CleanTech Innovations, Inc.
Form POS AM
September 30, 2011

As filed with the United States Securities and Exchange Commission on September 29 , 2011

Registration No. 333-168385

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 2 TO
FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CLEANTECH INNOVATIONS, INC.
(Name of Registrant as specified in its charter)

Nevada	3490	98-0516425
(State or other jurisdiction of incorporation)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification No.)

C District, Maoshan Industry Park,
Tieling Economic Development Zone,
Tieling, Liaoning Province, China 112616
+(86) 0410-6129922
(Address and telephone number of principal executive offices and principal place of business)

Ms. Bei Lu
Chief Executive Officer
CleanTech Innovations, Inc.
C District, Maoshan Industry Park,
Tieling Economic Development Zone,
Tieling, Liaoning Province, China 112616
+(86) 0410-6129922
(Name address and telephone number of agent for service)

Copies to:
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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 smaller reporting company)	Smaller reporting company x

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the United States Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

EXPLANATORY NOTE

This registration statement constitutes Post-Effective Amendment No. 2 to Registration Statement No. 333-168385 filed previously by the registrant on Form S-1 and declared effective on November 19, 2010. Such post-effective amendment has been filed to update disclosure to include recent audited and unaudited financial statements and other information in response to certain comments made by the staff of the Securities and Exchange Commission and includes all of the common stock that was included on the original registration statement. All applicable registration fees were paid at the time of the original filing of the registration statement.

Table of Contents

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 29 , 2011

PROSPECTUS

CLEANTECH INNOVATIONS, INC.

2,771,932 Shares of Common Stock

The selling shareholders identified in this prospectus may offer and sell up to 2,771,932 shares of our common stock consisting of (i) 1,958,122 shares of our common stock issued to investors in the Units (as defined below), (ii) up to 813,810 shares of our common stock issuable upon exercise of warrants of which (a) warrants to purchase 480,478 shares of our common stock were issued to investors in the Units and (b) warrants to purchase 333,332 shares of our common stock were issued to placement agents and qualified finders in connection with the sale of the Units.

We are not selling any shares of our common stock in this offering and will not receive any proceeds from this offering. We may receive proceeds on the exercise of outstanding warrants for shares of common stock covered by this prospectus if the warrants are exercised for cash.

The selling shareholders may offer the shares covered by this prospectus at fixed prices, at prevailing market prices at the time of sale, at varying prices or negotiated prices, in negotiated transactions or in trading markets for our common stock. We will bear all costs associated with this registration.

Our common stock is quoted on the OTCQB under the symbol "CTEK." The closing price of our common stock on the OTCQB on September 27, 2011, was $.71 per share.

You should consider carefully the risk factors beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2011.

Table of Contents

TABLE OF CONTENTS

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, or the SEC. Under this registration process, the selling shareholders may, from time to time, offer and sell up to 2,771,932 shares of our common stock, as described in this prospectus, in one or more offerings. This prospectus provides you with a general description of the securities the selling shareholders may offer. You should read carefully this prospectus before making an investment decision.

You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with additional or different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the shares of our common stock offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances or any jurisdiction in which such offer or solicitation is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus regardless of the time of delivery of this prospectus or any sale of our common stock. The rules of the SEC may require us to update this prospectus in the future.

In this prospectus, the terms "CleanTech," the "Company," "we," "us" and "our" refer to CleanTech Innovations, Inc. and its subsidiaries.

Table of Contents

PROSPECTUS SUMMARY

The following summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our securities. Before deciding to invest in our securities, you should read this entire prospectus, including the discussion of “Risk Factors” and our consolidated financial statements and the related notes.

Our Company

We are a manufacturer of structural towers for megawatt-class wind turbines as well as other highly engineered metal components used in the energy industry and other industries in the People’s Republic of China, which we refer to as China or the PRC. We currently design, manufacture, test and sell structural towers for 1, 1.5 and 3-megawatt, or MW, on-land wind turbines, and believe that we have the expertise and manufacturing capacity to provide towers for higher-powered on-land and off-shore turbines. We currently are the only wind tower manufacturer within Tieling, Liaoning Province, which we believe provides us with a competitive advantage in supplying towers to the wind-energy-rich northern provinces of China. We also manufacture specialty metal products that require advanced manufacturing and engineering capabilities, including bellows expansion joints and connecting bend pipes used for waste heat recycling in steel production and in ultra-high-voltage electricity transmission grids, as well as industrial pressure vessels. Our products provide solutions for China’s increasing demand for clean energy.

