SUNVALLEY SOLAR, INC.

FORM 10-Q
(Quarterly Report)

Filed 11/20/17 for the Period Ending 09/30/17

Address	398 LEMON CREEK DRIVE SUITE A
	WALNUT, CA, 91789
Telephone	909-598-0618
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SIC Code	1600 - Heavy Construction Other Than Bldg Const - Contractors
Industry	Renewable Energy Equipment & Services
Sector	Energy
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X]Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2017**

[ ]Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to__________

Commission File Number: **333-150692**

Sunvalley Solar, Inc.
(Exact name of registrant as specified in its charter)

Nevada **20-8415633**
(State or other jurisdiction of incorporation or organization)(IRS Employer Identification No.)

398 Lemon Creek Dr., Suite A, Walnut, CA 91789
(Address of principal executive offices)

(909) 598-0618
(Registrant ' s telephone number)

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

Indicated 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 [X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

[ ] Large accelerated filer[ ] Accelerated filer
[ ] Non-accelerated filer [X] Smaller reporting company
[ ] Emerging Growth Company

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

State the number of shares outstanding of each of the issuer ' s classes of common stock, as of the latest practicable date: 24,563,176 common shares as of November 16, 2017.

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 (§ 229.405 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 [X] No [ ]

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Our financial statements included in this Form 10-Q are as follows:

F-1Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016;
F-2Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (unaudited);
F-3Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited);
F-4Notes to Condensed Consolidated Financial Statements.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the Securities and Exchange Commission (" SEC ") instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended September 30, 2017 are not necessarily indicative of the results that can be expected for the full year.

SUNVALLEY SOLAR, INC.
Condensed Consolidated Balance Sheets

ASSETS

	September 30, 2017 (unaudited)	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 1,336,222	$ 1,563,781
Restricted cash	37,500	37,500
Accounts receivable, net	1,202,605	3,062,923
Inventory, net	116,639	95,461
Costs in excess of billings on uncompleted contracts	231,096	37,790
Prepaid expenses and other current assets	115,073	76,358
Total current assets	3,039,135	4,873,813
PROPERTY AND EQUIPMENT, NET	104,313	62,751
OTHER ASSETS		
Long-term accounts receivable, net	794,404	1,414,589
Intangible assets, net	446,129	537,536
Goodwill	218,076	218,076
Other assets	11,220	7,220
Total other assets	1,469,829	2,177,421
TOTAL ASSETS	$ 4,613,277	$ 7,113,985

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2017 (unaudited)	December 31, 2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 3,081,405	$ 4,885,326
Customer deposits	139,203	13,396
Accrued warranty liability	127,097	163,121
Advances from contractors	103,389	103,389
Notes payable	-	81,181
Total current liabilities	3,451,094	5,246,413
STOCKHOLDERS' EQUITY		
Class A convertible preferred stock, $0.001 par value, 1,000,000 shares authorized, 500,000 and 120,000 shares issued and outstanding, as of September 30, 2017 and December 31, 2016, respectively	500	120
Class B convertible preferred stock, $0.001 par value, 2,000,000 shares authorized, 90,000 and 130,000 shares issued and outstanding, as of September 30, 2017 and December 31, 2016, respectively	90	130
Common stock, $0.001 par value, 150,000,000 shares authorized, 24,563,176 and 23,857,176 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	24,560	23,858

Additional paid-in capital	6,348,784	6,292,416
Accumulated deficit	(5,211,751)	(4,448,952)
Total Stockholders' Equity	1,162,183	1,867,572
	$ 4,613,277	$ 7,113,985

