

## SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q SB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended February 29, 1996 Commission File No. D-9376

ALPHA SOLARCO INC.  
(Exact name of registrant as specified in its charter)

Colorado	31-0944136
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

510 East University Drive, Phoenix, Arizona	85004
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:  
(602) 252-3055

Indicate by check mark whether the registrant (1) has filed all reports required to be filed in Section 13 or 15(d) of the Security 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Number of Shares	Class	Outstanding as of 02/29/96
	No Par Value Common Stock	2,549,584

## ALPHA SOLARCO INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

February 29, 1996 and May 31, 1995

	February 29, 1996 (Unaudited)	May 31, 1995 (A)
<b>ASSETS</b>		
Cash and Cash equivalents	\$ 14,025	\$ 2,002
Accounts receivable:		
Trade	778,767	467,992
Employees	2,600	650
Prepaid expenses	368	104
	-----	-----
Total current assets	795,760	470,748
Property and equipment, at cost:		
Land	169,750	169,750
Machinery and equipment	2,472,050	2,492,050
Furniture and fixtures	94,098	94,098
Leasehold improvements	27,894	32,093
Buildings	420,398	420,398
Computer equipment	20,056	18,724
Construction in progress	1,829	1,828
	-----	-----
	3,206,075	3,228,941
Less accumulated depreciation	1,638,619	1,399,183

	1,567,456	1,829,758
Note receivable - officer	36,000	40,000
Patent rights and organization costs	414	414
Investment in Chinese Joint Venture	89,670	89,670
Proprietary solar energy technology, research and development, and other intangible assets	1	1
Other assets	20,307	12,159
	-----	-----
	146,392	142,244
	-----	-----
	\$2,509,608	\$2,442,750
	=====	=====

(A) The May 31, 1995 condensed amounts are from the Company's audited financial statements.

See accompanying notes.

ALPHA SOLARCO INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

February 29, 1996 and May 31, 1995  
(Continued)

	February 29, 1996 (Unaudited)	May 31, 1995 (A)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 348,155	\$ 698,823
Current maturity of long-term debt	10,546	
Accounts payable	666,190	680,900
Accrued liabilities	43,295	24,500
Billings in excess of revenue	145,577	473,560
	-----	-----
Total current liabilities	1,213,763	1,877,783
Long-term debt, less current maturities	52,627	
Convertible notes		5,700
Stockholders' equity:		
Common stock, without par value 200,000,000 authorized; 2,549,584 and 1,091,461 shares outstanding	14,017,586	13,384,710
Accumulated deficit	(12,774,368)	(12,825,443)
	-----	-----
Total stockholders' equity	1,243,218	559,267
	-----	-----
	\$ 2,509,608	\$ 2,442,750
	=====	=====

(A) The May 31, 1995 condensed amounts are from the Company's audited financial statements.

See accompanying notes.

ALPHA SOLARCO INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Nine Months ended	
	February 29, 1996	February 28, 1995
Revenues:		
Net Sales	\$1,082,901	\$2,194,170
Interest	12	1,820
Other	53,179	46,577
	-----	-----
	1,136,092	2,242,567

Costs and expenses:		
Cost of Sales	603,175	1,577,727
General and administrative	475,723	939,063
Advertising and promotion	832	87,958
Research and development		12,542
Interest	5,287	
Consulting services		98,107
	-----	-----
	1,085,017	2,715,397
	-----	-----
Net gain (loss)	\$ 51,075	\$ (472,830)
	=====	=====
Net gain (loss) per share	\$ 0.04	\$ (0.48)
	=====	=====

See accompanying notes.

ALPHA SOLARCO INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Nine Months ended	
	February 29, 1996	February 28, 1995
Cash flows from operating activities:		
Net gain ( loss)	\$ 51,075	(\$472,830)
Adjustments to reconcile net gain (loss) to net cash used in operating activities:		
Depreciation and amortization	263,634	244,905
Loss on sale of equipment		
Elimination of convertible notes	(5,700)	
Decrease (increase) in:		
Accounts receivable	(312,725)	212,147
Inventory		(271,731)
Revenues in excess of billings		157,710
Prepaid expenses	(264)	(23,337)
Other assets	(4,148)	(230,854)
Increase (decrease) in:		
Accounts payable	(14,710)	(365,364)
Accrued liabilities	18,795	(183,588)
Billings in excess of revenues	(327,983)	
	-----	-----
Net cash used in operating activities	(332,026)	(932,942)
Cash flows from investing activities:		
Capital expenditures	(1,332)	81,889
Proceeds from sale of equipment		1,500
	-----	-----
Net cash provided (used by) investing activities	(1,332)	83,389
Cash flow from financing activities:		
Net proceeds from issuance of common stock,	1,009,111	
Purchase of stock from shareholders	(376,235)	
Proceeds from notes payable and long-term debt	67,663	573,823
Repayment of notes payable and long-term debt	(355,158)	
	-----	-----
Net cash provided by financing activities	345,381	573,823
	-----	-----
Net change in cash and cash equivalents	12,023	(275,730)
Cash and cash equivalents:		
Beginning of period	2,002	327,671
	-----	-----
End of period	\$ 14,025	\$ 51,941
	=====	=====

See accompanying notes.

