prohibited by any Legal Requirement); (b) the term **"Securities and Other Property"** means any and all securities and other personal Property of the Borrower in the custody, possession or control of the Bank, JPMorgan Chase & Co. or their respective Subsidiaries and Affiliates (other than Property held by the Bank in a fiduciary capacity); and (c) the term **"Bank Debt"** means all indebtedness at any time owing by the Bank, to or for the credit or account of the Borrower and any claim of the Borrower (whether individual, joint and several or otherwise) against the Bank now or hereafter existing.

8. Miscellaneous.

8.1 Notice. Any notices and demands under or related to this agreement shall be in writing and delivered to the intended party at its address stated in this agreement, and if to the Bank, at its main office if no other address of the Bank is specified in this agreement, by one of the following means: (a) by hand; (b) by a nationally recognized overnight courier service; or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand; (b) on the Delivery Day after the day of deposit with a nationally recognized courier service; or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means a day other than a Saturday, a Sunday or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of the change in the manner provided in this provision.

8.2 Statements. The Bank may from time to time provide the Borrower with account statements or invoices with respect to any of the Liabilities ("Statements"). The Bank is under no duty or obligation to provide Statements, which, if provided, will be solely for the Borrower's convenience. Statements may contain estimates of the amounts owed during the relevant billing period, whether of principal, interest, fees or other Liabilities. If the Borrower pays the full amount indicated on a Statement on or before the due date indicated on such Statement, the Borrower shall not be in default of payment with respect to the billing period indicated on such Statement; provided, that acceptance by the Bank of any payment that is less than the total amount actually due at that time (including but not limited to any past due amounts) shall not constitute a waiver of the Bank's right to receive payment in full at another time.

8.3 No Waiver. No delay on the part of the Bank in the exercise of any right or remedy waives that right or remedy. No single or partial exercise by the Bank of any right or remedy precludes any other future exercise of it or the exercise of any other right or remedy. The making of an advance during the existence of any default or subsequent to the occurrence of a default or when all conditions precedent have not been met shall not constitute a waiver of the default or condition precedent. No waiver or indulgence by the Bank of any default is effective unless it is in writing and signed by the Bank, nor shall a waiver on one occasion bar or waive that right on any future occasion.

8.4 Integration; Severability. This agreement, the Notes, and the other Related Documents embody the entire agreement and understanding between the Borrower and the Bank and supersede all prior agreements and understandings relating to their subject matter. If any one or more of the obligations of the Borrower under this agreement, the Notes, or the other Related Documents or any provision thereof is held to be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrower and the remaining provisions shall not in any way be affected or impaired; and the invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of such obligations or provisions in any other jurisdiction.

8.5 Joint and Several Liability. Each party executing this agreement as the Borrower is individually, jointly and severally liable under this agreement.

8.6 Governing Law and Venue. This agreement shall be governed by and construed in accordance with the laws of the State of California (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this agreement may be brought by the Bank in any state or federal court located in the State of California, as the Bank in its sole discretion may elect. By the execution and delivery of this agreement, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of California is not a convenient forum or the proper venue for any such suit, action or proceeding.

8.7 Survival of Representations and Warranties. The Borrower understands and agrees that in extending the Credit Facilities, the Bank is relying on all representations, warranties, and covenants made by the Borrower in this agreement or in any certificate or other instrument delivered by the Borrower to the Bank under this agreement or in any of the other Related Documents. The Borrower further agrees that regardless of any investigation made by the Bank, all such representations, warranties and covenants will survive the making of the Credit Facilities and delivery to the Bank of this agreement, shall be continuing in nature, and shall remain in full force and effect until such time as the Liabilities shall be paid in full.