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

SUNVALLEY SOLAR, INC.
Condensed Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES	$ 1,206,423	$ 2,956,670	$ 4,801,663	$ 3,267,217
COST OF SALES	1,036,124	2,310,302	3,838,286	2,443,564
GROSS PROFIT	170,299	646,368	963,377	823,653
OPERATING EXPENSES				
General and administrative	742,016	683,183	2,421,504	2,448,779
Total Operating Expenses	742,016	683,183	2,421,504	2,448,779
LOSS FROM OPERATIONS	(571,717)	(36,815)	(1,458,127)	(1,625,126)
OTHER INCOME (EXPENSES)				
Other income	5,716	887	6,184	2,580
Gain on settlement of litigation	706,780	-	706,780	-
Disposal of fixed asset	-	-	-	(415)
Interest expense	(9,517)	(2,714)	(17,636)	(6,451)
Total other income (expenses)	702,979	(1,827)	695,328	(4,286)
INCOME (LOSS) BEFORE TAXES	131,262	(38,642)	(762,799)	(1,629,412)
NET INCOME (LOSS)	$ 131,262	$ (38,642)	$ (762,799)	$ (1,629,412)
NET INCOME (LOSS) PER COMMON SHARE				
Basic	$ 0.01	$ (0.01)	$ (0.03)	$ (0.19)
Diluted	$ 0.01	$ (0.01)	$ (0.03)	$ (0.19)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	24,563,176	5,850,164	24,343,359	8,750,114
Diluted	25,488,176	5,850,164	24,343,359	8,750,114

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

SUNVALLEY SOLAR, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 30, 2017	2016
OPERATING ACTIVITIES:		
Net loss	$ (762,799)	$ (1,629,412)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	114,579	110,228
Stock issued for services	57,414	1,117,809
Gain on legal settlement	(706,780)	-
Changes in operating assets and liabilities:		
Accounts receivable	2,480,503	786,921
Inventory	(21,178)	(62,907)
Prepaid expenses	(38,715)	(55,148)
Costs in excess of billings on uncompleted contracts	(193,306)	(116,787)
Other assets	(4,000)	3,886
Accounts payable and accrued expenses	(1,097,141)	(1,116,034)
Accrued warranty expense	(36,024)	(31,292)
Customer deposits	125,807	592,616
Net Cash Provided by (Used in) Operating Activities	(81,640)	(400,120)
INVESTING ACTIVITIES:		
Disposal of equipment	-	595
Purchase of equipment	(60,709)	(36,300)
Cash acquired in business combination	-	23,711
Net Cash Used in Investing Activities	(60,709)	11,994
FINANCING ACTIVITIES:		
Repayments of long term debt	(85,210)	(3,537)
Cash received for notes payable	-	74,000
Repayment of capital lease	-	(59,090)
Net Cash Provided by (Used in) Financing Activities	(85,210)	11,373
NET CHANGE IN CASH	(227,559)	(400,741)
CASH AT BEGINNING OF PERIOD	1,563,781	-1,209,198
CASH AT END OF PERIOD	$ 1,336,222	$ 808,457
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest	$ -	$ 10,974
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common stock and notes payable issued in business combination	$ -	$ 1,151,786
Conversion of preferred stock to common stock	$ 706	$ 18,245

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

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by the Company without audit. The Consolidated Financial Statements include the accounts of Sunvalley and its subsidiary, Sunvalley Solar Energy, Inc. (formerly known as Rayco Energy, Inc). All significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2017, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the

United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2016 audited consolidated financial statements. The results of operations for the periods ended September 30, 2017 and 2016 are not necessarily indicative of the operating results for the full years.

NOTE 2 - GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original or remaining maturity of less than Nine months at the date of purchase to be cash equivalents.

Use of Estimates

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

Recent Accounting Pronouncements

Management has considered all recent accounting pronouncements issued since the last audit of the financial statements. The Company ' s management believes that these recent pronouncements will not have a material effect on the Company ' s financial statements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification of Financial Statement Accounts

Certain balances in previously issued financial statements have been reclassified to be consistent with the current period presentation.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined on an average cost basis; and the inventory is comprised of raw materials and finished goods. Raw materials consist of fittings and other components necessary to assemble the Company ' s finished goods. Finished goods consist of solar panels ready for installation and delivery to customers.

