

# EAAAS



# CLEAN ENERGY FUTURE



## DEAR FELLOW STOCKHOLDERS,

On Earth Day in April 2021, we announced that we were changing our name from Capstone Turbine Corporation to Capstone Green Energy (Nasdaq: CGRN). This was much more than a simple name change or a new ticker symbol. It was in direct response to the evolving clean energy markets and the shifting energy landscape. Since the announcement, Capstone has accelerated our shift into our fastest growing business line, Energy-as-a-Service, or EaaS, to become a global partner in carbon reduction and on-site resilient green energy solutions, which is our fundamental strength.

## GREEN PRODUCTS & SERVICES

Our world-leading microturbine-based energy technology is resilient and highly efficient with ultra-low emissions at approximately 1/10 the raw stack emissions of traditional engine-based technologies. These microturbines have efficiencies as high as 90% in combined heat and power (CHP) applications, making us a green solution provider even when running on fossil fuels. However, the microturbines are even greener when we power our systems with renewable natural gas, biogas, or a hydrogen blend. For maximum environmental benefit, we can also combine our unique energy efficiency product with battery storage and solar photovoltaics (PV).

Capstone's mission is to improve energy efficiency around the world while simultaneously reducing global emissions of pollutants and greenhouse gases. Our systems help our customers improve their impact on the environment while still meeting power and reliability needs. Not only do we enable customers to reduce CO<sub>2</sub> and other emissions, but we also apply the same guidelines to our own environmental impact by focusing on our energy consumption, waste disposal, and carbon footprint.

## ENERGY-AS-A-SERVICE

Energy-as-a-Service, or EaaS, is a delivery model that combines hardware, software, and services. Solutions combine demand management and energy efficiency services, facilitate the adoption of low emission technologies and other decentralized supply sources, and optimize the balance between demand and supply. The major benefit for the consumer is in the simplification of an increasingly multifaceted service offering. Capstone has begun to implement this model by growing our energy asset management business—our industry-leading Factory Protection Plan (FPP) service offering—as well as our long-term on-site energy system rental business.

Another key part of the strategy we launched last year was the addition of several new business lines, product offerings, network partners, and supplemental services as part of this holistic business transition. Our EaaS business provides a lower cost and reduction in carbon footprint for on-site energy systems in our customers energy-intensive businesses like hospitality, commercial, industrial, cannabis, and cryptocurrency mining. The ability to add clean energy CHP or a microgrid system with no up-front capital cost with as little as a 1-year commitment is a highly competitive and attractive offering for many of our customers seeking cleaner solutions without compromising resilience and reliability.

Capstone is focused on growing the EaaS business model because it provides significantly higher margins, more constant and predictable revenue streams, and allows for a more streamlined staffing model than a traditional industrial manufacturing company. As part of this growth strategy, the Company was able to reduce operating





Seven propane-fueled microturbines produce 1-million kWh of electricity annually and over a billion BTUs in hot water for Magen's Junction, an affordable housing development in St. Thomas.

**The EaaS business model will drive more consistent quarter-to-quarter positive adjusted EBITDA outcomes through our higher-margin and recurring revenues.**

costs and modify the operating model while expanding the EaaS business. In February, we embarked on an expense reduction plan, which, when fully implemented, will support and help achieve Capstone's goal of reaching consistent quarterly positive adjusted EBITDA on a recurring basis which we have not previously achieved.

Management is making the necessary changes to increase Capstone's profitability through the alignment of our current cost structure with our higher-margin EaaS business. While Capstone has achieved positive adjusted EBITDA in the past, the EaaS business model will drive more consistent quarter-to-quarter positive adjusted EBITDA outcomes through our higher-margin and recurring revenues.

These bold new actions are designed to better serve our customers who are looking to outsource their energy requirements while also lowering their energy costs, increasing resiliency, and reducing emissions.

### **CLEAN ENERGY LANDSCAPE**

The clean energy landscape continues to evolve worldwide as companies respond to global climate change and rising pressure from shareholders and consumers to make real progress in this area. Large institutional investors such as BlackRock and Vanguard support the claim that avoiding climate-related damages will help the economy and improve investor financial returns. Many of the world's largest economies, including the United States, Europe, Australia, Japan, Korea, and Columbia, favor climate-friendly technologies to help grow the post-COVID-19 economy.

In the disruption economy, the most successful companies are those that view business through the lens of the customer. Innovative companies like Capstone are embracing this shift, challenging the status quo, and restructuring traditional industries like energy through the use of technology.

According to a recent Nielsen study, 73% of consumers say they would likely change a behavior to reduce their impact on the environment, and eco-aware mindsets and behavior adaptation have only increased in recent years. Sustainable and ethical business practices are the second-highest reason consumers return to a brand, and only "product quality" scores higher, according to a CGS 2019 U.S. Consumer Sustainability Survey.

The SEC recently proposed rule amendments requiring public companies to include certain climate-related information in their registration statements and periodic reports, including oversight and governance, material impacts (operational and financial), risk identification, and management. These are market realities that businesses are discovering they must respond to. The power generation industry is ripe for disruptions, and Capstone is poised to take advantage of this opportunity.

Added to this shifting landscape is the fact that the world is experiencing a rapid increase in extreme weather events ranging from hurricanes to wildfires, freak snow and ice storms, tornadoes, floods, and devastating droughts. Together, these forces call attention to the risks people believe they will ultimately personally face if nothing is done to address global climate change now.

### **CLEAN ENERGY GROWTH**

According to the International Renewable Energy Agency in 2020, the world added a record of more than 260 gigawatts of renewable electricity capacity, almost 50% more than in 2019. The U.S. was one of the biggest growth markets, the agency said, adding 29 gigawatts of capacity, nearly 80% more than the year before. At Capstone, we continue to see more and more opportunities to co-locate our microturbine solutions with other sources of green energy, including solar, wind, and battery storage, creating diversified microgrid solutions for our customers who are looking for power stability, resiliency, and predictability with a lower carbon footprint.

The U.S. now generates almost 20% of its electricity from renewable sources such as wind, solar, and hydropower, while nuclear accounts for another roughly 20%. The U.S. is targeting at least a 50% reduction in carbon emissions by 2030. Last year's new Bipartisan Infrastructure Law provides more than \$20 billion to establish a new U.S. Department of Energy (DOE) Office of Clean Energy Demonstrations to support technology demonstration projects in areas including clean hydrogen, carbon capture, grid-scale energy storage, small modular reactors, and more. The founding of this office represents a new chapter that builds on the DOE's long-standing position as the premier international driver for clean energy research and development, expanding the DOE's scope to fill a critical innovation gap on the path to net-zero emissions by 2050. Capstone's rich history of joint development with National Labs and the DOE positions us well to capitalize on this significant investment in these new technology demonstration projects.

According to Bloomberg, in 2020, global investment in the low-carbon energy transition totaled \$501.3 billion, up from \$458.6 billion in 2019 and just \$235.4 billion in 2010. Investments in clean energy are driving markets and consumer decision-making now, as opposed to being viewed as promising technologies of the future. These developments all bode well for Capstone and the focused EaaS and green energy innovation path we are on.

## THE RISE OF MICROGRIDS & CHP

Wind and solar alone cannot meet all the world's clean energy requirements and carbon reduction goals. Therefore, initiatives by governments worldwide to encourage the development of microgrids and high-efficiency combined heat and power systems will further drive the shift to a clean energy future. The global microgrid market is estimated to grow from \$24.6 billion in 2021 to \$42.3 billion by 2026 at a compound annual growth rate (CAGR) of 11.4% during that time. It is estimated that the Commercial and Industrial (C&I) markets for solar PV, battery storage, and CHP will grow the fastest over the next 5-10 years.

CHP systems can be deployed quickly, cost-effectively, and with few geographic limitations. Additionally, CHP can use a variety of fossil and renewable-based fuels, and it has been employed for many years, mostly in industrial, large commercial, and institutional applications.

CHP may not be widely recognized outside these industries and utility circles, but it has quietly been providing highly efficient electricity and process heat to some of the most vital applications worldwide. There is a tremendous opportunity to increase exposure and awareness of these proven systems for more widespread application.

We believe that the C&I market will see substantial growth for both microgrids with and without CHP. Multiple factors will drive such growth:

- First is the estimated 2x increase in demand for electricity from vehicle charging stations and electrification of C&I buildings;
- Second is the historically low number of new large-scale, fossil fuel-based generation projects thereby limiting reliable baseload utility generation;
- Third is the increasing utility kWh costs that we are seeing on a global scale as the cost of fossil fuel increases and more green energy is placed into the utility grid;
- Fourth is the expectation of overall higher consumer demand. These combined factors are expected to lead to higher kWh costs in the C&I market and will drive improved return on investment for on-site grid-alternative projects like Capstone offers;
- Lastly, it is estimated that 95% of C&I building rooftops are available to become distributed generation microgrid assets. Microgrids provide an attractive solution, particularly for companies whose CEOs are being pushed to deliver higher ESG scores and where Boards of Directors are adding pressure to achieve new carbon reduction targets.



**According to the International Renewable Energy Agency in 2020, the world added a record of more than 260 gigawatts of renewable electricity capacity, almost 50% more than in 2019.**



Commissioned by Capstone distributor, E-Finity Distributed Generation, the Magen's Junction installation is the largest combined heat and power (CHP) microgrid and the first of its kind in the U.S. Virgin Islands.





“  
**Capstone's  
microturbine-  
based systems  
can safely  
perform on  
30% hydrogen  
blended with  
natural gas  
without requiring  
costly hardware  
or software  
modifications.**  
”

## HYDROGEN PRODUCTS

In March 2022, Capstone announced that our partnership with the U.S. DOE – Argonne National Laboratory and the University of California, Irvine (UCI) has determined that Capstone's microturbine-based systems can safely perform on 30% hydrogen blended with natural gas without requiring costly hardware or software modifications. Leveraging these smart and strategic research partnerships means we will continue to push the limits of our core microturbine technology in preparation for global acceleration toward a hydrogen economy. These tests verified by Argonne and UCI show that our existing fleet of approximately 10,000 fielded power generation units, unmodified, can handle any blends currently being discussed for pipeline injection worldwide.

## CONCLUSION

As a result of our hard work and accomplishments in fiscal 2022, we enter fiscal 2023 well positioned as an EaaS provider of high efficiency, low emission power generation products that enable customers to lower their energy costs, increase their power resilience and reduce their carbon emissions. This

is at a time when the cost and reliability of utility-delivered power are becoming operational issues for many C&I customers and when the market is leaning on companies to do more to lower their environmental impact.

Capstone has worked to increase our total addressable market, or TAM, to an estimated \$11.7 billion and positioned ourselves for continued accelerating growth. In addition, the current market affords us an extremely compelling EaaS business model, which today accounts for approximately 50% of our revenue, with plans to grow it to 75% in the coming years.

Capstone is the answer for businesses that are ready for smart, practical green energy solutions to help add resiliency to their business, increase cost efficiencies, and lower their carbon footprint. The time to invest in green and sustainable products and services such as Capstone is right now.

In fiscal 2023, we will continue to pursue our goal of improving the global climate by providing world class, sustainable EaaS solutions.

We thank you for your continued support.

Sincerely,

**Robert C. Flexon**  
Chair of the Board

**Darren R. Jamison**  
President and Chief Executive Officer

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended March 31, 2022

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-15957

**CAPSTONE GREEN ENERGY CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

16640 Stagg Street,  
Van Nuys, California  
(Address of principal executive offices)

95-4180883  
(I.R.S. Employer  
Identification No.)