8.8 Non-Liability of the Bank. The relationship between the Borrower on one hand and the Bank on the other hand shall be solely that of borrower and lender. The Bank shall have no fiduciary responsibilities to the Borrower. The Bank undertakes no responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

8.9 Indemnification of the Bank. The Borrower agrees to indemnify, defend and hold the Bank, its parent companies, Subsidiaries, Affiliates, their respective successors and assigns and each of their respective shareholders, directors, officers, employees and agents (collectively, the **"Indemnified Persons"**)harmless from any and against any and all loss, liability, obligation, damage, penalty, judgment, claim, deficiency, expense, interest, penalties , attorneys' fees (including the fees and expenses of any attorneys engaged by the Indemnified Person) and amounts paid in settlement ("Claims") to which any Indemnified Person may become subject arising out of or relating to the Credit Facilities, the Liabilities under this agreement or any other Related Documents or the Collateral, except to the limited extent that the Claims are proximately caused by the Indemnified Person's gross negligence or willful misconduct. The indemnification provided for in this paragraph shall survive the termination of this agreement and shall not be affected by the presence, absence or amount of or the payment or nonpayment of any claim under, any insurance.

8.10 Counterparts. This agreement may be executed in multiple counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts, taken together, shall constitute one and the same agreement.

8.11 Advice of Counsel. The Borrower acknowledges that it has been advised by counsel, or had the opportunity to be advised by counsel, in the negotiation, execution and delivery of this agreement and any other Related Documents.

8.12 Recovery of Additional Costs. If the imposition of or any change in any Legal Requirement, or the interpretation or application of any thereof by any court or administrative or governmental authority (including any request or policy not having the force of law) shall impose, modify, or make applicable any taxes (except federal, state, or local income or franchise taxes imposed on the Bank), reserve requirements, liquidity requirements, capital adequacy requirements , Federal Deposit Insurance Corporation (FDIC) deposit insurance premiums or assessments, or other obligations which would (A) increase the cost to the Bank for extending, maintaining or funding the Credit Facilities, (B) reduce the amounts payable to the Bank under the Credit Facilities, or (C) reduce the rate of return on the Bank's capital as a consequence of the Bank's obligations with respect to the Credit Facilities, then the Borrower agrees to pay the Bank such additional amounts as will compensate the Bank therefor, within five (5) days after the Bank's written demand for such payment. The Bank's demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by the Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.

8.13 Expenses. To the extent not prohibited by applicable Legal Requirements and whether or not the transactions contemplated by this agreement are consummated , the Borrower is liable to the Bank and agrees to pay on demand all reasonable costs and expenses of every kind incurred (or charged by internal allocation) in connection with the negotiation, preparation , execution, filing, recording, amendment , modification, supplementing and waiver of this agreement and the Related Documents, the making, servicing and collection of the Credit Facilities and the realization on any Collateral and any other amounts owed under this agreement or the Related Documents, including without limitation reasonable attorneys' fees (including the fees of in-house counsel for the Bank that are employees of the Bank or its Affiliates) and court costs. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding involving any Obligor, Pledgor, or Property of any Obligor, Pledgor, or Collateral. The obligations of the Borrower under this section shall survive the termination of this agreement. Notwithstanding anything to the contrary set forth in this agreement or the other Related Documents, the Bank's right to recover attorneys' fees and other legal expenses hereunder is subject to California Civil Code Section 1717, including any revision or replacement of such statute or rule hereafter enacted.

8.14 Reinstatement. The Borrower agrees that to the extent any payment or transfer is received by the Bank in connection with the Liabilities, and all or any part of the payment or transfer is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid or transferred by the Bank or paid or transferred over to a trustee, receiver or any other entity, whether under any proceeding or otherwise (any of those payments or transfers is hereinafter referred to as a **"Preferential Payment"**), then this agreement and the Notes shall continue to be effective or shall be reinstated, as the case may be, even if all those Liabilities have been paid in full and whether or not the Bank is in possession of the Notes and whether any of the Notes has been marked, paid, released or cancelled, or returned to the Borrower and, to the extent of the payment, repayment or other transfer by the Bank, the Liabilities or part intended to be satisfied by the Preferential Payment shall be revived and continued in full force and effect as if the Preferential Payment had not been made. The obligations of the Borrower under this section shall survive the termination of this agreement.