The Company ' s inventory consisted of the following at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Raw materials	$ -	$ -
Work in Progress	-	-
Finished goods	116,639	95,461
TOTAL	$ 116,639	$ 95,461

Loss per Common Share

Basic net loss per common share is computed by dividing the net loss by the weighted average number of outstanding common shares (restricted and free trading) during the periods presented. Basic loss per share and diluted loss per share are the same amount because the impact of additional common shares that might have been issued under the Company ' s outstanding and exercisable stock options would be anti-dilutive. Dilutive instruments include 25,000 shares to be issued upon the conversion of the Series A Convertible Preferred Stock, and 900,000 shares to be issued upon the conversion of the Series B Convertible Preferred Stock. Such potentially dilutive shares are excluded when the effect would be to reduce net loss per share. There were 925,000 and 7,750,000 such potentially anti-dilutive shares excluded as of September 30, 2017 and 2016, respectively. However, these shares were included for the three month period ended September 30, 2017, as there effect is dilutive due the net income.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon the Company ' s assessment of the collectability of customer accounts. The Company periodically reviews the allowance by reviewing factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions which may affect a customer ' s ability to pay.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany amounts and transactions have been eliminated in consolidation,

Depreciation and Amortization

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the expected useful life of the asset.

Goodwill and Intangible Assets

Goodwill is tested on an annual basis and during the period between annual tests in certain circumstances, and written down when impaired. No impairment tests were performed during the periods ended September 30, 2017 and there was no impairment recorded as of September 30, 2017.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment and Long-Lived Assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of long-lived assets is based upon an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based upon the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Fair Value of Financial Instruments

The fair value of certain of the Company ' s financial instruments, including cash and cash equivalents, accrued compensation and other current liabilities approximates the carrying amount because of their short maturities.

Concentrations of Risk

Cash and cash equivalents are maintained with banks insured by the FDIC. Currently none of the cash held by banks exceeds the insured value.

Advertising Costs

Advertising costs are expensed as incurred. There were $13,254 and $29,774 of advertising costs for the periods ended September 30, 2017 and 2016, respectively.

Costs in Excess of Billings on Uncompleted Contracts

Costs in excess of billings represent unbilled amounts earned and reimbursable under contracts. These amounts become billable according to the contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. Generally, such unbilled amounts will be billed and collected over the next twelve months. Based on our historical experience, we generally consider the collection risk related to these amounts to be low. When events or conditions indicate that the amounts outstanding may become uncollectible, an allowance is estimated and recorded.

The Company is currently involved in certain major short-term solar panel installation projects. The Company is accounting for revenue and expenses associated with these contracts under the percentage of completion method of accounting in accordance with ASC 605 effectively January 1, 2017. Revenues from fixed-price and cost-plus contracts are recognized on the percentage of completion method, whereby revenues on long-term contracts are recorded on the basis of the Company ' s estimates of the percentage of completion of contracts based on the ratio of the actual cost incurred to total estimated costs. This cost-to-cost method is used because management considers it to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured on the cost-to-cost method.

Prior to January 1, 2017, the Company recognized revenue from a system installation under the completed contract method of accounting. Under ASC 605, income is recognized when the contracts are completed or substantially completed and billings and others costs are accumulated on the balance sheet. Under the completed contract method, no profit or income is recorded before substantial completion of the work.

As of September 30, 2017 and December 31, 2016, the Company has capitalized $231,096 and $37,790 of costs incurred in relation to installation projects.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the bases of assets and liabilities and their reported amounts. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. No tax expense or benefit was recorded for the three and nine month periods ended September 30, 2017.

NOTE 4 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Computer and equipment	$ 91,300	$ 91,300
Furniture	21,171	21,171
Software	22,368	22,368
Vehicles	179,549	118,840
Total property and equipment	314,388	253,679
Less: accumulated depreciation	(210,075)	(190,928)
Property and equipment, net	104,313	62,751

Depreciation expense for the nine months ended September 30, 2017 and 2016 was $19,147 and $14,450 respectively.

NOTE 5 – INTANGIBLE ASSETS AND GOODWILL

The components of intangible assets at September 30, 2017 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Assembled workforce	$ 64,000	$ (17,573)	$ 46,427
Goodwill	218,076	-	218,076
Customer List	551,000	(151,298)	399,702
Total	$ 833,076	$ (168,871)	$ 664,205

Amortization expense recognized was $91,407 and $95,781 for the Nine months ended September 30, 2017 and 2016, respectively. The Customer List and assembled workforce both have a useful life of 3.62 years as of September 30, 2017.