91406  
(Zip Code)

(818) 734-5300

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, par value \$.001 per share	CGRN	NASDAQ Capital Market
Series B Junior Participating Preferred Stock Purchase Rights		

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the shares of Common Stock of the registrant held by non-affiliates on September 30, 2021 was approximately \$51.7 million. As of July 11, 2022, there were 15,315,565, shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement relating to the registrant's 2022 annual meeting of stockholders are incorporated by reference into Part III of this report to the extent described therein.





**CAPSTONE GREEN ENERGY CORPORATION**

**FORM 10-K**

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## NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains or refers to certain statements that are not historical fact and are “forward-looking” statements as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. Words such as “expect,” “anticipate,” “should,” “believe,” “target,” “project,” “goals,” “estimate,” “potential,” “predict,” “may,” “will,” “might,” “could,” “intend” and variations of these terms and similar expressions are intended to identify these forward-looking statements, although not all forward-looking statements contain these identifying words.

These statements are based largely on our current expectations, estimates and forecasts and are subject to a number of risks and uncertainties, including those described in Part I, Item 1A, “Risk Factors” in this Annual Report on Form 10-K, which could cause actual results, performance and achievements to differ materially from those anticipated by these forward-looking statements. Furthermore, new risks may emerge from time to time and it is not possible for us to predict all risks, nor can we assess the impact of all factors on the business or the extent to which any factor, or combination of factors, may cause actual results, performance or achievement to differ materially from those contained in any forward-looking statements.

Forward-looking statements speak only as of the date when made and we undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Factors to consider when evaluating these forward-looking statements include, but are not limited to:

- the ongoing effects of the COVID-19 pandemic on our business, financial condition, results of operations and cash flows, and the fact that many of the other factors discussed below may be amplified by the COVID-19 pandemic and the restrictions that have been instituted as a result of the pandemic;
- the availability of credit and compliance with the agreements governing our indebtedness;
- risks related to our history of net losses and ability to raise additional capital and fund future operating requirements;
- the development of the market for and customer uses of our microturbines, including our Energy as a Service solutions;
- our ability to develop new products and enhance existing products;
- our ability to produce products on a timely basis in a high quality manner;
- availability of sources for and costs of component parts;
- competition in the markets in which we operate;
- operational interruption by fire, earthquake and other events beyond our control;
- federal, state and local regulations of our markets and products;
- usage of our federal and state net operating loss carryforwards;
- the financial performance of the oil and natural gas industry and other general business, industry and economic conditions applicable to us;
- changes to trade regulation, quotas, duties or tariffs, and sanctions caused by the changing U.S. and geopolitical environments, including the ongoing conflict between Russia and Ukraine;
- our ability to adequately protect our intellectual property rights; and
- the impact of pending or threatened litigation.

The above description of risks and uncertainties is by no means all-inclusive, but highlights certain factors that we believe are important for your consideration. For a more detailed description of risk factors, please refer to Part I, Item 1A, “Risk Factors” in this Annual Report on Form 10-K.

## PART I

### Item 1. Business.

#### Overview

Capstone Green Energy Corporation (“Capstone”, “We” or the “Company”) is a provider of customized microgrid solutions, on-site resilient green Energy as a Service (EaaS) solutions, and on-site energy technology systems focused on helping customers around the globe meet their environmental, energy savings, and resiliency goals. In April 2021, we added additional products to our portfolio and shifted our focus to four key business lines. Our Energy Conversion Products business line is driven by the Company’s industry-leading, highly efficient, low-emission, resilient microturbine energy systems offering scalable solutions in addition to a broad range of customer-tailored solutions, including hybrid energy systems and larger frame industrial turbines. Through our Energy as a Service business line, we offer rental solutions utilizing our microturbine energy systems and battery storage systems, comprehensive factory protection plan service contracts that guarantee life-cycle costs, as well as aftermarket spare parts. Our two emerging business lines are Energy Storage Products and Hydrogen Energy Solutions. Our Energy Storage Products business line designs and installs microgrid storage systems creating customized solutions using a combination of battery technologies and monitoring software. Through our Hydrogen Energy Solutions business line, we offer customers a variety of hydrogen products, including the Company’s microturbine energy systems. Because these are new offerings, Energy Storage Products and Hydrogen Energy Solutions revenue has been immaterial to date.

We develop, manufacture, market and service microturbine technology solutions for use in stationary distributed power generation and distribution networks applications, including energy efficient cogeneration combined heat and power (“CHP”), integrated combined heat and power (“ICHP”), and combined cooling, heat and power (“CCHP”), as well as renewable energy, natural resources, and critical power supply applications. Microturbines allow customers to produce power on-site in parallel with the electric grid or stand-alone when no utility grid is available. Several technologies are used to provide “on-site power generation” (also called “distributed generation”) such as reciprocating engine (also known as internal combustion engines), solar photovoltaic power (“PV”), wind turbines and fuel cells. Microturbines can be interconnected to other distributed energy resources to form “microgrids” (also called “distribution networks”) located within a specific geographic area and provide power to a group of buildings. For customers that do not have access to the electric utility grid, microturbines provide clean, on site power with fewer scheduled maintenance intervals and greater fuel flexibility than competing technologies. For customers with access to the electric grid, microturbines provide an additional source of continuous on-site power generation, thereby providing additional reliability and potential cost savings compared to the local utility. With our stand-alone feature, customers can produce their own energy in the event of a utility power outage and can use microturbines as their primary source of power for extended periods of time unlike traditional diesel standby generator sets. Because our microturbines also produce clean, usable heat energy, they provide economic advantages to customers that can benefit from the use of hot water, chilled water, air conditioning and steam. In addition, our microturbines have been used as battery charging generators for hybrid electric vehicles and to provide power to a vessel’s electrical loads in marine applications. Our microturbines are sold, installed and serviced primarily through our global distribution network. Together with our distributors, we offer new and remanufactured parts as well as a comprehensive factory protection plan through long-term service agreements ranging from 5 to 20 years. We also offer our microturbines for rent through our long-term rental program (which form a part of our EaaS business). In addition to our existing microturbine products, we offer additional energy conversion products in the form of Baker Hughes 5 MW, 12 MW, and 16 MW industrial gas turbines, where we will purchase and resell their product.

We offer microturbines designed for commercial, industrial, and onshore and offshore oil and gas applications with product offerings ranging from 30 kilowatts (“kW”) to one megawatt (“MW”) in electric power output, which can be deployed in arrays up to 10 MWs. Our microturbines combine patented air bearing technology, advanced combustion technology, sophisticated power electronics, and advanced software controls to form efficient and ultra-low emission electricity and cooling and heat production systems. Because of our air bearing technology, our microturbines do not require lube oil, grease, or traditional coolants. This means they do not require routine maintenance to change and dispose of lube oil, grease, or other liquid lubricants, as do the most common reciprocating engines.

We also manufacture and supply controllers that provide complete automated system control, including electrical load following and custom logic to protect against expensive local utility demand charges. These controllers include the legacy Capstone Logic Controllers (CLC) and the Capstone PowerSync family of system controllers.

Our microturbines can be fueled by various sources, including natural gas, propane, butane, various sour gases, renewable fuels such as renewable natural gas, landfill gas, biogas or digester gas, kerosene, diesel and biodiesel. Our microturbines are available with integrated unit mounted heat exchangers, making them easy to engineer and install in applications where hot water, chilled water, air conditioning and steam is desired. Alternative fuels, in particular hydrogen, are increasingly important and the Company recently released a commercial microturbine that can reliably run on a 30% hydrogen / 70% natural gas mix. This is a promising milestone on the development roadmap to 100% hydrogen solutions.

Our microturbines are sold primarily through distributors and Original Equipment Manufacturers (“OEMs”). Distributors purchase our products for sale to end users and also provide service, application engineering and installation support. Distributors also provide a variety of additional services, including engineering, application, and air permit support services in which the microturbines will be used, installation support of the products at the end users’ sites, commissioning the installed applications and providing post commissioning service, including a comprehensive FPP. Our distributors perform as independent value-added resellers. OEMs integrate our products into their own product solutions.

This Annual Report on Form 10-K (this “Form 10-K”) refers to our fiscal years ending March 31 as “Fiscal” years.

### **Initiative to Shift Towards Energy as a Service and Reduce Operating Costs**

In March 2022, we implemented an expense reduction plan and announced our efforts to reduce operating costs and modify our operating model to better match our expanding EaaS business. In order to implement the expense reduction plan, we undertook a holistic review of our operations, taking the growing EaaS business into account. Beginning on February 28, 2022, we furloughed 17 employees for a period of 120 days, eliminated the position of Chief Revenue Officer, held by Jim Crouse, effective April 15, 2022, instituted 15% temporary pay cuts for approximately 36 employees and 25% temporary pay cuts for members of our senior leadership team, among other actions.

We believe that the implementation of the expenses reduction plan will help better align our current cost structure to support our higher margin EaaS revenues, which serves customers that are looking to outsource their energy management, while also lowering energy costs.

### **Company Response to COVID-19**

In March 2020, we began to monitor the global effects of COVID-19, the worldwide spread of which led the World Health Organization (“WHO”) to characterize it as a pandemic on March 11, 2020. Thereafter, most U.S. states imposed “stay-at-home” orders on their populations to stem the spread of COVID-19. Of specific interest to us, stay-at-home orders were imposed in the state of California on March 20, 2020.

On March 23, 2020 we enacted a Business Continuity Plan in response to COVID-19. Beginning March 30, 2020, we furloughed 52 employees, leaving behind only staff deemed essential for day-to-day administrative operations for a minimum period of 45 days. Our senior leadership team volunteered to take a 25% temporary salary cut. In addition, 25 other top Company managers volunteered to take a similar 15% reduction in salary. Several employees returned to work June 1, 2020, most with the 15% voluntary salary cuts, with others scheduled to return in a staggered manner through to the end of September. Additionally, in March 2020, our board of directors (the “Board”) voted to take a temporary 25% reduction in base cash retainer in support of our Business Continuity Plan. As a result of the continued global economic slowdown due to COVID-19 and the associated decline in global crude oil prices, we eliminated 26 positions on June 1, 2020. During the period of March 30, 2020 to June 1, 2020, we had a limited production capability of new microturbine products but had pre-built approximately 5.9 MW of microturbine finished goods during March 2020 for shipment during this period of suspended production. On September 28, 2020 salaries were returned to 100% and remaining furloughed employees returned to work. Our vendor supply chain has been impacted by the pandemic; however, we have been able to maintain sufficient supply flow to continue operations as of the date hereof.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief and Economic Security (the “CARES Act”), which, among other things, outlines the provisions of the Paycheck Protection Program (the “PPP”). The Company determined that it met the criteria to be eligible to obtain a loan under the PPP because, among other reasons, in light of the COVID-19 outbreak and the uncertainty of economic conditions related thereto, the loan was necessary to support the Company’s ongoing operations. Under the PPP, the Company could obtain a U.S. Small Business Administration loan in an amount equal to the average of the Company’s monthly payroll costs (as defined under the PPP) for calendar 2019 multiplied by 2.5 (approximately 10 weeks of payroll costs). Section 1106 of the CARES Act contains provisions for the forgiveness of all or a portion of a PPP loan, subject to the satisfaction of certain requirements. The amount eligible for forgiveness is, subject to certain limitations, the sum of the Company’s payroll costs, rent and utilities paid by the Company during the eight-week period beginning on the funding date of the PPP loan.