8.15 Assignments. The Borrower agrees that the Bank and its Affiliates may at any time work together and share any information about the Borrower and its Affiliates and their relationships with the Bank or any of its Affiliates or their successors, with and among the Bank or any of its Affiliates or their successors, or any purchaser or potential purchaser of any of the Notes or the other Liabilities, or any representative of any of the parties described in this sentence. The Borrower agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in the Notes to one or more purchasers whether or not related to the Bank.

8.16 Waivers. To the maximum extent not prohibited by applicable Legal Requirements, each Obligor waives (a) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) any demand, diligence, presentment, dishonor and protest, or (ii) any action that the Bank takes regarding any Person, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (b) any right to require the Bank to proceed against the Borrower, any other Obligor or any Collateral, or pursue any remedy in the Bank's power to pursue; (c) any defense based on any claim that any Obligor's obligations exceed or are more burdensome than those of the Borrower; (d) the benefit of any statute of limitations affecting liability of any Obligor or the enforcement hereof; (e) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (f) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Each Obligor consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of any Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any Obligor. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver. No modification or waiver of any provision of the Notes is effective unless it is in writing and signed by the Person against whom it is being enforced.

8.17 Time is of the Essence. Time is of the essence under this agreement and in the performance of every term, covenant and obligation contained herein.

8.18 Confidentiality. The Bank agrees that it will treat information provided by the Borrower or its representatives to the Bank (the **"Information"**) as confidential; provided, however, that the Bank may disclose the Information (a) to its Affiliates and its and its Affiliates' directors, employees, officers, auditors, consultants, agents, counsel and advisors (such Affiliates and such Persons collectively, **"Representatives"**), it being understood that its Representatives shall be informed by the Bank of the confidential nature of such Information and be instructed to comply with the terms of this section to the same extent as is required of the Bank hereunder; (b) in response to a subpoena or other legal process, or as may otherwise be required by law, order or regulation, or upon the request or demand of any governmental or regulatory agency or authority having jurisdiction over the Bank or its Representatives or to defend or prosecute a claim brought against or by the Bank and/or its Representatives; (c) to actual and prospective assignees, actual and prospective participants, and actual and prospective swap counterparties, provided that all such participants, assignees or swap counterparties execute an agreement with the Bank containing provisions substantially the same as those contained in this section; (d) to holders of Equity Interests in the Borrower, other than holders of any Equity Interest in a publicly traded company; (e) to any Obligor; and (f) with the Borrower's consent. The restrictions contained in this section shall not apply to Information which (a) is or becomes generally available to the public other than as a result of a disclosure by the Bank or its Representatives in breach of this section, or (b) becomes available to the Bank or its Representatives from a source, other than the Borrower or one of its agents, who is not known to the Bank or its Representatives to be bound by any obligations of confidentiality to the Borrower, or (c) was known to the Bank or its Representatives prior to its disclosure to the Bank or its Representatives by the Borrower or one of its agents or was independently developed by the Bank or its Representatives, or (d) was or is, after the date hereof, disclosed (or required to be disclosed) by the Borrower to the Bank or any of its Representatives under or in connection with any existing financing relationship between the Borrower and the Bank or any of its Representatives, the disclosure of which shall be governed by the agreements executed in connection with such financing relationship. Any Person required to maintain the confidentiality of the Information as provided in this section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

9. **USA PATRIOT ACT NOTIFICATION.** The following notification is provided to the Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each Person that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for the Borrower: When the Borrower opens an account, if it is an individual the Bank will ask for its name, taxpayer identification number, residential address, date of birth, and other information that will allow the Bank to identify it, and, if it is not an individual the Bank will ask for its name, taxpayer identification number, business address, and other information that will allow the Bank to identify it. The Bank may also ask, if the Borrower is an individual, to see its driver's license or other identifying documents, and if it is not an individual, to see its Organizational Documents or other identifying documents.