Estimated amortization expense to be recorded for the next five years is as follows:

2017 (remaining)	$ 30,750
2018	123,000
2019	123,000
2020	123,000
2021	45,536
Total Future Amortization:	$ 445,286

NOTE 6- COMMITMENT AND CONTINGENCIES

Sunvalley filed a lawsuit in Superior Court of the State of California, County of Los Angles-East District against Baoding Tianwei Solarfilms Co., Ltd (Baoding Tianwei) on September 20, 2013 for contractual dispute with monetary damages and interest for a total of approximately $7.8 million. On September 7, 2017, the Court ordered Baoding Tianwei to pay Sunvalley a total amount of $4,864,722 including damages of $4,859,567 and other costs of $5,155 as a result of the defendant ' s default. Sunvalley wrote off the outstanding accounts payable of $706,780 owed to Baoding Tianwei and recorded the same amount as a gain on settlement of litigation on September 7, 2017.

NOTE 7 – PREFERRED STOCK

The Company is authorized to issue up to 6,000,000 shares of $0.001 par value preferred stock; 1,000,000 shares of which are designated as Class A Convertible Preferred Stock, and 2,000,000 shares of which are designated as Class B Convertible Preferred Stock. The remaining 3,000,000 shares of preferred stock authorized remain undesignated.

Class A Convertible Preferred Stock

Holders of Class A Convertible Preferred Stock are entitled to vote together with the holders of the Company ' s common stock on all matters submitted to shareholders at a rate of one hundred (100) votes for each share held. Holders of Class A Convertible Preferred Stock are also entitled, at their option, to convert their shares into shares of the Company ' s common stock on a 0.5 common share for 1 preferred share basis. The Class A Convertible Preferred shares were valued at the trading price of the common shares into which they are convertible. As of September 30, 2017 and December 31, 2016, there were 500,000 and

120,000 shares of Class A Convertible Preferred Stock issued and outstanding, respectively.

The Company issued 500,000 shares of Series A Preferred Stock, 30,000 shares of Series B Preferred Stock, and 700,000 shares of common stock to various individuals for services provided.

Class B Convertible Preferred Stock

The holders of the Class B Convertible Preferred Stock have no dividend rights, have the right to convert each Class B share into 10 post-split common shares and have the right to 10 votes per Class B Convertible Preferred share for all matters submitted to the holders of the Company ' s common stock. As of September 30, 2017 and December 31, 2016, there were 90,000 shares and 130,000 shares respectively and 2,000,000 shares of Class B Convertible Preferred Stock issued and outstanding, respectively.

The Company had conversions of Preferred B into Common stock. There were 70,000 shares of Preferred B stock converted into 700,000 shares of Common stock.

NOTE 8 – COMMON STOCK

On February 24, 2017, the Company issued 700,000 shares of common stock to employees for services provided. The shares were valued at $61,600, which was based on the trading price of the Company ' s common stock on the date of issuance. The shares vest one year from the issuance date if the recipients remain employed by the Company during the entire year. For the Nine months ended September 30, 2017, the Company recognized $36,286 of compensation expense related to the issuance of the shares, leaving a remaining amount to be expensed of $25,314.

NOTE 9 – SUBSEQUENT EVENTS

In accordance with ASC 855-10, Company management reviewed all material events through the date of this report and determined that there are no additional material subsequent events to report.

Item 2. Management ' s Discussion and Analysis or Plan of Operation

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are " forward-looking statements. " These forward-looking statements generally are identified by the words " believes, " " project, " " expects, " " anticipates, " " estimates, " " intends, " " strategy, " " plan, " " may, " " will, " " would, " " will be, " " will continue, " " will likely result, " and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Company Overview and Plan of Operation

Sunvalley Solar, Inc. (the " Company " ' " we " , " our ") is a California-based solar power technology and system integration company founded in January of 2007. We are focused on developing our expertise and proprietary technology to install residential, commercial and governmental solar power systems. We offer turnkey solar system solutions for owners, builders and architecture firms that include designing, building, operating, monitoring and maintaining solar power systems. Our customers range from small private residences to large commercial solar power users. We have the necessary licenses and expertise to design and install large scale solar power systems. We hold a C-46 Solar License from CBCL (California Board of Contractor License). Some of the large scale commercial solar power systems that we have designed and installed include large office buildings, farming and manufacturing facilities and warehouses. Our proprietary technologies in solar installation provide our customers with a high quality, low cost and flexible solar power system solutions. From energy management, system design, permitting, to installation, maintenance and system services, we oversee the entire project from beginning to the end, and provide a single point of contact to our customer throughout the life of the solar system.