On April 24, 2020, the Company closed on a PPP loan in the amount of \$2,610,200, which was transferred by the Company into an account dedicated to allowable uses of the PPP loan proceeds. On May 13, 2020, the Company repaid \$660,200 of the loan in accordance with the Fourth Amendment to the Note Purchase Agreement between the Company and Goldman Sachs Specialty Lending Group, L.P. In February 2021, the Company applied for forgiveness in full of the original balance of the PPP loan and the loan was forgiven in full on June 30, 2021. The Company received a refund of \$660,200 and recorded these amounts within other income on the Company’s Consolidated Statements of Operations.

Despite the introduction of COVID-19 vaccines and improvements in the global economy as a whole during Fiscal 2022, the pandemic remains volatile and continues to evolve, including the emergence of variants of the virus, such as the Omicron variant. We will continue to assess our operations, considering the guidance of local governments and global health organizations.

## **Products**

Our 65 kW (“C65”) microturbine can produce enough heat to provide hot water to a 100 room hotel while also providing about one third of its electrical requirements. Our 200 kW (“C200”) microturbine is well suited for larger hotels, office, commercial and industrial buildings, and wastewater treatment plants, among others. By packaging the C200 microturbine power modules into single enclosures which are available in multiple sizes and are built in similar dimensions to a standard shipping container, we have created an upgradable family of microturbine offerings from 400 kW up to 1000 kW or 1 MW in a compact footprint engineered to function as a single source of power. Our 400 kW, 600 kW, 800 kW and 1000 kW (“C1000S Series”) microturbines are well suited for utility substations, larger commercial and industrial facilities and remote oil and gas applications. Our 600 kW and 800 kW systems can be shipped in a five-bay configuration which allows the end-use customer to add one to two more 200 kW microturbines in the future to increase their total onsite power production from 600 kW to 1000 kW without any change to the existing site footprint, as the customer’s business power demands expand over time.

Our microturbines are compact, lightweight and environmentally friendly generators of electricity and heat compared to competing technologies. They operate on the same principle as a jet engine using a variety of commercially available fuels. For example, our microturbines can operate on low British Thermal Unit (“BTU”) gas, which is gas with lower energy content, and can also operate on gas with a high amount of sulfur, known in the industry as sour gas. Examples of these fuel sources include methane from facilities such as wastewater treatment plants, landfills and anaerobic digesters. Our microturbines’ multi-fuel capability provides competitive advantages with respect to some of our selected vertical markets. The combustor system remains the same for all fuels except for the fuel injectors, which currently vary between liquid and multiple gaseous fuels.

Our microturbines incorporate four major design features: advanced combustion technology, patented air bearing technology, digital power electronics and proprietary remote monitoring systems.

- Our advanced combustion technology allows our microturbines to achieve low emissions. Our natural gas fueled C65, C200S and C1000S series microturbines were certified by the California Air Resources Board (“CARB”) as meeting its stringent 2007 emissions requirements—the same emissions standard used to certify fuel cells and the same emissions levels that a central power plant must satisfy. Our C65 and C200 Landfill and Digester Gas systems were certified by the CARB as meeting its 2008 waste gas

emissions requirements for landfill and digester gas applications. These low emission levels not only provide an environmentally friendly product, but also eliminate permitting requirements in several municipalities for continuously operated onsite power generation.

- Our patented air bearing system allows the microturbine's single moving assembly to produce power without the need for typical petroleum-based lubrication. Air bearings use a high pressure field of air rather than petroleum lubricants. This improves reliability and reduces maintenance such as oil changes.
- Our digital power electronics manage critical functions and monitor operations of the microturbine. Our electronic controls manage the microturbine's speed, temperature and fuel flow and communication with external networks and building management systems. The digital power electronics coordinate with the grid when the units are operated in a grid connect mode and with the onboard battery when equipped for standalone mode. The digital power electronics also include the functionality of seamless transfer capabilities, ensuring the end-users' critical loads do not experience any interruption to their operation in the event of a utility power outage. All control functions are performed digitally. Performance is optimized, resulting in low emissions, high reliability, and high efficiency over a variable power range.
- Our proprietary Capstone Remote Monitoring Software allows end users to operate and manage the microturbine remotely. This remote capability can provide end users with power generation flexibility and cost savings.

Our electronic controls manage microturbines using our proprietary software and advanced algorithms. The controls start the turbogenerator and manage its load, coordinate the functioning of the microturbine with the grid, manage the speed, fuel flow and exhaust temperature of the microturbine, convert the variable frequency, and provide digital communications to externally maintain and control the equipment.

The electrical output of our units can be paralleled in multiple unit configurations through our Advanced Power Server product and a digital communications cable to serve larger installations requiring electrical loads of up to ten megawatts. Our products can operate connected to the electric utility grid as a current source, on a standalone basis as a voltage source, multipacked to support larger loads as a "virtual single" unit and in dual mode, where the microturbine operates connected to the electric utility grid or operates independently.

We were the first microturbine manufacturer to achieve UL Class I, Division 2 certification and ATEX certification for operation in hazardous area oil and gas applications. These specially packaged systems are applied in oil and gas production areas with potentially explosive environments. Our C65, as well as our C200 and C1000 Signature Series grid connect and stand-alone microturbines are listed by Underwriters Laboratories ("UL") as meeting the UL 2200 stationary engine generator standards and the UL 1741 utility interconnection requirements.

Our C65 microturbine is certified by the California Energy Commission and were the first products to comply with the requirements of its "Rule 21" grid interconnection standard. This standard streamlines the process for connecting distributed generation systems to the grid in California. The benefits of achieving this standard include avoiding both costly external equipment procurement requirements and extensive site by site and utility by utility analysis. Our protective relay functionality has also been recognized by the State of New York, which allows our microturbines to be connected to New York's electric utility grid.

We offer various accessories for our products including rotary gas compressors with digital controls, integrated heat recovery modules for CHP applications, dual mode controllers that allow automatic transition between grid connect and stand-alone modes, batteries with digital controls for stand-alone or dual mode operations, power servers for large multipack installations, protocol converters for Internet access, packaging options and miscellaneous parts such as frames, exhaust ducting, backflow dampers and installation hardware.

In addition to our existing microturbine products, we offer additional energy conversion products in the form of Baker Hughes 5 MW, 12 MW, and 16 MW industrial gas turbines, where we will purchase and resell their product.

## Applications

Stationary power generation applications can vary greatly depending on load size and demand location. From small 2 kW back-up generators to several large 1,000 MW central generating facilities, stationary power systems can offer superior fuel efficiency for the customer while also meeting strict emissions regulations. Historically, power generation in developed countries such as the United States has been part of a regulated utility system. However, a number of developments related primarily to the deregulation of the utility industry as well as significant technology advances have helped to broaden the range of power supply options available to interested parties.

Our full line of microturbine energy solutions target multiple vertical markets worldwide, including energy efficiency, renewable energy, natural resources, critical power supply, microgrid and transportation. Within these vertical markets, we focus on applications that we believe have the greatest near-term potential for the customer based on various different factors such as energy load demand, available fuels, economic payback and for some, government incentives. The critical power supply, microgrid and transportation verticals do not currently generate significant revenues for us, however, we have experienced continued development in these verticals and remain focused on the development of applications in these verticals. We also target smaller sub segments that fall within these vertical markets that may not otherwise be considered for on-site generation.

### *Energy Efficiency—CHP/CCHP*

Energy efficiency refers to the proper utilization of both electrical and thermal energies in the power production process. In such applications, our microturbines are able to maximize the availability of usable energy which we believe provides a significant economic advantage to our customers while reducing their onsite emissions. CHP and CCHP can improve site economics by capturing the waste heat created from a single combustion process to increase the efficiency of the total system, from approximately 30 percent to approximately 85 percent for hot water and chilled water to as much as 90 percent or more for some steam and direct drying applications. Compared with more traditional, independent generation sources, the increase in operational efficiency also reduces greenhouse gas emissions through the displacement of other separate systems, which can also reduce operating costs.

When compared to onsite boilers, microturbines generally produce fewer commonly found air pollutants (“criteria pollutants”), such as nitrogen oxides (“NO<sub>x</sub>”), carbon monoxide (“CO”) and volatile organic compounds (“VOCs”). In fact, our CHP or CCHP system can displace local boiler emissions altogether. A high efficiency CHP or CCHP system can allow for reduced net utility costs for end users as well as improved fuel consumption. The most common uses for captured thermal energy include space heating and air conditioning, water heating and water chilling, direct-drying and steam for industrial applications. In CCHP applications, the microturbine exhaust drives an absorption chiller, which produces the chilled water necessary for air conditioning and local use. Organizations of all sizes have used the heat generated by our microturbines at the many different types of commercial and industrial applications they serve, including hotels and resorts, hospitals, and medical centers, as well as office buildings and large retail facilities.

During Fiscal 2022, we continued to expand and develop our new hydrogen products with the release of a commercially available hydrogen-based Combined Heat and Power (CHP) product, which can reliably run on a 30% hydrogen-70% natural gas mix. We are continuing our research and development partnership with Argonne National Laboratory and are already testing higher hydrogen blend configurations, with the goal of a 100% hydrogen microturbine. Argonne National Laboratory is a national science and technology research laboratory operated by the University of Chicago Argonne, LLC for the United States Department of Energy.

### *Renewable Energy*

There is a growing transition to renewable energy sources and technologies on a global scale. Our microturbines run efficiently on renewable fuels such as methane and other biogases from landfills, wastewater treatment facilities and renewable natural gas. They also run efficiently on other small biogas applications like food processing plants, livestock farms and agricultural green waste operations. Microturbines can burn these renewable fuels with minimal emissions, thereby, and in some cases, avoiding the imposition of penalties incurred for pollution while simultaneously producing electricity from this “free” renewable fuel source for use at the site or in the surrounding areas. Our microturbines have

demonstrated effectiveness in these smaller applications and may outperform conventional combustion engines in some situations, including when the gas contains a high amount of sulfur, as the sulfur can contaminate combustion engines lube oil leading to equipment breakdowns and higher lifecycle costs.

We offer C65 and C200 stand-alone digester products to the renewable energy market segment. With these products, we can target many different types of renewable energy applications, including biogas producing facilities in third world countries and in remote locations that offer a valuable fuel source for the generation of electricity. The performance of our C65 digester gas system has been routinely evaluated to ensure that the combustion system is stable from zero to 100 percent power output. Minor controls changes have been implemented to increase stability at low power levels. The ability to convert this low BTU fuel to electricity along with the high reliability and low maintenance features of this product make it well suited for this market segment.

#### *Natural Resources—Crude Oil, Natural Gas, Shale Gas & Mining*

Our microturbines are installed in the natural resource market for use in both onshore and offshore applications, including exploration, production, compression, and transmission sites as a highly efficient and reliable source of prime power. In some cases, these oil and gas or mining operations have no electric utility grid and rely solely on power generated onsite. There are numerous locations, on a global scale, where the drilling, production, compression and transportation of oil and gas and other extraction and production processes create fuel byproducts, which are traditionally burned or released into the atmosphere. Our microturbines can turn these fuel byproducts, flare gas or associated gas, into a useable fuel to provide power to these remote oil and gas sites.