ALPHA SOLARCO INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

Quarter ended

	February 29, 1996	February 28, 1995
Revenues:		
Net Sales	\$ 133,835	\$ 275,392
Interest		
Other	7,342	15,109
	-----	-----
	141,177	290,501
Costs and expenses:		
Cost of Sales	139,462	366,709
General and administrative	176,049	352,718
Advertising and promotion	179	
Research and development		
Interest	2,985	
Consulting services		22,144
	-----	-----
	318,675	741,571
	-----	-----
Net gain (loss)	\$(177,498)	\$(451,070)
	=====	=====
Net gain (loss) per share	\$ (0.10)	\$ (0.46)
	=====	=====

See accompanying notes.

ALPHA SOLARCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Principles of consolidation

The consolidated financial statements include the accounts of Alpha, its wholly-owned subsidiaries, Alpha Solarco Inc. of Ohio ("Alpha of Ohio"), Alpha Manufacturing Group, Inc. ("AMG"), Solectric Corporation (Solectric"), and MSEPG Solar Power Corporation ("Solar Corporation"). Intercompany accounts and transactions have been eliminated.

2. Depreciation

The Company computes depreciation using the straight-line and accelerated methods, based on the estimated useful lives of the depreciable assets, as follows:

Buildings	40 years
Machinery and equipment	3 - 7 years
Furniture and fixture	5 - 10 years
Leasehold improvements	Life of the improvement or the lease term, whichever is shorter

3. Research and Development

All research and development costs are charged to expense when incurred. The costs of materials, equipment and facilities that are constructed or acquired for development activities and that have alternative future use are capitalized and depreciated over their estimated useful lives.

4. Contract Revenue and Cost Recognition

The Company recognizes revenue from fixed-priced contracts on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. That method is used because management considers total cost to be the best available measure of progress on the contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that estimates used will change in the near term.

Cost of sales includes all direct material and labor costs and those related to contract performance, such as indirect costs related to contract performance, such as indirect labor, supplies, tools, etc. 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 may result in revisions to cost, and income, which are recognized in the period in which revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions and change orders are accounted for as changes in estimates in the current period.

5. Joint Venture Agreement

On February 18, 1991, Alpha Solarco Inc. of Ohio entered into a joint venture agreement with Sun Power Systems Ltd. ("Sun"), a Hong Kong based trading company and Qinhuangdao Electronic Transistor Manufacturing Plant ("QHD"), a business entity operating in the Peoples Republic of China, for the formation of a Chinese joint-venture company called Qinhuangdao Alpha Solar Power Co., Ltd. (the "Chinese Joint Venture Company").

Under the terms of the Joint Venture, QHD owns a 60% equity interest in exchange for a cash capital contribution of \$2,400,000; Alpha Ohio owns a 35% equity interest in exchange for an in-kind contribution of \$650,000 in the form of equipment, and \$750,000 in the form of technology transfer, and Sun owns 5% equity interest in exchange for a nominal in kind contribution of \$200,000.

Alpha Ohio's contribution involves two components. The first component of Alpha Ohio's contribution relates to a separate Technology Transfer Agreement (i.e., license) with the Chinese Joint

venture Company. Under this agreement, a \$1,000,000 lump sum non-refundable advance royalty is established. Alpha Solarco, however, has contractually agreed to accept on \$250,000 of this amount, with other \$750,000 constituting a portion of Alpha Ohio's \$1,400,000 total contribution to the Chinese Joint Venture Company.

The Technology Transfer Agreement also provides for continuing royalties payable over a 15-year term of \$.05 per watt of electrical generating capacity of products manufactured by the Chinese Joint Venture during the First year, \$.03 per watt in the second year, \$.02 per watt in the third year, and \$.01 per watt thereafter. Continuing revenues from the Chinese Joint Venture Company are also expected to be generating through sales to it of certain key components necessary for production, as well as additional equipment and tooling for possible future expansion.

The second component is a separate Turnkey Manufacturing Agreement under which Alpha Ohio will sell the necessary equipment to the Chinese Joint Venture Company for an aggregate selling price of \$2,800,000; Alpha Ohio will accept \$2,150,000 cash for this equipment, and the remaining \$650,000 of the price will constitute the remaining portion of Alpha Ohio's in-kind capital contribution to the Chinese Joint Venture Company. The \$2,150,000 cash purchase price is payable to Alpha Ohio (by confirmed letter of credit) as equipment is delivered.

Under generally accepted accounting principles, the company will not be able to recognize any investment attributable to its in-kind capital contribution of \$1.4 million, except for its proportionate share (35%) of its basis in the tooling and equipment transferred to the Chinese Joint Venture Company.