We are working to develop as an end-to-end solar energy solution provider by providing system solution, post-sale service, customer technical support, solar system design and field installation. We conduct our operations through our wholly-owned subsidiary, Sunvalley Solar Tech, Inc. On May 15, 2016 we acquired Rayco Energy, Inc. (" Rayco "), a northern California company specializing in providing cost-saving and efficient energy solutions, including LED lighting, Solar Thermal and Solar Electricity, to local communities and business units.

Business Development Plan

The primary components of our growth strategy are as follows:

" Developing and commercializing our proprietary solar technologies including our coating and focusing technologies, networked PV panel system. By deploying these new technologies into our PV panels and solar installation business, we hope to enhance the value provided to our customers and increase our profitability.

" Promoting and enhancing our company ' s brand and reputation in solar design and integration and expanding our installation business. Expanding our business into the energy management space.

" Developing a PV panel manufacturing capability to provide high efficiency and low cost solar panels to US market. This will complement our installation business and provide an implementation platform for our R&D.

Expansion of Installation Business

We are planning to expand our installation business. We will continue to execute our marketing and sales strategy in Southern California and, with additional capital, will be able to expand our business to cover Northern California, Arizona or other states. The planned expansion is expected to occur through acquiring smaller installation companies in these regions and/or through the establishment of subsidiaries in these states and boost our installation profits. Our current intention is to establish two new offices located in Northern California or other states and in San Diego. The estimated start-up cost for each new branch would be approximately $500,000.

If we are able to expand our installation business, it will assist us in gaining favorable terms from OEM international manufacturers of our planned solar panel manufacturing operation. In addition, an expanded installation business would allow us to accelerate the introduction of our new technologies and solar parts and would generate additional revenue to fund initial investment in our planned Distributed Power Plant business and to further fund our investments in R&D.

Commercialization of Research and Development

Our Patent " Networked Solar Panels and Related Methods " was issued on February 24, 2015. We will need to commercialize this advanced technology through the design, fabrication, and characterization of prototype solar components and system cell. Through this technology, it is able to address the undesirable fluctuations in the voltage of the power grid due to uncertain environmental impact to solar system. Commercializing this technology into mass production will involve cooperation and approval from utility companies. In addition, the networked PV panel concept will also need to demonstrate that panels using the technology will have a productive life-span and a tolerance to environmental conditions such as humidity, temperature, wind load that are sufficient for the panels to be used in real life application. Accordingly, there is no guarantee that we will be able to commercially produce and market solar panels using our new networked PV panel system technology.

Prior to initiating our planned OEM manufacturing of Sunvalley-branded solar panels, we will need to commercialize our advanced panel technology through the design, fabrication, and characterization of a prototype solar cell. The total expense for planned commercialization of our research and development will be approximately $500,000.

Initiate OEM Manufacturing of Solar Panels

By leveraging our solar panel installation business and R&D, we plan to procure OEM solar panels from selected Chinese manufacturers and to market them in the U.S. under our brand name. We will be responsible for R&D, quality control, customer service, sales and marketing activities, as well as panel certification in U.S.

The estimated OEM panel cost is less than $0.50 per watt. As a reference, currently, the lowest panel price is around $0.70 per watt (Mono-crystalline, Polycrystalline). We can use our own sales and installation platform to showcase the new panels and drive sales of the new panels in the U.S market. Meanwhile, we will continue our R&D effort on panel coating and other advanced technologies and apply the results to its panel manufacturing business. The goal will be to further improve the efficiency, lower the cost of solar panels with our proprietary technologies, and to grow our market share.