The addressable market for our microturbines in the United States shale reserves industry is significant. The shale gas market for microturbines may grow as demand for natural gas continues to rise in the U.S. as the Environmental Protection Agency (“EPA”), the Department of the Interior and other federal and state agencies work to reduce the emission of hazardous air pollutants associated with natural gas development, including limitations on the flaring of excess gases. Our product sales in the natural resources market are driven by our microturbines’ reliability, emissions profile and ease of installation. However, any growth in the oil and gas sector within our natural resources market is primarily driven by oil prices.

The C65 and C200 microturbines can be configured to meet Class 1 Zone 2 hazardous location requirements for the natural resources market. Hazardous location requirements are met through package ventilation changes for purging and pressurizing package air to avoid potential flammable mixtures as well as controls for emergency disconnect of fuel and electrical sources. The package is upgraded to stainless steel construction to withstand the often corrosive offshore environments where these units are installed. Oil and gas customers often prefer power generation systems that offer low maintenance and high reliability in order to ensure continued production.

#### *Critical Power Supply*

Because of the potentially catastrophic consequences of system failure, momentary or otherwise, certain high demand power users, including high technology, health care and information systems facilities require higher levels of reliability in their power generation service. The majority of microturbine based distributed generation installations have powered through hurricanes with little or no downtime. To meet these customer requirements, traditional solutions utilize Uninterruptible Power Supplies (“UPS”) to protect critical loads from power disturbances along with back-up diesel generators for extended outages. We offer an alternative solution that can both meet customer reliability requirements and reduce operating costs.

We have developed the world’s only microturbine-powered UPS solutions that offer clean, IT grade power and can completely displace the need for traditional UPS and back-up diesel generators. We offer two UL listed microturbine powered UPS solutions: our Hybrid UPS microturbine-powered solution, which provides power when dispatched in high efficiency, standard UPS and emergency power. These integrated solutions are well suited for new facility construction or expansion and can be installed with absorption chillers or other heat recovery systems to obtain high efficiency levels while reducing operating costs, compared with traditional solutions.



Dual-mode units operating in a prime power configuration can support a 150 percent overload for up to 10 seconds during transient conditions. Dual-mode units operating in grid parallel mode can provide customers a back-up power system with an economic return. These systems offer high on-site energy efficiency when combined with a heat exchanger (CHP) to create hot water, or with a chiller (CCHP) for air conditioning at these facilities. This configuration, when combined with our Dual Mode Controller, can transition from the grid parallel mode to prime power mode in less than 10 seconds. Our microturbines can also be installed along with a rotary UPS to provide a complete line interactive continuous power solution. In this case, the microturbines remain in grid connect mode while the rotary UPS stabilizes the utility voltage and provides a seamless transfer from operation connected to the grid to operation isolated from the grid.

### *Microgrid*

A microgrid is a group of interconnected loads and distributed energy resources that acts as a single controllable energy entity with respect to the grid. Distributed energy resources typically include other dual-mode microturbines, reciprocating engines, PV, wind turbine, fuel cells and battery storage. Microgrids can be connected to larger electricity grids; however, in the event of a widespread outage, the microgrid will disconnect from the main grid and continue to operate independently to maintain the electricity supply to the homes and businesses that are connected to the microgrid's electricity network. Our microturbines have the ability to meet the needs of microgrid end-users by lowering their overall cost to operate and by providing a versatile dispatchable technology that is fuel flexible and scalable enough to fit a wide variety of applications.

Additionally, we have our own programmable logic control system and sensors, which interface with other building automation systems and are a key aspect of monitoring a microgrid. The use of microgrids to serve local loads helps to reduce energy losses in transmission and distribution, further increasing the efficiency of the microgrid. We have been a part of numerous successful microgrid installations worldwide ranging from a wind turbine manufacturer, ski resort, university, industrial farm, utility software company, brewery and electrical distribution utility. Our microturbines' functionality is to ensure energy availability for advanced microgrids before and during disasters, such as hurricanes. They may also help reduce electrical expenditures in the years following a disaster when electric utility rates may be increased to pay for the expenses for grid infrastructure repairs and improvements associated with these disasters.

### **Sales and Marketing**

We primarily sell and market our microturbine product, parts, and service through our global network of authorized distributors and our direct sales team, which focuses on OEMs and national accounts.

Our sales and marketing team operate as two separate organizations. Our marketing team is focused on developing and managing our existing worldwide distribution channel and leading all marketing and advertising activities as we continue building our Company into a strong and recognizable worldwide brand. Our direct solutions sale team is responsible for growing our Company's national account business and long-term rental fleet. Under the terms of the A&R Note Purchase Agreement with Goldman Sachs, we were required to grow our rental fleet to 21.1 MW by March 31, 2022. Our rental fleet was 21.1 MW as of March 31, 2022. We have continued to fulfill rental contracts beyond the 21.1 MW by renting unused equipment from our distributors and then re-renting them to our customers, and are looking at other solutions, including additional capital to continue to grow the rental fleet. Additionally, this team is responsible for business development, licensing, new product partnerships, and new fuels, such as hydrogen, and further growing our renewable market segment participation. We believe this sales strategy better enables us to capture market share with large, global customers, where we see greater potential at dozens of their facilities worldwide. Our existing distribution network remains our worldwide feet-on-the-ground and our local presence, while the internal salesforce will build strong, long-term relationships with larger, more diverse customers.

Our worldwide distribution network was developed from the ground up and has become a valuable asset, because we can reach end use customers globally. Each of our distributors is a strategically placed independent partner that markets, sells, and provides applications engineering support for our products on our behalf. In addition, distributors provide remote monitoring services, warranty support, local spare parts support, and customer training and long-term service support. Through our global distribution network, we offer a comprehensive factory protection plan ("FPP") for a fixed fee to perform regularly scheduled and unscheduled maintenance as needed. We provide factory and onsite training to certify all

personnel that perform sales, applications, commissioning, and long-term service on our microturbines. Individuals who are certified are called Authorized Service Providers and must be employed by a distributor or an end user in order to perform work pursuant to a FPP. To assure proper application and installation of our microturbine systems, we offer an installer training and an application engineering certification program. We offer to assist all customers by reviewing their installation designs in relation to the technical requirements for proper operation of our products, such as electrical interconnections, load requirements, fuel type and pressure, cooling air flow and turbine exhaust routing. As part of the microturbine commissioning process, we also receive a checklist to confirm that the final installation adheres to our technical requirements before we accept our standard manufacturer warranty obligations. Our typical terms of sale include shipment of the products with title, care, custody, and control transferring at our dock, payment terms ranging from full payment in advance of shipment to payment in 90 days, and warranty periods of approximately 15 to 24 months from shipment depending on the product type. We typically do not have customer acceptance provisions in our agreements.

Our Distributor Support System (“DSS program”) provides additional support for distributor business development activities, customer lead generation, brand awareness and tailored marketing services for each of our major geography and market verticals. This program is funded by our distributors and was developed to provide improved worldwide distributor training, online documentation library, paperless service software, sales efficiency, website development, company branding and funding for increased strategic business-to-business marketing activities.

## **Our Geographic Markets**

### *United States and Canada*

We have distribution agreements with several companies throughout North America for the resale of our products. Many of these distributors serve multiple markets in their select geographic regions. The primary markets served in this region have been energy efficiency, renewable energy, and natural resources products. The energy efficiency and natural resources vertical markets are expected to grow as a result of an increased domestic production of hydrocarbons, the low downstream price of natural gas, as well as public and regulatory acceptance of distributed generation.

In developing our sales opportunities, we have identified the need to address various requirements present in our target localities. These requirements include electric grid interconnection standards, gas utility connection requirements, emissions standards, building and fire safety codes and various inspections and approvals. The costs and scheduling ramifications of these various approvals, in conjunction with normal bidding process requirements and construction delays, can be significant to the completion of an installation. Our goal is to work with the applicable regulating entities to establish compliant standards for the installation of our microturbines so that the costs and installation timelines are minimized for our customers.

### *Latin America*

Our target markets in Latin America are energy efficiency, renewable energy, and natural resources. Oil and gas production projects continue to be a growing market in Latin America.

Energy reform in Mexico, for example, has opened new market opportunities for us by allowing competition among multiple players and enabling power generation companies to sell directly to consumers instead of only to the state-owned Federal Electricity Commission. Our strategy is to leverage our distribution network in Mexico across various market verticals.

South America constitutes a diverse group of markets that vary greatly in potential capture for us based on several factors, including availability of oil and gas production and transmission, energy pricing and political and investment climate. While we have distributors in nearly all South American countries, management is focused on what we consider to be the top national markets, which include Colombia, Brazil, Bolivia, and Chile.

### *Asia and Australia*

Our target markets in Asia and Australia are energy efficiency, renewable energy, and natural resources. Our historical sales in Southeast Asia and Australia have primarily been in the energy efficiency and the oil and gas markets. Other areas in Asia and the Pacific Rim offer attractive opportunities as well. China is expected to see growth in the oil and gas market, while biogas recovery is showing signs of growth in Southeast Asia.

### *Middle East and Africa*

Our target market in the Middle East and Africa is primarily oil and gas. This includes flare gas to power projects which are a particularly attractive market opportunity given the volume of gas being flared and the need for stable power in the region. Management has targeted distributors and customers involved in the capture and use of flare gas in the oil and gas market. However, the geopolitical environment in this region is still volatile, which can have an impact on our sales.

### *Europe*

To address the European market, we are strengthening our relationships with existing and new distributors and have increased local sales and service support. We have an office in the United Kingdom for the purpose of working with our local distributors daily to identify and understand growth opportunities. We have upgraded our Integrated Remanufacturing Facility (IRF) in the United Kingdom to make new and remanufactured parts readily available to our distributors. Europe has a history of extensive use of distributed generation technologies. Following Russia's military invasion of Ukraine in February 2022, we re-evaluated our efforts in the Russian and the surrounding Commonwealth of Independent States (CIS) markets and have ceased exploring growth opportunities in such markets. We do however continue to evaluate customer orders and ensure that we are in compliance with all laws and regulations upon acceptance and before shipment. Due to the ongoing conflict between Russia and Ukraine, and the resulting economic impacts to the European and Russia region, we expect revenue in the region to be negatively impacted in Fiscal 2023.

### **Customers**

Sales to E-Finity Distributed Generation, LLC ("E-Finity"), our domestic distributor, accounted for 18% of our revenue for Fiscal 2022. Sales to Cal Microturbine ("CAL") and E-Finity, our domestic distributors, accounted for 15% and 12%, respectively, of our revenue for Fiscal 2021. Additionally, E-Finity accounted for 28% and 13% of net accounts receivable as of March 31, 2022 and March 31, 2021, respectively.

We recorded net bad debt expense of approximately \$1.1 million during Fiscal 2022 and a net bad debt recovery of approximately \$0.2 million during Fiscal 2021.

### **Competition**

The market for our products is highly competitive. Our microturbines compete with existing technologies such as reciprocating engines and compete with emerging distributed generation technologies, including solar-powered systems, wind-powered systems, fuel cells and other microturbines. Many potential customers rely on the utility grid for their electrical power. Many of our distributed generation competitors are large, well-established companies that derive competitive advantages from production economies of scale, worldwide presence, brand recognition and greater financial resources that they can devote to product development or promotion.