10. **WAIVER OF SPECIAL DAMAGES.** THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

11. **JURY WAIVER AND JUDICIAL REFERENCE PROVISION. TO THE MAXIMUM EXTENT NOT PROHIBITED BY APPLICABLE LAW, THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.**

IN THE EVENT ANY LEGAL PROCEEDING IS FILED IN A COURT OF THE STATE OF CALIFORNIA (THE "COURT") BY OR AGAINST THE BORROWER OR THE BANK IN CONNECTION WITH ANY CONTROVERSY, DISPUTE OR CLAIM DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) (EACH, A "CLAIM") AND THE WAIVER SET FORTH IN THE PRECEDING PARAGRAPH IS NOT ENFORCEABLE IN SUCH ACTION OR PROCEEDING, THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) AGREE AS FOLLOWS:

(1) WITH THE EXCEPTION OF THE MATTERS SPECIFIED IN PARAGRAPH (2) BELOW, ANY CLAIM WILL BE DETERMINED BY A GENERAL REFERENCE PROCEEDING IN ACCORDANCE WITH THE PROVISIONS OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTIONS 638 THROUGH 645.2, INCLUDING ANY REVISION OR REPLACEMENT OF SUCH STATUTES OR RULES HEREAFTER ENACTED. THE BORROWER AND THE BANK INTEND THIS GENERAL REFERENCE AGREEMENT TO BE SPECIFICALLY ENFORCEABLE IN ACCORDANCE WITH CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638, INCLUDING ANY REVISION OR REPLACEMENT OF SUCH STATUTE OR RULE HEREAFTER ENACTED. EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT AND THE OTHER RELATED DOCUMENTS, VENUE FOR THE REFERENCE PROCEEDING WILL BE IN THE STATE OR FEDERAL COURT IN THE COUNTY OR DISTRICT WHERE VENUE IS OTHERWISE APPROPRIATE UNDER APPLICABLE LAW.

(2) THE FOLLOWING MATTERS SHALL NOT BE SUBJECT TO A GENERAL REFERENCE PROCEEDING: (A) NON-JUDICIAL FORECLOSURE OF ANY SECURITY INTERESTS IN REAL OR PERSONAL PROPERTY; (B) EXERCISE OF SELF-HELP REMEDIES (INCLUDING, WITHOUT LIMITATION, SET-OFF); (C) APPOINTMENT OF A RECEIVER; AND (D) TEMPORARY, PROVISIONAL OR ANCILLARY REMEDIES (INCLUDING, WITHOUT LIMITATION, WRITS OF ATTACHMENT, WRITS OF POSSESSION, TEMPORARY RESTRAINING ORDERS OR PRELIMINARY INJUNCTIONS). THIS AGREEMENT DOES NOT LIMIT THE RIGHT OF THE BORROWER OR THE BANK TO EXERCISE OR OPPOSE ANY OF THE RIGHTS AND REMEDIES DESCRIBED IN CLAUSES (A) - (D) AND ANY SUCH EXERCISE OR OPPOSITION DOES NOT WAIVE THE RIGHT OF THE BORROWER OR THE BANK TO A REFERENCE PROCEEDING PURSUANT TO THIS AGREEMENT.

(3) UPON THE WRITTEN REQUEST OF THE BORROWER OR THE BANK, THE BORROWER AND THE BANK SHALL SELECT A SINGLE REFEREE, WHO SHALL BE A RETIRED JUDGE OR JUSTICE. IF THE BORROWER AND THE BANK DO NOT AGREE UPON A REFEREE WITHIN TEN (10) DAYS OF SUCH WRITTEN REQUEST, THEN, THE BORROWER OR THE BANK, MAY REQUEST THE COURT TO APPOINT A REFEREE PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 640(B), INCLUDING ANY REVISION OR REPLACEMENT OF SUCH STATUTE OR RULE HEREAFTER ENACTED.