Our marketing strategy for its planned OEM solar panels is as follows:

" **Set-up a platform to showcase our innovative solar panel technologies and make Sunvalley solar panels a household name.**

Unlike other merchandise, solar panel is very unique in that it requires very high level of quality assurance and customer satisfaction. Providing satisfactory customer service and technical support is absolutely vital in solar panel sales. As the first step, we will strive to make its brand a household name. The Sunvalley solar panel will be used by our installation business as well as several other installation companies which have partnerships with us. We do not currently have partnerships with other solar installation companies, but we plan to pursue them after introducing the panels to the market through our own installation business. A marketing campaign aimed at other solar installation companies will help to achieve this goal. We will use our own installation business as the platform to showcase the product quality and build up consumer awareness of its brand.

" **Penetrate into the main stream distribution network**

By leveraging early successes and customer trust earned from our initial installations, we plan to penetrate into the mainstream distribution network with our OEM solar panels.

" **Further sale activities**

Once our brand name solar panels become well known, our sales team will begin an aggressive marketing campaign to connect the individual sales points (distributors and venders) to form a distribution network. The marketing campaigns will also include attending trade shows, advertising in the media (TV commercials and newspaper advertisement) and designating local representatives to boost the market share and brand awareness.

" **Offer a low cost, high efficiency solar panel derived from advanced research**

To boost our solar panel market share, our R&D team will work with our OEM partner to apply selective coating technique and other cutting edge technologies to further reduce the manufacturing cost and improve the panel efficiency.

The total capital required to initiate our planned panel manufacturing business would be approximately $2,000,000 which can be categorized into three parts:

" Registration and Certification of OEM panels with our brand – $300,000, including UL certification fees, CEC registration fees, and lab testing fees.

" Initial Inventory – $1,500,000. We will need to keep 4-5 containers of PV panels in the warehouse in order to support sales of 5~10M watts per year, which means we will need to have over $1,000,000 in inventory for PV panels only. An additional $300,000 in inventory would be needed in order to keep the requisite amount of inverters and racking and panel cleaning systems. In addition, we anticipate providing variable payment terms to different customers based on their creditworthiness; this will add additional cash flow pressure.

- OEM Management costs – $200,000

We are among the few companies in California that have the permit and expertise to install large-scale commercial and/or government solar power systems, together with roof constructional design and building interior/exterior electrical designs. We believe additional advantages are provided by our experience in filing solar power system permit applications and rebate applications and our expertise gained through our experience with governments and utility companies.

Expected Changes In Number of Employees, Plant, and Equipment

We do not currently plan to purchase specific additional physical plant and significant equipment within the immediate future. We do not currently have specific plans to change the number of our employees during the next twelve months.

Results of Operations for the three and nine months ended September 30, 2017 and 2016

During the three months ended September 30, 2017, we generated revenues of $1,206,423 and incurred costs of sales of $1,036,124, resulting in gross profit of $170,299. We incurred general and administrative expenses of $742,016 and interest expense of $9,517. We had other income of $5,716 and a gain on settlement of litigation in the amount of $706,780. Our net income for the quarter ended September 30, 2017 was $131,262.

By comparison, during the quarter ended September 30, 2016, we generated revenues of $2,956,670 and incurred costs of sales of $2,310,302 resulting in gross profit of $646,368. We incurred general and administrative expenses of $683,183, interest expense of $2,714, and other income of $887. Our net loss for the quarter ended September 30, 2016 was $38,642.

During the nine months ended September 30, 2017, we generated revenues of $4,801,663 and incurred costs of sales of $3,838,286, resulting in gross profit of $963,377. We incurred general and administrative expenses of $2,421,504 and interest expense of $17,636. We had other income of $6,184 and a gain on settlement of litigation in the amount of $706,780. Our net loss for the nine months ended September 30, 2017 was $762,799.

By comparison, during the nine months ended September 30, 2016, we generated revenues of $3,267,217 and incurred costs of sales of $2,443,564, resulting in gross profit of $823,653. We incurred general and administrative expenses of $2,448,779, interest expense of $6,451, and loss on disposal of a fixed asset of $415. We also recorded other income of $2,580. Our net loss for the nine months ended September 30, 2016 was $1,629,412.

We are currently working on a few major installation projects with expected revenues totaling approximately $4.4 million. Some of these contracts are expected to be completed by the fourth quarter of 2017 with approximately $1.2 million revenues and the other projects are expected to be completed by the 2nd quarter of 2018.