Often power purchased from the electric utility grid can be less costly than power produced by distributed generation technologies. Utilities may also charge fees to interconnect to their power grids. However, we can provide economic benefits to end users in instances where the waste heat from our microturbine has value (CHP and CCHP), where fuel costs are low (renewable energy/renewable fuels), where the costs of connecting to the grid may be high or impractical (such as remote power applications), where reliability and power quality are of critical importance, or in situations where peak shaving could be economically advantageous because of highly variable electricity prices. Because our microturbines

can provide a reliable source of power and can operate on multiple fuel sources, management believes we offer a level of flexibility not currently offered by other technologies such as reciprocating engines.

Our reciprocating engine competitors have products and markets that are well developed and technologies that have been proven for some time. A reciprocating engine, also known as an internal combustion engine, is similar to those used in automotive applications. Reciprocating engines are popular for primary and back-up power applications despite higher levels of emissions, noise, and maintenance. These technologies, which in many cases have a lower up front cost than microturbines, are currently produced by Caterpillar Inc., Cummins Inc. (which recently entered into a joint venture with Eaton), Innio (who recently bought the General Electric gas engine business, which now includes Waukesha and Jenbacher gas engines), MAN SE, and Tecogen, Inc. (which now includes American DG Energy Inc.), among others.

Our products may also compete with other distributed generation technologies, including solar-powered systems, wind-powered systems, fuel cells and fly wheel. Solar and wind powered systems produce no emissions and benefit from above market contracts provided by state mandates. The main drawbacks to solar and wind powered systems are that they may not be dispatchable because of their dependence on weather conditions, the utility grid or high capital costs that can often make these systems uneconomical without government subsidies depending upon geographic locale and application of the technology. Although the market is still developing, a number of fuel cell providers are also focused on markets similar to ours, including Active Power Inc. (a division of Piller Power Systems Inc.), Ballard Power Systems Inc., Bloom Energy Corporation, FuelCell Energy Inc., LG Fuel Cell Systems, a business unit of LG Electronics, and Plug Power Inc. Fuel cells have slightly lower levels of NO<sub>x</sub>, CO, VOCs and other criteria pollutant emissions than our microturbines. However, with equivalent government incentives, microturbines would provide a better economic value to end users in most applications.

We also compete with other companies that offer microturbine products, including FlexEnergy and Turbec S.p.A.

Overall, we compete with end users' other options for electrical power and heat generation on the basis of our product's ability to:

- provide power when a utility grid is not available or goes out of service;
- reduce total cost of purchasing electricity and fuel;
- improve electric power availability and provide high power quality;
- operate on multiple fuel types;
- reduce emissions (both criteria pollutants and greenhouse gases);
- simplify operation; and
- control maintenance costs and associated disposal of hazardous materials.

### **Governmental and Regulatory Impact**

Our markets can be positively or negatively impacted by the effects of governmental and regulatory matters. We have systems installed in 73 countries around the world, each of which has its own policies and regulatory framework, which are subject to change. We are affected not only by energy policy, laws, regulations and incentives of governments in the markets in which we sell, but also by rules, regulations and costs imposed by utilities. Utility companies or governmental entities may place barriers on the installation or interconnection of our product with the electric grid. Further, utility companies may charge additional fees to customers that install on-site power generation; thereby reducing the electricity they take from the utility, or for having the capacity to use power from the grid for back-up or standby purposes. These types of restrictions, fees or charges could hamper the ability to install or effectively use our product, or increase the cost to our potential customers for using our systems. This could make our systems less economical for our customers,

thereby adversely affecting our sales and ultimately our revenue and profitability. In addition, utility rate reductions can make our products less competitive which would have a material adverse effect on our operations. These costs, incentives and rules are not always the same as those faced by technologies with which we compete. However, rules, regulations, laws and incentives could also provide an advantage to our distributed generation solutions as compared with competing technologies if we are able to achieve required compliance in a lower cost, more efficient manner. Additionally, reduced emissions and higher fuel efficiency could help our customers combat the effects of climate change. Accordingly, we may benefit from increased government regulations that impose tighter emission standards particularly on burning coal and fuel oil and fuel efficiency as long as gas combustion technology solutions are not excluded.

Government funding can impact the rate of development of new technologies or improvements to existing technologies. We continue to engage with federal and state policymakers to support government programs that promote the deployment of our low emission and energy efficient products. Competing new technologies have historically received larger incentives and development funding than do microturbines. However, the U.S. Department of Energy continues to fund the development of cost-effective, high efficiency CHP that is responsive to site demands and grid requirements. Flexible CHP could provide additional generating capacity when grid demand increases or renewable resources are not available. As more intermittent renewable resources are added to the electric grid, grid operators need access to additional dispatchable generation capacity to ensure an adequate and stable power supply. Capstone's PowerSync controller could provide this automated response capability to allow for participation in grid services markets, where permitted. Our addition of battery energy storage products to our portfolio of solutions opens our customers' access to some of the higher incentives available to these technologies as well as allowing us to provide an integrated microturbine solution.

In the United States, a 10% Federal Investment Tax Credit ("ITC") for CHP and microturbines was extended and is now available through the end of 2023. In addition, bonus depreciation rules allow businesses to immediately deduct 100% of eligible property placed in service after September 27, 2017 and before January 1, 2023. The deduction percentage will phase down from 100% to 0% by 2027. As a result, we may see a positive impact on our sales in the United States due to the availability of these tax incentives. However, other CHP and gas-powered distributed energy technology-providers will also benefit from the return of these tax incentives, and fuel cell technologies will receive a 26% ITC level with a phase down to 22% by 2023 and expiration in 2024. At the state level, slow approvals for natural gas pipeline infrastructure may impact gas availability in some areas, and efforts to incentivize building electrification over natural gas-fueled heat and power sources may inhibit sales. However, electricity demand spikes may also lead to higher electricity prices thereby improving project economics for on-site distributed power generation.

In global markets, European governments continue to support efficient CHP and are beginning to act on reducing local air pollution through regulations like the EU's Medium Combustion Plant and EcoDesign Directives. Our low emission systems' ability to meet these programs' requirements may have a positive impact on our sales as implementation progresses. However, the EU's push for decarbonization may also leave natural gas-fueled, highly efficient systems in limbo despite their near-term carbon reduction potential and long term viability with the uptake of renewable and decarbonized gas alternatives. In the oil and gas market, many producers have committed to reduce methane emissions from their operations. Our low maintenance, reliable systems, and our ability to run on a range of fuels could fit their needs and result in a positive impact on our sales.

## **Sourcing and Manufacturing**

We are focused on improving our supply chain effectiveness, strengthening our manufacturing processes, and increasing operational efficiencies within our organization. Our manufacturing designs include the use of conventional technology, which has been proven in high volume automotive and turbocharger production for many years. Many components used in the manufacture of our products are readily fabricated from commonly available raw materials or off the shelf items available from multiple supply sources; however, certain items are custom made to meet our specifications that require longer lead time. We believe that in most cases, adequate capacity exists at our suppliers and that alternative sources of supply are available or could be developed within a reasonable period. However, single source suppliers with long lead times may be more challenging to transition to another supplier. We have an ongoing program to develop alternative back up suppliers for sole source parts wherever possible, but this has been challenging with low production volumes and increased pricing. We regularly reassess the adequacy and abilities of our suppliers to meet our future needs.

We continue to evaluate and implement new systems designed to provide improved quality, reliability, service, greater efficiency, and lower supply chain costs.

During Fiscal 2022, we remained focused on mitigating supply chain issues, such as the costs of commodities and delayed lead times, related to the ongoing global COVID-19 pandemic and other macroeconomic conditions. Localization of the vast majority of our immediate supply chain within a 300-mile radius of our factory located in Van Nuys, California mitigates much of the global stressors associated with a typical geographically dispersed supply chain, as many of our suppliers were sharing similar experiences of the pandemic in the same magnitude we were experiencing in parallel. Our strategy of locating dual-sources and establishing long-term purchasing agreements helped to mitigate interruptions in our supply chain. Global freight delays, tariffs and costs remain a concern from a logistics perspective. With a highly localized supply chain, however, much of these effects are limited. To address delays, we increased planning lead-times within our ERP system to drive material purchases earlier, and we attempt to source products locally as much as possible. We are keeping in place proactive measures in the form of safety stocks and dual sourcing to prevent potential interruptions to our supply chain. Despite these efforts we did experience both supply chain related delays and cost increases in the second half of Fiscal 2022 and expect this to continue into the first half of Fiscal 2023.

We have substantially increased our focus on process controls and validations, supplier controls, distribution controls and providing our operations teams with the training and tools necessary to drive continuous improvement in product quality. In addition, we remain focused on examining our operations and general business activities to identify cost improvement opportunities to enhance our operational effectiveness and use lean manufacturing processes. Our ability to leverage these capabilities may be affected by the current variability in our demand volumes and forecasting. Our demand volumes and forecasting could continue to be negatively impacted by the volatility of the global oil and gas markets, a strong U.S. dollar (making our products more expensive overseas), tariffs and/or import taxes, and ongoing global geopolitical tensions. Our strategy is to identify primary and secondary sources for critical components, both domestic and international, for when available to minimize production line down time due to unavailability of such parts, which could affect our ability to meet manufacturing schedules on build or a linear basis.

We have an approximately 42,300 square foot manufacturing footprint in our Van Nuys location in Southern California with production capacity of approximately 2,000 units per year, depending on product mix.

## **Research and Development (“R&D”)**

In Fiscal 2022 we continued supporting business operational goals and enhancing system availability to ensure continuity during the global pandemic and other macroeconomic factors. While these successful efforts became our primary objectives, we continued to emphasize the expansion of our existing suite of products, focusing on alternative fuels and technologies and continuing development in the global evolution of grid interconnection requirements. We focus our engineering efforts on coordinating our product design and manufacturing processes to bring our products to market in a cost-effective, reliable and timely manner. For Fiscal 2022 and 2021, R&D expenses were \$3.4 million and \$2.4 million, respectively, representing 5% and 4% of total revenue, respectively, for these fiscal years.

We own two patents related to fuel injection and emissions. The first patent issued is for a multi-staged lean pre-vaporizing, pre-mixing fuel injector providing ultra-low emissions that meet EPA Tier 4 requirements for power generation. Under this program, exhaust emissions from these engines will be required to decrease by more than 90%. The second patent is for a multiple-fuel capable, pre-mixed, low emission injector for high flame speed fuel combustion. This patent is the foundation for continued development in achieving high reliability and performance with hydrogen content fuels.

During Fiscal 2022 we continued to partner with Argonne National Laboratory and University of California, Irvine on the development of a 30% Hydrogen-70% natural gas configuration, which was commercially launched in March 2022. Capstone and Argonne National Laboratory are also partnering on a microturbine derivative utilizing Argonne’s high-efficiency, fast-charging, and fast discharging Thermal Energy Storage System. This effort is funded through the Department of Energy’s Technology Commercialization Fund. The thermal storage system is expected to improve the microturbine’s overall efficiency increasing value to the customer. The Thermal Energy Storage System modeling and simulation was completed towards the end of Fiscal 2020. During Fiscal 2021 design was completed on the assembly of

the small scale system to be installed at Argonne using their C65 test system. In Fiscal 2022, we initiated procurement and assembly of the hardware for Argonne to validate the models that were developed.

We continue support of the University of California, Irvine (“UCI”) through their Advanced Power and Energy Program, which works to evaluate microturbine operation using hydrogen and other fuel blends. The testing completed in Fiscal 2022 demonstrated the outstanding performance of our patented hydrogen injector design on up to 100% hydrogen across broad operating regimes. We and UCI continue to be key partners in advancing academic research while furthering commercialization of hydrogen technology.