We sell our products exclusively in the PRC domestic market. Our current wind tower customers include two of China’s five largest state-owned utilities, which are among the top wind farm operators in China as measured by installed wind capacity. We produce wind towers, a component of wind turbine installations, but do not compete with wind turbine manufacturers. Our specialty metal products are used by large-scale industrial companies involved mainly in the steel and coke, petrochemical, high-voltage electricity transmission and thermoelectric industries.

We were founded in September 2007 and have since experienced significant growth. For the year ended December 31, 2010, our net sales were $22.3 million, a 716% increase over the year ended December 31, 2009, and we had a 29% gross margin and a 19% net margin. For the six months ended June 30, 2011, our net sales were $10.12 million, a 501% increase over the six months ended June 30, 2010, and we had a 23% gross margin and a 7% net margin. Sales of our wind tower products have increased rapidly. As of June 30, 2011, we had shipped 241 wind towers, including towers for 3MW wind turbines, since first introducing these products in February 2010. Wind towers accounted for approximately 93% of our net sales for the year ended December 31, 2010, and approximately 60% of our net sales for the six months ended June 30, 2011. We expect a majority of our revenues to continue to come from sales of our wind towers.

We believe that our rapid growth will continue to benefit from the following competitive strengths:

- Strong customer relationships with leading utility and industrial companies;
- Geographical proximity to the multi-gigawatt pipeline of wind development projects in the northern provinces of China;
- Technically advanced, precision manufacturing expertise demonstrated, in part, by our Class III A2 grade pressure vessel manufacturing license, a key criterion in customer selection of wind tower suppliers;
- Proprietary product designs and intellectual property; and
- High-quality manufacturing, stringent testing, timely delivery and customer service.

Notwithstanding the recent increase in our net sales, we may experience payment delays and we do not recognize revenue until our products are delivered, tested and accepted by our customers. Our agreements with our customers generally provide for advance and partial payments of the purchase price to be due at agreed-upon milestones throughout the project duration, with the final 10% of the contractual amount to be paid up to 24 months after customer acceptance. Customer acceptance occurs after the customer receives and puts the product through quality inspection, a process that normally takes one to two weeks. Payments received prior to customer acceptance are recorded as unearned revenue. Payments may be received up to six months after their respective due dates, but we do not anticipate any significant credit risk because the majority of our customers are state-owned and publicly traded utilities and industrial companies in China.

Our headquarters are in Tieling, Liaoning Province, China, where we currently operate two production facilities with 17,246 square meters of combined production space. As of June 30, 2011, we had 293 full time employees.

Table of Contents

Our Industry

Wind power is the world's fastest-growing energy sector and China currently represents the world's largest market for wind products. Global installed wind capacity grew at a 22.5% compound annual growth rate, or CAGR, from 2000 through 2010 according to the Global Wind Energy Council, or the GWEC, "Global Wind 2010 Report," or the "GWEC 2010 Global Wind Report." In 2010, global installed wind capacity grew 23%, adding 35.8 gigawatts, or GW, and bringing total installed wind capacity to 194.4GW according to the GWEC 2010 Global Wind Report. China accounted for 46% of all newly installed wind capacity and 22% of total worldwide wind capacity, first among all countries, respectively, according to the GWEC 2010 Global Wind Report. Installed wind capacity within China grew at a 63.9% CAGR from 2000 through 2010 – more than double the overall global rate – and has been the largest annual market since 2009, according to the GWEC 2010 Global Wind Report. In 2010, the PRC domestic wind market grew 64%, adding 16.5GW of new capacity and bringing total installed wind capacity to 42.3GW, according to the GWEC 2010 Global Wind Report.

The PRC domestic wind market is expected to reach 200GW in installed capacity by 2020 according to the GWEC 2010 Global Wind Report. We believe that it costs approximately $1 billion to install 1GW of wind capacity in China, which would result in capital investments of approximately $200 billion by 2020 in new wind turbine installations, of which wind towers constitute approximately 15-20% of the costs, according to the World Wind Energy Association, or WWEA, "Wind Energy – Technology and Planning." Wind energy resources are widely distributed in China, with resource-rich areas concentrated in the three northern (northeast, north and northwest), southeast coastal and inland regions. According to Zenith International Research, "Wind Power Capacity Analysis, February 25, 2009," or the "Zenith 2009 Wind Analysis," approximately 80% of all wind energy resources in China exists within the nine northern provinces of China, five of which are located within 500 miles of our manufacturing facilities.