Our decrease in revenues and related cost of goods sold during the three month period ended September 30, 2017 as compared to the same quarter last year are mainly due to the timing of recognition of our project revenues by adopting the percentage of completion method effective January 1, 2017. During 2016, the Company recognized project revenues under the completed contract method and income was recognized when the contracts were completed or substantially completed. Under the completed contract method, no profit or income is recorded before substantial completion of the work. We recognized approximately $1.2 million in this quarter by using the percentage of completion method while we substantially completed a major project of approximately $2.6 million in the three months ended September 20, 2016 and recorded such revenue under the completed contract method.

Our increase in general and administrative expenses for the three months ended September 30, 2017 as compared to the same quarter last year is the combination of a decrease of approximately $105,000 non-cash compensation expenses related to the stock issuance for key employees and the increase of $144,000 as severance pay to a key ex-employee who was retired on August 31, 2017.

Our increase in revenues and related cost of goods sold for the nine months ended September 30, 2017 as compared to the same periods last year are mostly due to the timing of recognition of our project revenues by adopting the percentage of completion method effective January 1, 2017 versus using the completed contract method in 2016. We recognized revenues in each quarter of 2017 by using the percentage of completion method while no major projects were substantially completed in the 1 st and 2 nd quarters of 2016 and thus not much revenues were recorded over these two quarters of 2016.

We have a decrease in general and administrative expenses for the nine months ended September 30, 2017 as compared to the same periods last year. We increased our general and administrative expenses by approximately $1,060,938 which included an increase of Sunvalley Solar Energy, Inc. (formerly known as Rayco) ' s operation expense of about $283,000, increase of insurance expense of about $20,000, a loan fee expense of $30,000, the legal settlement expense of $334,527 related to the CEEG case, key employee and consultant ' s compensation of $57,411 with certain stock issuance, other salary and wage increase of about $336,000 for nine months ended September 30, 2017. On the other hand, key employee ' s salaries and wages of $1,117,809 was recorded for the nine months ended September 30, 2016 as the result of our issuance of 2,000,000 shares of Class B Convertible Preferred Stock to certain officers, directors, and employees on July 23, 2015, which was being recognized over the vesting period of the grants.

Sunvalley filed a lawsuit in Superior Court of the State of California, County of Los Angles-East District against Baoding Tianwei Solarfilms Co., Ltd (Baoding Tianwei) on September 20, 2013 for contractual dispute with monetary damages and interest for a total of approximately $7.8 million. On September 7, 2017, the Court ordered Baoding Tianwei to pay Sunvalley a total amount of $4,864,722 including damages of $4,859,567 and other costs of $5,155 as a result of the defendant ' s default. Sunvalley wrote off the outstanding accounts payable of $706,780 owed to Baoding Tianwei and recorded the same amount as a gain on settlement of litigation on September 7, 2017.

Liquidity and Capital Resources

As of September 30, 2017, we had current assets in the amount of $3,039,135, consisting of cash and cash equivalents in the amount of $1,336,222, accounts receivable of $1,202,605, inventory in the amount of $116,639, costs in excess of billings on uncompleted contracts of $231,096, prepaid expenses and other current assets of $115,073, and restricted cash of $37,500. As of September 30, 2017, we had current liabilities in the amount of $3,451,094. These consisted of accounts payable and accrued expenses in the amount of $3,081,405, customer deposits of $139,023, accrued warranty of $127,097, and advances from contractors of $103,389. Our working capital deficit as of September 30, 2017 was therefore $411,959. During the nine months ended September 30, 2017, our operating activities used a net $81,640 in cash. Investing activities used $60,709 in cash and financing activities used $85,210 during the period.

Our accounts payable and accrued expenses as of September 30, 2017 consisted of the following:

Accounts Payable	$2,265,404
Credit Card payable	214,294
Contingent liability	334,528
Other accrued expense	4,249
Payroll liabilities	261,458
Sales tax payable	1,472
Total	$3,081,405

As of September 30, 2017, we had no long term liabilities.