Leveraging off this partnership, UCI has embarked on the second phase of analysis in associated gas combustion in catalog Capstone products. Associated gas is represented by higher hydrocarbons, which are more challenging to maintain in gaseous state. As more pressure is placed on flaring at oil and gas locations, the expansion of our fuel acceptability limits enables customers a reliable, resilient, and environmentally conscientious way of handling waste gases. The importance of our collaboration has been demonstrated in Fiscal 2022 with our growing Energy-as-a-Service bitcoin rental fleet which utilize waste gas at expired oil and gas sites to provide high value to these power intensive operations.

Grid interconnection standards have continued to evolve, with more emphasis being placed on reactive power support and harmonization of requirements. VDE-4105 German low voltage directive certification for the C65 was able to be completed in Fiscal 2022. Additionally, Capstone’s products were certified to meet the IEEE 2030.5 and California Rule 21 standards enabling communication with grid operators. Through the use of a third party gateway, Capstone controllers can now report and be adjusted by utilities to balance power quality on the grid during times of variable output of renewables, and in response to emergencies. The remaining TUV Rheinland witness test efforts planned during Fiscal 2023 will focus on the complying with updated certification requirements including German (VDE-4110 Medium Voltage), Australian (AS-4777), and USA (UL1741-SB) standards.

Capstone continues to work cost reduction and performance enhancement activities to improve the value of our microturbine products for our customer base, and to enhance our return on investment in Energy-as-a-Service offerings. Cost reduction activities are focused on leveraging the capabilities of our supply base and internal design lean manufacturing improvements. Product enhancements are focused on reducing the already very low maintenance requirements for our products, while at the same time improving operational efficiency, thereby reducing our customers’ total cost of ownership. While both of these activities have been affected by post-pandemic supply chain constraints in availability and lead-time, it has also opened up some new opportunities in support of these goals.

Because of our single moving assembly, manufacturers believe there is also the opportunity to produce a lower cost product in larger automotive volumes. Our focus is on a next generation product that would include existing components and a liquid cooled set of electronics that are consistent with the size, cost and cooling advances that are employed on vehicles today. Although we believe the hybrid electric bus and truck market has the potential to be a beneficial option for the bus and truck manufacturers, we temporarily suspended our development efforts with respect to C30 microturbines targeted at this market in response to our lower revenue.

Our liquid fuel microturbines have demonstrated emissions levels which meet the CARB 2010 standards for Heavy Duty Diesel Engines (“HDDE”). The liquid fuel microturbine is able to meet these extremely low emissions requirements using its lean premix combustion technology with no exhaust aftertreatment. Competitive reciprocating engine technologies require aftertreatment components that increase system cost, require frequent maintenance, and impact engine efficiency. Our compressed natural gas (“CNG”) fueled microturbines also meet extremely strict emission standards, including the U.S. Environmental Protection Agency and CARB 2010 emissions requirements for On Road HDDE for Urban Bus. Test emissions from our natural gas microturbines measured dramatically less than the emissions levels set forth by the CARB standard including NOx at 75% and CO at 96% less than the required levels.

Our marine products have been used to provide hybrid electric marine propulsion, “hotel power,” CHP, or CCHP. They may be ideal for small and mid-size commercial ships that travel inland waterways and emissions controlled areas (“ECAs”). In partnership with one of our long-term EMEA distributors, Capstone developed a marine C65 for a private yacht manufacturer and in Fiscal 2020 we delivered the product and also received certification from Lloyd’s Register EMEA for Lloyd’s Register Rules and Regulations for the Classification of Special Service Craft 2018 - Part 6. In Fiscal

2021, the private yacht power system was land tested, sea trialed, and launched, enabling the owner to eliminate onboard ship vibrations associated with reciprocating engines, while also having low emissions without after treatment. Capstone received a follow-on certification from Lloyd's for Classification of Special Service Craft 2018, Part 10, Chapter 2.

## **Protecting our Intellectual Property Rights and Patents**

We rely on a combination of patent, trade secret, copyright, “know how”, and trademark laws and nondisclosure agreements to establish and protect our intellectual property rights in our products. In this regard, we have 29 U.S. active patents. The patents we have obtained will expire between calendar years 2022 and 2037. We actively evaluate our patent portfolio and pursue new patent applications as we develop new technological innovations, as needed.

We believe that a policy of protecting intellectual property is one component of our strategy of being the leader in microturbine system technology and will provide us with a long term competitive advantage. In addition, we implement security procedures at our plants and facilities and have confidentiality agreements with our suppliers, distributors, employees and certain visitors to our facilities.

## **Human Capital**

On February 16, 2021, our Board adopted an amended charter governing our Compensation and Human Capital Committee, after discussing the rapid movement to expand the role of the Compensation Committee beyond traditional compensation-related matters. In accordance with its recently amended charter, our Compensation and Human Capital Committee is responsible for reviewing, monitoring, and providing recommendations to our Board on our workplace policies and practices, including corporate culture and employee engagement, talent management and leadership development, employee diversity and inclusion, ensuring a respectful workplace free of discrimination and harassment.

### *Diversity*

We are committed to maintaining, and continuing to foster, our diverse and inclusive work environment. We recruit the best people for the job regardless of gender, ethnicity or other protected traits and it is our policy to promote inclusive, nondiscriminatory hiring and employment practices and fully comply with all laws applicable to discrimination in the workplace.

### *Workforce Statistics*

As of March 31, 2022, we had 133 full-time employees and one part time employee. No employees are covered by collective bargaining arrangements. We consider relations with our employees to be good.

In March 2022, we implemented an expense reduction plan, which included furloughs, employment terminations and pay cuts. See “—Initiative to Shift Towards Energy as a Service and Reduce Operating Costs.”

## **Corporate Information**

We were organized in 1988 in the State of California. Our Company was reincorporated as Capstone Turbine Corporation on June 22, 2000 in the State of Delaware.

On April 21, 2021, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of the Company for the sole purpose of changing the Company's name to Capstone Green Energy Corporation effective as of 12:01 a.m. Eastern Time on April 22, 2021 (the “Corporate Name Change”). In addition, the Company amended and restated its Fourth Amended and Restated Bylaws, effective as of April 22, 2021, solely to reflect the Corporate Name Change.



## **Available Information**

This Form 10-K, as well as our quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are made available free of charge on our Internet website (<http://www.capstonegreenenergy.com>) as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). These filings are also available on the SEC’s website at [www.sec.gov](http://www.sec.gov).

## **Item 1A. Risk Factors**

*The following are risk factors that could affect our business, financial condition, results of operations, and cash flows. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Form 10-K because these factors could cause actual results, performance, and achievements to differ materially from those projected in forward-looking statements. Before you invest in our publicly traded securities, you should know that making such an investment involves some risks, including the risks described below. Additional risks of which we may not be aware or that we currently believe are immaterial may also impair our business operations or our stock price. If any of the risks occur, our business, financial condition, results of operations or cash flow could be negatively affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Form 10-K, our quarterly reports on Form 10-Q and other documents filed by us from time to time.*

### ***Summary of Risk Factors***

The following is a summary of the principal risks that could adversely affect our business, operations and financial results.

#### ***Risks Related to Our Business Operations and Financial Results***

- The ongoing effects of the COVID-19 pandemic could adversely affect our business, financial condition, results of operations, or cash flows.
- Our operating history is characterized by net losses. We anticipate further losses and we may never become profitable.
- Our recently implemented expenses reduction plan and organizational changes undertaken to align to our focus on our EaaS business and achieving profitability may not be successful.
- If we are unable to either substantially improve our operating results or obtain additional financing, we may be unable to continue to operate at current levels.
- We may be unable to fund our future operating requirements, which could force us to curtail our operations; we were in breach of our secured note purchase agreement as of May 27, 2022.
- A sustainable market for microturbines may never develop or may take longer to develop than we anticipate which would adversely affect our results of operations.
- Product quality expectations may not be met, causing slower market acceptance or warranty cost exposure.
- Our products involve a lengthy sales cycle, and we may not anticipate sales levels appropriately, which could impair our results of operations.
- If we do not effectively implement our sales, marketing and service plans, our sales will not grow and our results of operations will suffer.
- Changes to trade regulation, quotas, duties or tariffs, and sanctions caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs or limit the amount of raw materials and products that we can import, or may otherwise adversely impact our business.
- We may not be able to retain or develop relationships with OEMs or distributors in our targeted markets, in which case our sales would not increase as expected.
- If any of our distributor relationships is not successful, we may terminate or choose not to renew the related distributor agreement, which may result in interference with the wind down of the relationship or the transition of end-user service agreements and could potentially negatively impact our distribution channel or result in litigation costs or other expenses.
- We have substantial accounts receivable and increased bad debt expense or delays in collecting accounts receivable could have a material adverse effect on our cash flows and results of operations.
- Loss of a significant customer could have a material adverse effect on our results of operations.
- We may not achieve production cost reductions necessary to competitively price our products, which would adversely affect our sales.
- We have realized reductions in our operating costs and, as a result, our ability to cut costs further and sustain our business initiatives may be limited.
- We may incur costs and liabilities as a result of product liability claims.
- Operational restructuring may result in asset impairment or other unanticipated charges.
- We may not be able to manage our growth effectively, expand our production capabilities or improve our operational, financial and management information systems, which would impair our results of operations.
- Our success depends in significant part upon the continuing service of management and key employees.
- Our operations are vulnerable to interruption by fire, earthquake, and other events beyond our control.
- Activities necessary to integrate any future acquisitions may result in costs greater than current expectations or be less successful than anticipated.

### ***Risks Related to Our Product Offerings***

- We depend upon the development of new products and enhancements of existing products
- Our operating results are dependent, in large part, upon the successful commercialization of our products. Failure to produce our products as scheduled and budgeted would materially and adversely affect our business and financial condition.
- We may not be able to produce our products on a timely basis if we fail to correctly anticipate product supply requirements or if we suffer delays in production resulting from issues with our suppliers. Our suppliers may not supply us with a sufficient number of components or components of adequate quality, or they may provide components at significantly increased prices.
- Commodity market factors impact our costs and availability of materials.
- We operate in a highly competitive market among competitors that have significantly greater resources than we have and we may not be able to compete effectively.
- Our business and financial performances depend in part on the oil and natural gas industry, where a continued movement towards clean energy and away from fossil fuels, as well as a decline in prices for oil and natural gas may have an adverse effect on our revenue, cash flows, profitability, and growth.
- Our sales and results of operations could be materially and adversely impacted by risks inherent in international markets.
- We may not be able to develop sufficiently trained applications engineering, installation, and service support to serve our targeted markets.
- Changes in our product components may require us to replace parts held at distributors.
- Utility companies or governmental entities could place barriers to our entry into the marketplace, and we may not be able to effectively sell our products.

### ***Risks Related to Pending Litigation and Government Regulation***

- We operate in a highly regulated business environment, and changes in regulation could impose significant costs on us or make our products less economical, thereby affecting demand for our microturbines.
- We have significant tax assets, usage of which may be subject to limitations in the future.
- We may be subject to lawsuits.

### ***Risks Related to Data, Security, and Intellectual Property***

- Our business could be negatively impacted if we fail to adequately protect our intellectual property rights or if third parties claim that we are in violation of their intellectual property rights.
- We face security and cybersecurity risks related to our electronic processing of sensitive and confidential business and product data. If we are unable to protect our data or the data of our customers, a security breach could damage our reputation and have a material adverse effect on our business.