(4) ALL PROCEEDINGS AND HEARINGS CONDUCTED BEFORE THE REFEREE, EXCEPT FOR TRIAL, SHALL BE CONDUCTED WITHOUT A COURT REPORTER, EXCEPT WHEN THE BORROWER OR THE BANK SO REQUESTS, A COURT REPORTER WILL BE USED AND THE REFEREE WILL BE PROVIDED A COURTESY COPY OF THE TRANSCRIPT. THE PARTY MAKING SUCH REQUEST SHALL HAVE THE OBLIGATION TO ARRANGE FOR AND PAY COSTS OF THE COURT REPORTER, PROVIDED THAT SUCH COSTS, ALONG WITH THE REFEREE'S FEES, SHALL ULTIMATELY BE BORNE BY THE PARTY WHO DOES NOT PREVAIL, AS DETERMINED BY THE REFEREE.

(5) THE REFEREE MAY REQUIRE ONE OR MORE PREHEARING CONFERENCES. THE BORROWER AND THE BANK SHALL BE ENTITLED TO DISCOVERY, AND THE REFEREE SHALL OVERSEE DISCOVERY IN ACCORDANCE WITH THE RULES OF DISCOVERY, AND MAY ENFORCE ALL DISCOVERY ORDERS IN THE SAME MANNER AS ANY TRIAL COURT JUDGE IN PROCEEDINGS AT LAW IN THE STATE OF CALIFORNIA. THE REFEREE SHALL APPLY THE RULES OF EVIDENCE APPLICABLE TO PROCEEDINGS AT LAW IN THE STATE OF CALIFORNIA AND SHALL DETERMINE ALL ISSUES IN ACCORDANCE WITH APPLICABLE STATE AND FEDERAL LAW. THE REFEREE SHALL BE EMPOWERED TO ENTER EQUITABLE AS WELL AS LEGAL RELIEF AND RULE ON ANY MOTION WHICH WOULD BE AUTHORIZED IN A TRIAL, INCLUDING, WITHOUT LIMITATION, MOTIONS FOR DEFAULT JUDGMENT OR SUMMARY JUDGMENT. THE REFEREE SHALL REPORT THE REFEREE'S DECISION, WHICH REPORT SHALL ALSO INCLUDE FINDINGS OF FACT AND CONCLUSIONS OF LAW.

(6) THE BORROWER AND THE BANK RECOGNIZE AND AGREE THAT ALL CLAIMS RESOLVED IN A GENERAL REFERENCE PROCEEDING PURSUANT HERETO WILL BE DECIDED BY A REFEREE AND NOT BY A JURY.

[SIGNATURE LINE MOVED TO NEXT PAGE]

Address(es) for Notices:
1010 Winding Circle Rd., Suite 100
Roseville, CA 95678

Attn: CFO

Borrower:
SOLAR3D, INC

By: /s/ Tracy M. Welch
Tracy M. Welch CFO
Printed Name Title

Date signed: 12/31/15

Address(es) for Notices:
1415 L Ste STE 650, Floor 6
Sacramento, CA 95814

Attn:

Bank:
JPMorgan Chase Bank, N.A.

By: /s/ Erik J. Langeland
Erik J Langeland Managing Director
Printed Name Title

Date signed: 12/31/15

LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY	STATE OF INCORPORATION
Sunworks United, Inc.	California
MDE Energy, Inc.	California
Elite Solar Acquisition Sub., Inc	California

EXHIBIT 31.1

CERTIFICATION

I, James Nelson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sunworks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15 (f) and 15 (d)-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) designed such internal control over financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over the financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ James Nelson

Chief Executive Officer & President

(Principal Executive Officer)

Date: March 14, 2016

EXHIBIT 31.2

CERTIFICATION

I, Tracy Welch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sunworks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15 (f) and 15 (d)-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) designed such internal control over financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over the financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Tracy Welch
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 14, 2016

EXHIBIT 32.1

Certification
Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002
(Subsections (A) And (B) Of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Sunworks, Inc., (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the fiscal year ended December31, 2015 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James Nelson
Chief Executive Officer

Dated: March 14, 2016

/s/ Tracy Welch
Chief Financial Officer

Dated: March 14, 2016