Our History

We are a U.S. holding company with no material assets other than the ownership interests of our two wholly owned operating subsidiaries organized under the laws of the PRC – Liaoning Creative Bellows Co., Ltd. and Liaoning Creative Wind Power Equipment Co., Ltd., which we refer to as Creative Bellows and Creative Wind Power, respectively. Creative Bellows was incorporated on September 17, 2007, and is our wholly foreign-owned enterprise, or WFOE; Creative Bellows owns 100% of Creative Wind Power, which was incorporated on May 26, 2009. Creative Bellows provides the production expertise, employees and facilities to manufacture our wind towers, bellows expansion joints, pressure vessels and other fabricated metal specialty products. Creative Wind Power markets and sells the wind towers designed and manufactured by Creative Bellows.

We were incorporated in the State of Nevada on May 9, 2006, under the name Everton Capital Corporation, as an exploration stage company with no revenues and no operations, engaged in the search for mineral deposits or reserves. On June 18, 2010, in anticipation of the Share Exchange Agreement and related transactions described below, we changed our name to CleanTech Innovations, Inc. through a merger with our wholly owned, non-operating subsidiary established solely to change our name pursuant to Nevada law and authorized an 8-for-1 forward split of our common stock effective July 2, 2010. Prior to the forward split, we had 5,501,000 shares of our common stock outstanding, and, after giving effect to the forward split, we had 44,008,000 shares of our common stock outstanding. We authorized the forward stock split to provide a sufficient number of shares to accommodate the trading of our common stock in the OTC marketplace after the acquisition of Creative Bellows.

The acquisition of Creative Bellows was accomplished pursuant to the terms of a Share Exchange Agreement and Plan of Reorganization, dated July 2, 2010, as amended, or the Share Exchange Agreement. Pursuant to the Share Exchange Agreement, on July 2, 2010, we issued 15,122,000 shares of our common stock to the three owners of Creative Bellows and two of their designees in exchange for their agreement to enter into and consummate a series of transactions by which we acquired 100% of Creative Bellows. For accounting purposes, the Share Exchange Agreement and subsequent transactions were treated as a reverse acquisition and recapitalization of Creative Bellows because, prior to the transactions, we were a non-operating public shell and, subsequent to the transactions, the shareholders of Creative Bellows owned a majority of our outstanding common stock and exercise significant influence over the operating and financial policies of the consolidated entity.

Table of Contents

Our organizational structure as of the date of this prospectus is set forth in the following diagram:

Our principal offices are located at C District, Maoshan Industry Park, Tieling Economic Development Zone, Tieling, Liaoning Province, China 112616. Our phone number is (86) 0410-6129922 and our website address is www.ctiproduct.com. The information contained on our website is not a part of this prospectus.

Table of Contents

THE OFFERING

Common stock outstanding before the offering	24,982,822 shares
Common stock offered by selling shareholders	Up to 2,771,932 shares
Common stock to be outstanding after the offering	25,796,632 shares, assuming full exercise of the warrants
Use of proceeds	We will not receive any proceeds from the sale of the common stock. To the extent that the selling shareholders exercise all of the warrants covering the 813,810 shares of common stock issuable upon exercise of all of the warrants, we would receive $2,441,430 from such exercises. We intend to use such proceeds for general corporate and working capital purposes. See "Use of Proceeds" for a complete description.
OTCQB Symbol	CTEK
Risk Factors	The purchase of our common stock involves a high degree of risk. You should carefully review and consider the "Risk Factors" beginning on page 7.

The shares of our common stock offered by the selling shareholders identified in this prospectus were acquired by the selling shareholders through a private placement offering conducted by us. On July 12, 2010, we sold 1,958,122 Units to the selling shareholders at $3.00 per Unit for $10,000,000. Each Unit was offered and sold at a purchase price of $3.00 per Unit and consisted of one share of our common stock and a warrant to purchase 15% of one share of our common stock. All warrants are immediately exercisable, expire on the third anniversary of their issuance, subject to call provisions and entitle their holders to purchase one share of our common stock at $3.00 per share. All of the shares and warrants were issued to the selling shareholders prior to the filing of this registration statement in two private placement offerings exempt from registration under the Securities Act of 1933, as amended, or the Securities Act, under Regulation D and Regulation S promulgated thereunder. The private placement transactions both closed on July 12, 2010.