### ***Risks Related to Ownership of Our Common Stock***

- We cannot be certain of the future effectiveness of our internal controls over financial reporting. If we are unable to maintain effective internal controls over our financial reporting, investors may lose confidence in our ability to provide reliable and timely financial reports and the value of our common stock may decline.
- Future issuances or sales of our common stock or exercises by holders of our outstanding warrants could lower our stock price and dilute the interests of existing stockholders.
- The market price of our common stock has been, and may continue to be, highly volatile and you could lose all or part of your investment in our securities.
- If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.
- Provisions in our certificate of incorporation, bylaws and our NOL rights plan, as well as Delaware law, may discourage, delay, or prevent a merger or acquisition at a premium price.
- We do not intend to pay cash dividends. We have never paid dividends on our capital stock and we do not anticipate paying any dividends in the foreseeable future. Consequently, any gains from an investment in our securities will likely depend on whether the price of our common stock increases.

### ***General Risk Factors***

- Adverse economic conditions may have an impact on our business and financial condition, including some effects we may not be able to predict.
- Our business may be impacted by international instability, war, terrorism, and geopolitical events.

For a more complete discussion of the material risks facing our business, please see below.

### ***Risks Related to Our Business Operations and Financial Results***

#### ***The ongoing effects of the COVID-19 pandemic could adversely affect our business, financial condition, results of operations, or cash flows.***

An infectious disease caused by Severe Acute Respiratory Syndrome Coronavirus 2 (SARS CoV-2) that was first detected in November 2019 in the city of Wuhan, China, known as COVID-19, resulted in an outbreak throughout the world. The subsequent spread of COVID-19 to the U.S. and many other parts of the world led the World Health Organization to characterize COVID-19 as a pandemic on March 11, 2020. Thereafter, most U.S. states imposed “stay-at-home” orders on their populations to stem the spread of COVID-19. Of specific interest to the Company, stay-at-home orders were imposed in the state of California on March 20, 2020. Governments, public institutions, and other organizations in countries and localities throughout the world have taken and are continuing to take certain emergency measures to combat the spread of COVID-19, including implementation of restrictions on travel and orders that restrict the operations of institutions such as schools and businesses. These conditions have negatively impacted all aspects of our business. Our business is also dependent on the continued health and productivity of our employees, including our manufacturing employees, sales staff, and corporate management teams.

In addition, due to domestic and international governmental orders restricting certain activities in response to COVID-19, including in Van Nuys, California, where our corporate headquarters and many of our operations, including our principal manufacturing facility, are located, we have experienced, and may in the future experience, certain disruptions in our business, including changes to our on-site operations to reduce manufacturing capacity and implement social distancing, reductions in our suppliers’ ability to source, maintain inventory and ship raw materials in alignment with our demands, work stoppages, slowdowns and delays, including having most of our employees working outside of our offices, travel restrictions, reduced access to our customers for product training and case support, and cancellation of events, delays in product development efforts, and other negative impacts on our capacity to manufacture, our suppliers’ capacity to source and ship raw materials and our distributors’ ability to sell and support the use of our products.

The COVID-19 pandemic has also caused significant uncertainty and volatility in global financial markets. Due to such volatility, we may not be able to raise additional capital, if needed, on favorable terms, or at all. Further adverse economic events resulting from the COVID-19 pandemic, including sustained economic downturn, supply chain disruptions, or increasing cost pressures, could materially and adversely affect our business, access to capital markets and the value of our common stock.

Additionally, our liquidity could be negatively impacted if these conditions continue for a significant period of time and we may be required to pursue additional sources of financing to obtain working capital, maintain appropriate inventory levels, and meet our financial obligations.

Despite the introduction of Covid-19 vaccines, the pandemic remains highly volatile and continues to evolve. The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. We do not yet know the full extent of potential impacts on our business or the global economy as a whole. However, these effects could adversely impact our business, financial condition, results of operations, or cash flows.

#### ***Our operating history is characterized by net losses. We anticipate further losses and we may never become profitable.***

Since inception, we have incurred annual operating losses. We expect this trend to continue until such time that we can sell a sufficient number of units and achieve a cost structure to become profitable. Our business is such that we have relatively few repeat end use customers and limited repeat business compared to our competitors. As a result, we

may not maintain or increase revenue. We may not have adequate cash resources to reach the point of profitability, and we may never become profitable. Even if we do achieve profitability, we may be unable to increase our sales and sustain or increase our profitability in the future.

***Our recently implemented expenses reduction plan and organizational changes undertaken to align to our focus on our EaaS business and achieving profitability may not be successful.***

In March 2022, we implemented an expenses reduction plan and announced our efforts to reduce our operating costs and modify our operating model to better match our expanding EaaS business. Beginning on February 28, 2022, we furloughed 17 employees for a period of 120 days, eliminated the position of Chief Revenue Officer, which was held by Jim Crouse, effective April 15, 2022, instituted 15% temporary pay cuts for approximately 36 employees and 25% temporary pay cuts for members of our senior leadership team, among other actions.

We believe these changes were needed to streamline our organization and reallocate our resources to better align with our current strategic goals, including our current focus of achieving profitability and expanding our EaaS business. However, these expense reduction measures have and may continue to yield unintended consequences and costs, such as the loss of institutional knowledge and expertise, attrition beyond our intended reduction-in-force, a reduction in morale among our remaining employees, and the risk that we may not achieve the anticipated benefits, all of which may have an adverse effect on our results of operations or financial condition. In addition, while positions have been eliminated certain functions necessary to our reduced operations remain, particularly with respect to our financial and accounting function, and we may be unsuccessful in distributing the duties and obligations of departed employees among our remaining employees or to external service providers. We may also discover that the reductions in workforce and cost cutting measures will make it difficult for us to pursue new opportunities and initiatives and require us to hire qualified replacement personnel, which may require us to incur additional and unanticipated costs and expenses. We may further discover that, despite the implementation of our expense reduction plan, we may require additional capital to continue expanding our EaaS business and we may be unable to obtain such capital. Moreover, there is no assurance we will be successful in our pursuit of expanding our EaaS business. Our failure to successfully accomplish any of the above activities and goals may have a material adverse impact on our business, financial condition, and results of operations.

***We may be unable to fund our future operating requirements, which could force us to further curtail our operations; we were in breach of our secured note purchase agreement as of May 27, 2022.***

To the extent that the funds we now have on hand are insufficient to fund our future operating requirements, we would need to raise additional funds, through further public or private equity or debt financings depending upon prevailing market conditions. These financings may not be available or, if available, may be on terms that are not favorable to us and could result in dilution to our stockholders and reduction of the trading price of our stock. The state of capital markets when we seek to raise additional capital could also impede our ability to raise additional capital on favorable terms or at all. If adequate capital were not available to us, we likely would be required to significantly curtail our operations or possibly even cease our operations. In March 2022, we implemented an expense reduction plan, which included furloughs, employment terminations and pay cuts. See “— *Our recently implemented expenses reduction plan and organizational changes undertaken to align to our focus on our EaaS business and achieving profitability may not be successful.*”

We are party to an Amended and Restated Note Purchase Agreement (the “A&R Note Purchase Agreement”) dated October 1, 2020 (the “Closing Date”) among the Company, certain subsidiaries of the Company, Goldman Sachs Specialty Lending Group, L.P. (as successor in interest to Goldman Sachs Specialty Lending Holdings, Inc.), as collateral agent (“Goldman” or the “Collateral Agent”) and the purchasers party thereto (the “Purchasers”). The A&R Note Purchase Agreement amended and restated our Note Purchase Agreement dated February 4, 2019, by and among the Company, certain subsidiaries of the Company, Goldman Sachs Specialty Lending Holdings, Inc. and the purchasers party thereto under which we sold \$30.0 million aggregate principal amount of senior secured notes (the “Notes”) bearing an interest of 13.0% per annum. Pursuant to the A&R Note Purchase Agreement, the Company issued \$20.0 million in additional Notes and all outstanding Notes under the A&R Note Purchase Agreement bear interest at the Adjusted (London Interbank Offer) LIBO Rate (as defined in the A&R Note Purchase Agreement) plus 8.75% per annum, payable on the last day of each interest period of one-, two-, three- or six-months (but, in the case of a six-month interest period, every three-months). The Notes do not amortize and the entire principal balance is due and payable on October 1, 2023. As of March 31, 2022, \$51.0

million in borrowings were outstanding under the Notes, which includes the accrual for an exit fee to be paid at maturity or upon pre-payment. Obligations under the A&R Note Purchase Agreement are secured by all of the Company's assets, including intellectual property and general intangibles. The A&R Note Purchase Agreement contains customary covenants, including, among others, covenants that restrict our ability to incur debt, grant liens, make certain investments and acquisitions, pay dividends, repurchase equity interests, repay certain debt, amend certain contracts, enter into affiliate transactions and asset sales or make certain equity issuances (including equity issuances that would cause an ownership change within the meaning of Section 382 of the Internal Revenue Code), and covenants that require us to, among other things, provide annual, quarterly and monthly financial statements, together with related compliance certificates, maintain our property in good repair, maintain insurance and comply with applicable laws.

On May 13, 2021, the Company, and the collateral agent, entered into a First Amendment, dated as of May 13, 2021 (the "Amendment"), to the A&R Note Purchase Agreement. The Amendment amended certain provisions of the A&R Note Purchase Agreement, including to (a) require the Company to expand its Rental Fleet (as defined in the A&R Note Purchase Agreement) by (i) at least 2.00 MW by the 9-month anniversary of the Closing Date (instead of 6.25 MW as provided in the A&R Note Purchase Agreement prior to the Amendment), and (ii) at least 12.50 MW by the 18-month anniversary of the Closing Date (which is unchanged from the covenant set forth in the A&R Note Purchase Agreement prior to the Amendment), and (b) increase the Company's minimum consolidated liquidity requirement from \$9 million to \$12.2 million, for the period from May 13, 2021 to March 31, 2022, and \$9 million thereafter. The financial covenants of the A&R Note Purchase Agreement require the Company not to exceed specified levels of Adjusted EBITDA losses relative to its financial model, beginning with the fiscal quarter ending September 30, 2021. As of March 31, 2022, we were not in compliance with the Adjusted EBITDA covenant contained in the A&R Note Purchase Agreement and did not cure such non-compliance by prepaying the Notes. As a result, we were in breach of the Adjusted EBITDA covenant as of May 27, 2022. On July 13, 2022 we entered into the Second Amendment to the A&R Note Purchase Agreement (the "A&R NPA Second Amendment") with the purchaser thereunder (the "Purchaser") and Goldman Sachs Specialty Lending Group, L.P. as collateral agent (the "Collateral Agent"), pursuant to which (i) the Purchaser and the Collateral Agent waived our breach of the Adjusted EBITDA covenant and (ii) the A&R Note Purchase Agreement has been amended to, among other things, add certain new covenants, including requirements that we use our commercially reasonable best efforts to both (a) raise at least \$10 million through a sale of our common stock by September 14, 2022 and (b) refinance the Notes by October 1, 2022. See Item 9B "Other Information" for a summary of the A&R NPA Second Amendment.

The A&R Note Purchase Agreement, as amended, also defines an event of default as, among other things, payment default, bankruptcy events, cross defaults, breaches of covenants and representations and warranties, changes of control, judgment defaults and an ownership change within the meaning of Section 382 of the Internal Revenue Code. An event of default, if not waived, could have a material adverse effect on us.