#### 6. Notes Payable

Notes payable represent amounts due private investors of the Company who lent funds primarily to provide working capital to keep the companies operational and for the acquisition of AMG. The notes, which are unsecured, are repayable at various times during the next year and bear interest at rates upward to 10%.

#### 7. Uncompleted Contracts

In January, 1994, the Company entered into a manufacturing and sales contract with "Al Fandi Establishment For Trade, Industry, and Contracting" ("Al Afandi"), a Saudi Arabia Corporation. The contract calls for Alpha to provide to Al Fandi a solar manufacturing facility, in accordance with the terms of the contract, for a revised purchase price of \$4,662,347. Cost, estimated earnings, and billings on the contract are summarized below:

Cost incurred	\$2,483,429
Estimated earnings	1,955,491
	4,438,920
Billings to date	4,584,497
Billings in excess of contract revenues \$	145,577

#### 8. Leases

Prior to the end of fiscal 1994, the Company moved its operations to Phoenix, Arizona. In anticipation of the move, the Company entered into a one-year lease agreement expiring May 15, 1995 (extended to May 15, 1996) for its office and operations facility. The lease, which contains an option to renew for four successive one-year terms, requires monthly rental payments of \$8,437.

#### 9. Net Gain (Loss) Per Share

At its annual meeting on November 15, 1995, Alpha's shareholders approved a 1:100 reverse stock split. Net gain (loss) per share is based upon the weighted average shares of the Company's common stock outstanding during each year, after giving effect to the reverse stock split. Securities whose conversion, exercise or other contingent issuance have the effect of decreasing the loss per share amount for the periods have been excluded from the computation.

#### 10. Common Stock

During the three quarters ended February 29, 1996 changes in the number of shares outstanding were as follows:

Shares outstanding at May 31, 1995	109,146,060
Warrants exercised	86,701,510
Purchase of stock from shareholders	(2,942,756)
Less shares retained upon the default of pledged State Machine note	(1,858,418)
	-----
Shares outstanding before reverse stock split	191,046,396
	=====
Shares outstanding after 1:100 reverse stock split prior to rounding	1,910,464
Additional shares issued due to rounding	324
	-----
Shares outstanding after 1:100 reverse stock split	1,910,788
Warrants exercised	88,796
Shares issued through overseas private placement	550,000
	-----
Shares outstanding at February 29, 1996	2,549,584

ALPHA SOLARCO INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Quarter Ended February 29, 1996 as Compared to the Year ended May  
31, 1995.

On February 29, 1996, on a consolidated basis, Alpha Solarco has cash and short term investments of \$14,025 as compared to \$2,002 as of May 31, 1995. This change was a result of reduction accounts payables during the current fiscal year. Also on February 29, 1996 Alpha Solarco has shareholders' equity of \$1,243,218 and total assets of \$2,509,608 as compared to shareholders' equity of \$559,267 and total assets of \$2,442,750 as of May 31, 1995. This is primarily attributable to profits recognized on the Saudi contract and additional equity capital raised during the nine months ended February 29, 1996.

Normal overhead expenses will continue to burden Alpha Solarco and can be expected to decrease its liquidity. Consequently, Alpha Solarco has been seeking additional capital from various sources, including the exercise of stock options and warrants, contributions to capital and arranging new debt financing.

Accounts payable were \$666,190 and \$680,900 as of February 29, 1996 and May 31, 1995, respectively. This change was not unusual in the ordinary course of business.

Current notes payable were \$348,155 and \$698,823 as of February 29, 1996 and May 31, 1995, respectively. This decrease was primarily due to conversion of \$690,000 in notes payable to common stock, partially offset by additional loans incurred.

RESULTS OF OPERATIONS

Quarter Ended February 29, 1996 as Compared to the Quarter Ended  
February 28, 1995.

For the quarter ended February 29, 1996, Alpha Solarco recognized revenue of \$141,177 which is a result of net sales and other income. In the quarter the Al Afandi contract recognized approximately \$134,000. Alpha Solarco experienced a net loss of \$177,498 or \$.10 per share compared to a net loss for the same period one year earlier of \$451,070 or \$.05 per share, due primarily to work completed on the Saudi contract and reduced overhead spending.

The total consolidated costs and expenses for the quarter ended February 29, 1996 were \$318,675 compared to \$741,571 for the same period one year earlier. The change in cost and expenses is due to reduced overhead spending and reduced expenditures on the Saudi contract as it nears completion.



ALPHA SOLARCO, INC.

The financial information included herein is unaudited; however such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for interim periods.

ALPHA SOLARCO, INC.

SIGNATURES

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

ALPHA SOLARCO INC.

Date: April 10, 1996

/s/ Edward C. Schmidt  
Edward C. Schmidt, President

Date: April 10, 1996

/s/ Edward C. Schmidt  
Edward C. Schmidt, Treasurer

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