The above information is based upon 24,982,822 shares of our common stock outstanding as of September 27, 2011. This number excludes (i) 1,987,500 shares of our common stock issuable upon exercise of warrants issued in connection with a private placement offering conducted by us that closed on December 13, 2010, and outstanding as of September 27, 2011, and (ii) stock options outstanding as of September 13, 2011, to purchase 30,000 shares of our common stock. The warrants are immediately exercisable, expire on the fifth anniversary of their issuance and entitle their holders to purchase up to 1,987,500 shares of our common stock at $4.00 per share. The stock options expire on the third anniversary of their vesting date and entitle their holder to purchase 30,000 shares of our common stock at $8.44 per share.

Table of Contents

RISK FACTORS

Our business and an investment in our securities are subject to a variety of risks. The following risk factors describe the most significant events, facts or circumstances that could have a material adverse effect upon our business, financial condition, results of operations, ability to implement our business plan, and the market price for our securities. Many of these events are outside of our control. If any of these risks actually occurs, our business, financial condition or results of operation may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.

Risks Related to Our Business

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations, and our limited revenues may affect our future profitability.

We and our subsidiaries began operations for the production of fabricated metal specialty components in September 2007 and introduced our bellows expansion joints products and pressure vessels in the first quarter of 2009 and our wind tower products in the first quarter of 2010. Our limited history of designing and manufacturing these fabricated metal specialty components may not provide a meaningful basis on which to evaluate our business. Moreover, we have limited revenues and we cannot assure you we will be able to expand our business and gross revenue with sufficient speed to maintain our profitability and not incur net losses in the future. While we expect our operating expenses to increase as we expand, any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at an early stage of development, including our potential failure to:

- expand our product offerings and maintain the high quality of our products;
- manage our expanding operations, including the integration of any future acquisitions;
- obtain sufficient working capital to support our expansion and to fill customers' orders in time;
- maintain adequate control of our expenses;
- maintain our proprietary technology;
- implement our product development, marketing, sales, and acquisition strategies and adapt and modify them as needed; and
- anticipate and adapt to changing conditions in the wind power, steel, petrochemical and thermoelectric industries as well as the impact of any changes in government regulation, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

Our inability to manage successfully any or all of these risks may materially and adversely affect our business.

Our plans for growth rely on an increasing emphasis on the wind power industry; this sector faces many challenges, which may limit our potential for growth in this new market.

Our principal plan for growth is to manufacture wind towers for the PRC domestic wind power industry. Approximately 93% of our net sales were from sales of our wind towers for the year ended December 31, 2010, and approximately 60% of our net sales were from sales of our wind towers for the six months ended June 30, 2011. We expect a majority of our future revenues and earnings to come from sales of wind towers for the wind power industry in China.

The wind power industry sector in China faces many challenges as it expands, including a reliance on continued PRC government environmental and energy conservation policies and incentive programs, which are one of the industry's major growth drivers. Wind power currently accounts for a small percentage of the power generated in China, and the existing power grid and transmission system lags behind existing and planned wind power plant construction. Furthermore, the wind power industry is generally not competitive without government incentive programs and initiatives because of the relatively high generation costs for wind power compared to most other energy sources. The current government incentive programs and initiatives include a feed-in tariff paid to wind power producers by grid utility companies, a mandatory obligation for grid utility companies to purchase all the electricity generated by renewable energy projects within its grid coverage, preferential tax treatment and government spending and grants for renewable energy programs. Most of our customers are highly dependent on these government incentives, initiatives and other favorable policies to support their operations. There can be no assurance that PRC government support of the wind power industry will continue at its current level or at all, and any decrease or elimination of government incentives currently available to industry participants may result in increased operating costs incurred by our current customers or discourage our potential customers from purchasing our products.

Table of Contents

Our ability to market to this industry segment is dependent upon both an increased acceptance of wind power as an energy source in China and the industry's acceptance of our products. We cannot assure you that we will be able to continue to develop this business successfully, however, and our failure to develop the business further will have a material adverse effect on our overall financial condition and the results of our operations. Additionally, any uncertainties or adverse changes in government incentives, initiatives or policies relating to the wind power industry will materially and adversely affect the investment plans of our customers and consequently our growth.