In order to move forward with our business development plan set forth above, we will require additional financing in the approximate amount of $4,500,000, to be allocated as follows:

Initiate OEM Manufacturing	$ 2,000,000
R&D Commercialization Costs	$ 500,000
Expansion of Installation Business (3 new branches)	$ 1,500,000
Additional working capital and General corporate	$ 500,000
Total capital needs	$ 4,500,000

We will require substantial additional financing in the approximate amount of $4,500,000 in order to execute our business expansion and development plans and we may require additional financing in order to sustain substantial future business operations for an extended period of time. We currently do not have any firm arrangements for financing and we may not be able to obtain financing when required, in the amounts necessary to execute on our plans in full, or on terms which are economically feasible.

We are currently seeking additional financing. If we are unable to obtain the necessary capital to pursue our strategic plan, we may have to reduce the planned future growth of our operations.

Off Balance Sheet Arrangements

As of September 30, 2017, there were no off balance sheet arrangements.

Going Concern

We have experienced recurring net losses and had an accumulated deficit of $5,211,751 as of September 30, 2017. To date, we have not been able to produce sufficient sales to become cash flow positive and profitable on a consistent basis. The success of our business plan during the next 12 months and beyond will be contingent upon generating sufficient revenue to cover our costs of operations and/or upon obtaining additional financing. For these reasons, our auditor has raised substantial doubt about our ability to continue as a going concern.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most " critical accounting polices " in the Management Discussion and Analysis. The SEC indicated that a " critical accounting policy " is one which is both important to the portrayal of a company ' s financial condition and results, and requires management ' s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We do not believe that any accounting policies currently fit this definition.

Recently Issued Accounting Pronouncements

Our management has considered all recent accounting pronouncements issued since the last audit of our financial statements. Our management believes that these recent pronouncements will not have a material effect on our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information required by this Item.

Item 4. Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2016. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Zhijian (James) Zhang and our Chief Financial Officer, Mandy Chung. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, our disclosure controls and procedures are not effective. There have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2017.

Management determined that the material weaknesses that resulted in controls being ineffective are primarily due to lack of resources and number of employees. Material weaknesses exist in the segregation of duties required for effective controls and various reconciliation and control procedures not regularly performed due to the lack of staff and resources.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

<u>Limitations on the Effectiveness of Internal Controls</u>

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. 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. Because of 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, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to our Annual Report on Form 10-K filed April 14, 2016 for information regarding our pending legal proceedings.

Item 1A. Risk Factors

A smaller reporting company is not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Materials from the Company ' s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in Extensible Business Reporting Language (XBRL)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sunvalley Solar, Inc.

Date: November 20, 2017

By: <u>/s/ Zhijian (James) Zhang</u>
Zhijian (James) Zhang

Title: **Chief Executive Officer and Director**

Date: November 20, 2017

By: /s/ Mandy Chung

Mandy Chung

Title: **Chief Financial Officer**

CERTIFICATIONS

I, Zhijian (James) Zhang, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2017 of SunValley Solar, Inc. (the "registrant");

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 officer 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 Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;

b. Designed such internal control over financial 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 financial reporting; and

5. The registrant's other certifying officer 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 control over financial reporting which 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 control over financial reporting.

Date: November 20, 2017

/s/ Zhijian (James) Zhang
By: Zhijian (James) Zhang
Title: Chief Executive Officer

CERTIFICATIONS

I, Mandy Chung, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2017 of SunValley Solar, Inc. (the "registrant");

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 officer 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 Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;

b. Designed such internal control over financial 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 financial reporting; and

5. The registrant's other certifying officer 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 control over financial reporting which 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 control over financial reporting.

Date: November 20, 2017

/s/ Mandy Chung
By: Mandy Chung
Title: Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly Report of SunValley Solar, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2017 filed with the Securities and Exchange Commission (the "Report"), I, Zhijian (James) Zhang, Chief Executive Officer of the Company, and I, Mandy Chung, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.
3.

By:	/s/ Zhijian (James) Zhang
Name:	Zhijian (James) Zhang
Title:	Principal Executive Officer and Director
Date:	November 20, 2017

By:	/s/ Mandy Chung
Name:	Mandy Chung
Title:	Principal Financial Officer and Director
Date:	November 20, 2017

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.