Contracts for wind power projects in China are awarded through competitive public bids and there is no assurance that we will be asked to bid on new projects or that we will win these bids.

Utilities in China award contracts for wind towers on a competitive basis. We generally become aware of upcoming projects by region as disclosed in annual NDRC wind development plans and through our customer relationships. Utilities disclose specific requests for proposals publicly via the Internet when they are prepared to accept bids. As a precursor to bidding, suppliers like us generally must have an existing relationship with the utility and a license to manufacture Class III A2 grade pressure vessels, which is often a specific requirement to bid on wind tower contracts. A substantial deposit based upon contract amount, typically around $125,000, is required for each bid, and is returned to the bidder approximately three months following bid submission. This process is designed to ensure that only companies with sufficient manufacturing capacity and capitalization bid on projects. It is our experience that typically three to six companies bid per contract. Competitive factors on wind tower bids include price, geographical proximity of the manufacturer to the wind power project, prior purchaser experience with the manufacturer and manufacturer reputation for quality and on-time delivery.

We may not be successful in future bids and may fail to obtain new projects as a result. We believe we remain competitive in our pricing and delivery schedules for wind towers, but we cannot assure you our competitors will not underbid us. If we are unable to maintain good relationships with the utilities, we may not be allowed to participate in the bidding process on new projects. Our license to manufacture Class III A2 grade pressure vessels expires in January 2013. If we are unable to renew our license, we may not be able to bid on new wind tower contracts. Furthermore, we must maintain sufficient capital for the deposits made in connection with our bids, which may limit our ability to use our working capital. To the extent we are unsuccessful in our bids to provide wind towers to new wind power projects, our future growth may be materially and adversely affected.

We derive a substantial part of our revenues from several significant customers. If we lose any of these customers or they reduce the amount of business they do with us, our revenues may be adversely affected.

We generate significant revenues from a limited number of customers. Our four largest customers accounted for approximately 88% of net sales for the year ended December 31, 2010, and our largest customer accounted for approximately 31% of net sales for the year ended December 31, 2010. Our three largest customers accounted for approximately 68% of net sales for the six months ended June 30, 2011, and our largest customer accounted for approximately 37% of net sales for the six months ended June 30, 2011. These customers may not maintain the same volume of business with us in the future. If we lose any of these customers or they reduce the amount of business they do with us, our revenues and profitability may be adversely affected. We do not foresee relying on these same customers for revenue generation as we introduce new product lines and new generations of existing product lines because we expect our customers to change with each large-scale project. We cannot assure you, however, that we will be able to introduce successfully new products for large-scale projects in the future.

Additionally, many customers of our bellows expansion joints and pressure vessels purchase these products as part of their capital budget. As a result, we are dependent upon receiving orders for these products from companies that are either expanding their business, commencing a new business, upgrading their capital equipment or otherwise require capital equipment. Our business for our bellows expansion joint and pressure vessel products is therefore dependent upon both the economic health of our customers’ industries and our ability to offer products that meet regulatory requirements, including environmental requirements, of such industries and are cost justifiable, based on potential regulatory compliance and cost savings in using our equipment in contrast to existing equipment or equipment offered by others. Any economic slowdown can affect all purchasers and manufacturers of capital equipment, and we cannot assure you that our business will not be significantly impaired as a result.

Table of Contents

If we lose our key personnel, or are unable to attract and retain additional qualified personnel, the quality of our services may decline and our business may be adversely affected.

We rely heavily on the expertise, experience and continued service of our senior management, including our Chief Executive Officer, Bei Lu. Loss of her services could adversely affect our ability to achieve our business objectives. Ms. Lu is a key factor in our success at establishing relationships with the major utility and industrial companies using our products because of her industry experience and reputation. The continued development of our business depends upon the continued employment of Ms. Lu. We currently do not have an employment agreement with Ms. Lu, and her standard labor contract does not include provisions for non-competition or confidentiality. Ms. Lu, who owns approximately 37.96% of our outstanding common stock as of June 30, 2011, has entered into a lockup agreement with us prohibiting her sale to the general public of all shares of our common stock held currently or acquired in the future until December 15, 2013, except in the event of a change of control or sale of our company.

We believe our future success will depend upon our ability to retain key employees and our ability to attract and retain other skilled personnel. The rapid growth of the economy in China has caused intense competition for qualified personnel. We cannot guarantee that any employee will remain employed by us for any period of time or that we will be able to attract, train or retain qualified personnel in the future. Such loss of personnel could have a material adverse effect on our business and company. Furthermore, we need to employ additional personnel to expand our business. Qualified employees are in great demand and may be unavailable in the time frame required to satisfy our customers' requirements. There is no assurance we will be able to attract and retain sufficient numbers of highly skilled employees in the future. The loss of personnel or our inability to hire or retain sufficient personnel at competitive rates could impair the growth of our business.

We may not be able to keep pace with competition in our industry.

Our business is subject to risks associated with competition from new or existing industry participants who may have more resources and better access to capital. Many of our competitors and potential competitors may have substantially greater financial and government support, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we do. Among other things, these industry participants compete with us based upon price, quality, location and available capacity. We cannot be sure we will have the resources or expertise to compete successfully in the future. Some of our competitors may also be able to provide customers with additional benefits at lower overall costs to increase market share. We cannot be sure that we will be able to match cost reductions by our competitors or that we will be able to succeed in the face of current or future competition. In addition, some of our customers are also performing more manufacturing services themselves. We may face competition from our customers as they seek to become more vertically integrated.

We currently are the only wind tower manufacturer in Tieling, Liaoning Province. Our competitive advantage in the region based on location would be harmed if a competitor established wind tower manufacturing facilities in or around Tieling.

We will face different market dynamics and competition as we develop new products to expand our target markets. In some markets, our future competitors would have greater brand recognition and broader distribution than we currently enjoy. We may not be as successful as our competitors in generating revenues in those markets due to the lack of recognition of our brand, lack of customer acceptance, lack of product quality history and other factors. As a result, any new expansion efforts could be more costly and less profitable than our efforts in our existing markets.

If we are not as successful as our competitors are in our target markets, our sales could decline, our margins could be impacted negatively and we could lose market share, any of which could materially harm our business.

9

Table of Contents

Our products may contain defects, which could adversely affect our reputation and cause us to incur significant costs.

Despite testing by us, defects may be found in existing or new products. Any such defects could cause us to incur significant return, exchange and re-engineering costs, divert the attention of our engineering personnel from product development efforts, and cause significant customer relations and business reputation problems. Any such defects could force us to undertake a product recall program, which could cause us to incur significant expenses and could harm our reputation and that of our products. If we deliver defective products, our credibility and the market acceptance and sales of our products could be harmed.

The nature of our products creates the possibility of significant product liability and warranty claims, which could harm our business.

Material failure of any of our wind towers, bellows expansion joints or pressure vessels would have a material adverse effect on our business. Customers use some of our products in potentially hazardous applications that can cause injury or loss of life and damage to property, equipment or the environment. In addition, some of our products are integral to the production process for some end-users and any failure of our products could result in a suspension of operations. Although we perform testing on our products prior to delivery, we cannot be certain our products will be free from defects. Our wind towers are designed to exceed the entire expected life of their wind turbine installation, typically 20 years, but we cannot assure you of the operational life of our wind towers or their medium to long-term performance and operational reliability.

We do not have any product liability insurance and may not have adequate resources to satisfy a judgment in the event of a successful claim against us. While we have not yet experienced any product liability claims against us, as a result of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the impact of any resulting negative publicity on our business. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments.

We do not accrue any warranty reserve on our bellows expansion joints or pressure vessels products. Moreover, we have no historical basis on which to establish a reserve because of our limited operating history and lack of warranty expense since we began production.

We offer a warranty on our products to each of our customers to repair or replace any defective product during the warranty term, which is a negotiated term of up to 24 months from the customer acceptance date, but currently we record no reserve for warranty claims on our bellows expansion joints or pressure vessels products, only for our wind tower products. Warranty expense accrual is a company estimate of future warranty claims based primarily on testing and quality control procedures with consideration also given to the history of prior warranty claims and our abbreviated operating history. We maintain a warranty reserve of 0.5% of net sales of our wind tower products. Although we have not and do not currently intend to accrue warranty expense for our bellows expansion joints and pressure vessels products, if we incur warranty claims in the future, we would be required to make a reserve for warranty expense.

Certain raw materials used to manufacture our products make up a significant portion of the cost of those products, and price changes for these commodities may adversely affect our profitability.

Our largest raw material purchases consist of stainless steel and carbon steel. As such, fluctuations in the price of steel in the PRC domestic market will have an impact on our operating costs and related profits. International and PRC domestic steel prices have increased since 2009 along with the general economic recovery in China. The iron ore import price in China has also increased since 2009, which will impact the price and volume of steel produced by the

PRC domestic steel industry.

Our profitability depends in part upon the margin between the cost to us of raw materials and our fabrication costs associated with converting such raw materials into assembled products, as compared to the selling price of our products. We do not engage in hedging transactions to protect against raw material price fluctuations. It is our intention to base the selling prices of our products in part upon the associated raw material costs to us. However, we may not be able to pass through to our customers all increases in raw material costs and ancillary acquisition costs associated with taking possession of the raw materials. Although we are currently able to obtain adequate supplies of raw materials, it is impossible to predict future availability or pricing. Our inability to offset price increases of raw materials with sufficient product price increases, or our inability to obtain raw materials, would have a material adverse effect on our consolidated financial condition, results of operations and cash flows.

Table of Contents

Our business is seasonal and will become more seasonal as the wind power industry becomes a larger part of our business.

Our business is subject to seasonal fluctuations in sales volumes because we sell products that are installed outdoors and, consequently, weather conditions may affect demand for our products. Sales of our wind towers to the wind power industry in the northern provinces of China are affected by seasonal variations in both weather and customer operations. Customers generally request delivery during the second, third and fourth calendar quarters when the weather conditions in the northern provinces of China, where our manufacturing facilities and our customers' wind farms are located, are more favorable for the installation of wind towers by the customer. Utilities typically place requests for proposals for new wind tower contracts in the fourth and first calendar quarters according to their internal operational schedules and annual budget requirements. In order to satisfy delivery schedules under these contracts, we manufacture most of our wind towers during the second and third calendar quarters for delivery in the second, third and fourth calendar quarters. As we expect the majority of our future revenues and earnings will be from the sale of wind towers to the wind power industry in China, our business will become more affected by the industry's seasonal variations.

If we are not able to manage our rapid growth, we may not be profitable.

Our business has undergone rapid growth since we commenced production in early 2009. For the year ended December 31, 2010, our net sales were $22.3 million, a 716% increase over the year ended December 31, 2009. For the six months ended June 30, 2011, our net sales were $10.12 million, a 501% increase over the six months ended June 30, 2010. Our continued success will depend on our ability to expand and manage our operations and facilities. There can be no assurance we will be able to manage our growth, meet the staffing requirements for our business or successfully assimilate and train new employees. In addition, to manage our growth effectively, we may be required to expand our management base and enhance our operating and financial systems. If we continue to grow, there can be no assurance that the management skills and systems we currently have in place will be adequate. Moreover, there can be no assurance we will be able to manage any additional growth effectively. Failure to achieve any of these goals could have a material adverse effect on our business, financial condition or results of operations.

We may need additional capital to execute our business plan and fund operations and may not be able to obtain such capital on acceptable terms or at all.

In connection with the rapid development and expansion of our business, we expect to incur significant capital and operational expenses. Management anticipates that our existing capital resources, cash flows from operations, the proceeds from our recent private placements and current short-term bank loans will be adequate to satisfy our liquidity requirements for the next 12 months. However, if available funds are not sufficient to meet our plans for expansion, current operating expenses and loan obligations as they come due, our plans include considering pursuing alternative financing arrangements. Our ability to obtain additional capital on acceptable terms, or at all, is subject to a variety of uncertainties, including:

- investors' perceptions of, and demand for, companies in our industry;
- investors' perceptions of, and demand for, companies operating in China;
- conditions in the United States and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- governmental regulation of foreign investment in companies in particular countries;
- economic, political and other conditions in the United States, China and other countries; and
- governmental policies relating to foreign currency borrowings.

11

Table of Contents

We may be required to pursue sources of additional capital through various means, including joint venture projects and debt or equity financings. There is no assurance we will be successful in locating a suitable financing transaction in a timely fashion or at all. In addition, there is no assurance we will obtain the capital we require by any other means. Future financings through equity investments are likely to be dilutive to our existing shareholders. Also, the terms of securities we may issue in future capital transactions may be more favorable for our new investors. Newly issued securities may include preferences or superior voting rights, be combined with the issuance of warrants or other derivative securities, or be the issuances of incentive awards under equity employee incentive plans, which may have additional dilutive effects. Furthermore, we may incur substantial costs in pursuing future capital and financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition.

If we cannot raise addi