Our obligations under the A&R Note Purchase Agreement, as amended, have important consequences, including the following:

- We may have difficulty obtaining additional financing at favorable interest rates to meet our requirements for operations, capital expenditures, general corporate or other purposes.
- We will be required to dedicate a substantial portion of our cash flow to the payment of principal and interest on the Notes, which will reduce the amount of funds available for operations, capital expenditures and future acquisitions.
- Goldman Sachs Specialty Lending Holdings, Inc., as collateral agent under the Note Purchase Agreement, may enforce any and all liens and security interests on the collateral we have used to secure the Notes and we may forfeit our right to such collateral.
- In order to avoid breaches of the Note Purchase Agreement covenant relating to Section 382 changes of ownership, we may be limited in the amount of additional equity securities we are able to sell to raise capital. Accordingly, our desire to preserve our federal and state net operating loss ("NOL") carryforwards may cause us to forgo otherwise attractive funding opportunities.

We may be required to repay the Notes immediately if we again default on any of the numerous financial and other covenants contained in the A&R Note Purchase Agreement, including any of those added pursuant to the A&R NPA Second Amendment, and Goldman does not waive such default. It is not certain whether we will have, or will be able to obtain, sufficient funds to make any such accelerated payments. If any outstanding indebtedness under the Notes is accelerated, our assets may not be sufficient to repay such indebtedness.

***If we are unable to either substantially improve our operating results or obtain additional financing, we may be unable to continue to operate at current levels.***

We have experienced recurring operating losses and as of March 31, 2022, we had an accumulated deficit of approximately \$938.4 million. On March 31, 2022, we had cash and cash equivalents of \$22.6 million, and working capital of \$35.9 million. This compares to \$919.3 million, \$49.5 million and \$52.5 million, respectively, on March 31, 2021. As a condition of the A&R Note Purchase Agreement with the Purchasers, our consolidated liquidity (defined as the aggregate amount of unrestricted cash and cash equivalents included in the consolidated balance of the Company and our subsidiaries, subject to certain conditions as defined in the A&R Note Purchase Agreement) on any date may not be less than \$12.2 million for the period from the Amendment Date to March 31, 2022, and \$9.0 million thereafter.

Our business strategy is focused on profitability-oriented initiatives such as reducing operating expenses, increasing sales of products and services, thereby diversifying, and increasing revenue, and improving gross margin. In particular, we are focused on expanding our Energy-as-a-Service business. We may not be able to execute our business strategy successfully and if we are unable to generate positive cash flow, potential customers may choose not to purchase our products or utilize our program. Moreover, the business strategy is based upon projections, which are in turn based upon estimates and assumptions. There can be no assurance as to the accuracy of the projections, estimates and assumptions which underlie the business strategy or as to our ability to execute the business strategy successfully.

Should we be unable to execute our plans to increase sales and margins while controlling costs, we may be unable to continue to operate at our current levels on a longer-term basis. In particular, we must generate positive cash flow from operations and net income and otherwise improve our results of operations substantially on a longer-term basis. Our available cash and proceeds from future financings, if any, that we may be able to obtain, may not be sufficient to fund our operating expenses, capital expenditures and other cash requirements. Any such lack of funds would affect our ability to continue to operate at current levels. These events and circumstances could have a material adverse effect on our ability to raise additional capital and on the market value of our common stock and our ability to maintain Notes financing. Moreover, should we experience a cash shortage that requires us to curtail or cease our operations, which could materially adversely affect the market price of our common stock.

***A sustainable market for microturbines may never develop or may take longer to develop than we anticipate which would adversely affect our results of operations.***

Our products represent an emerging market, and we do not know whether our targeted customers will accept our technology or will purchase our products in sufficient quantities to allow our business to grow. To succeed, demand for our products must increase significantly in existing markets, and there must be strong demand for products that we introduce in the future. In addition, as part of our business strategy, we are focusing our marketing efforts on expanding our Energy as a Service business and on the energy efficiency, renewable energy and, natural resources markets. We may be unable to grow our business in these target markets. If a sustainable market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses we have incurred to develop our products, we may have further impairment of assets, and we may be unable to meet our operational expenses. The development of a sustainable market for our systems may be hindered by many factors, including some that are out of our control. Examples include:

- consumer reluctance to try a new product;
- regulatory requirements;
- the cost competitiveness of our microturbines;

- costs associated with the installation and commissioning of our microturbines;
- maintenance and repair costs associated with our microturbines;
- the future costs and availability of fuels used by our microturbines;
- economic downturns and reduction in capital spending;
- consumer perceptions of our microturbines' safety and quality;
- the emergence of newer, more competitive technologies and products;
- growth of the Hybrid Electric Vehicle market; and
- decrease in domestic and international incentives.

***Product quality expectations may not be met, causing slower market acceptance or warranty cost exposure.***

In order to achieve our goal of improving the quality and lowering the total costs of ownership of our products, we may require engineering changes. Such improvement initiatives may render existing inventories obsolete or excessive. Despite our continuous quality improvement initiatives, we may not meet customer expectations. Any significant quality issues with our products could have a material adverse effect on our rate of product adoption, results of operations, financial condition, and cash flow. Moreover, as we develop new configurations for our microturbines and as our customers place existing configurations in commercial use, our products may perform below expectations. Any significant performance below expectations could adversely affect our operating results, financial condition and cash flow and affect the marketability of our products.

We sell our products with warranties. There can be no assurance that the provision for estimated product warranty will be sufficient to cover our warranty expenses in the future. We cannot ensure that our efforts to reduce our risk through warranty disclaimers will effectively limit our liability. Any significant incurrence of warranty expense in excess of estimates could have a material adverse effect on our operating results, financial condition and cash flow. Further, we have at times undertaken programs to enhance the performance of units previously sold. For example, our warranty provision was negatively impacted in Fiscal 2019 and Fiscal 2021 because of a supplier defect identified in fielded units. In Fiscal 2021 a warranty reserve in the amount of \$4.9 million was established related to reliability programs to account for the replacement of remaining high risk failure parts in some of our fielded units due to a supplier defect. These enhancements have at times been provided at no cost or below our cost. If we choose to offer such programs again in the future, such actions could result in significant costs.

On February 22, 2021, we announced that we had reached a financial settlement in the amount of \$5 million arising out of claims pursued in confidential arbitration with such former strategic parts supplier. We obtained this settlement following a multi-year arbitration process. Any future product quality issues with our parts suppliers could lead to lengthy and costly litigation, even if the outcome is ultimately in our favor. In addition, such quality issues with any of our parts could lead to us to fail to meet the product quality expectations of our own customers, which could adversely affect our operating results, financial condition and cash flow and affect the marketability of our products.

***Our products involve a lengthy sales cycle, and we may not anticipate sales levels appropriately, which could impair our results of operations.***

The sale of our products typically involves a significant commitment of capital by customers, which can result in the typical delays associated with large capital expenditures. For these and other reasons, the sales cycle associated with our products is typically lengthy and subject to several significant risks over which we have little or no control. We plan our production and inventory levels based on internal forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. If sales in any period fall significantly below anticipated levels, our financial condition, results of operations and cash flow would suffer. If demand in any period increases well above anticipated levels, we may have difficulties in responding, incur greater costs to respond, or be unable to fulfill the demand in sufficient time to retain the



order, which would negatively impact our operations. In addition, our operating expenses are based on anticipated sales levels, and a high percentage of our expenses are generally fixed in the short term. As a result of these factors, a small fluctuation in timing of sales can cause operating results to vary materially from period to period.

Net product orders for Fiscal 2022 were \$31.8 million and contributed to an ending backlog of \$25.3 million at March 31, 2022. The book-to-bill ratio was 1.1:1 for Fiscal 2022. Book-to-bill ratio is the ratio of new orders we received to units shipped and billed during a period. However, because our backlog represents only the estimated amount of future product revenue to be recognized under negotiated contracts as shipments convert backlog to recognized revenue for accounting purposes, we may not be able to fully realize the revenue value reported in our backlog, and our backlog may not be indicative of future revenues. A portion of our backlog is concentrated in the international oil and gas market which may impact the overall timing of shipments or the conversion of backlog to revenue. The timing of the backlog is based on the requirement date indicated by our customers. Based on historical experience, management expects that a significant portion of our backlog may not be shipped within the next 18 months. The timing of shipments is subject to change based on several variables (including customer deposits, payments, availability of credit and customer delivery schedule changes), most of which are not in our control and can affect the timing of our revenue. As a result, management believes the book-to-bill ratio better demonstrates the current demand for our products in the given period.

***If we do not effectively implement our sales, marketing and service plans, our sales will not grow and our results of operations will suffer.***

Our sales and marketing efforts may not achieve intended results and, therefore, may not generate the revenue we anticipate. As a result of our corporate strategies, we have decided to focus our resources on expanding our Energy as a Service business and further developing selected vertical markets. We may change our focus to other markets or applications in the future. There can be no assurance that our focus or our near term plans will be successful. If we are not able to address markets for our products successfully, we may not be able to grow our business, compete effectively or achieve profitability.

***Changes to trade regulation, quotas, duties or tariffs, and sanctions caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs or limit the amount of raw materials and products that we can import or may otherwise adversely impact our business.***

The former U.S. administration has voiced strong concerns about imports from countries that it perceives as engaging in unfair trade practices. Any current or future U.S. administration may decide to impose import duties or other restrictions on products, components or raw materials sourced from those countries, which may include China, Mexico, and other countries from which we import components or raw materials. Any such duties or restrictions could have a material adverse effect on our business, results of operations or financial condition.

Moreover, any new tariffs, or other changes in U.S. trade policy, could trigger retaliatory actions by affected countries. Certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. Others are considering the imposition of sanctions that will deny U.S. companies access to critical raw materials. A “trade war” of this nature or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the U.S. economy or certain sectors thereof and, thus, to adversely impact our businesses.

The U.S. government imposes sanctions through executive orders restricting U.S. companies from conducting business activities with specified individuals and companies, and requires export licenses for certain of such activities. Following Russia’s military invasion of Ukraine in March 2022, we re-evaluated our efforts in the Russian and the surrounding Commonwealth of Independent States (CIS) markets and have ceased exploring growth opportunities in such markets. We do however continue to evaluate customer orders and ensure that we are in compliance with all laws and regulations upon acceptance and before shipment. If we are unable to conduct business with new or existing customers or pursue opportunities with sanctioned countries, including Russia, our business, including revenue, profitability, and cash flows, could be materially adversely affected.

***We may not be able to retain or develop relationships with OEMs or distributors in our targeted markets, in which case our sales would not increase as expected.***

In order to serve certain of our targeted markets, we believe that we must ally ourselves with companies that have particular expertise or better access to those markets. We believe that retaining or developing relationships with strong OEMs (which to date have typically resold our products under their own brands or packaged our products with other products as part of an integrated unit) or distributors in these targeted markets can improve the rate of adoption as well as reduce the direct financial burden of introducing a new technology and creating a new market. Because of OEMs' and distributors' relationships in their respective markets, the loss of an OEM or distributor could adversely impact the ability to penetrate our target markets. We offer our OEMs and distributors stated discounts from list price for the products they purchase. In the future, to attract and retain OEMs and distributors we may provide volume price discounts or otherwise incur significant costs that may reduce the potential revenue from these relationships. We may not be able to retain or develop appropriate OEMs and distributors on a timely basis, and we cannot provide assurance that the OEMs and distributors will focus adequate resources on selling our products or will be successful in selling them. In addition, some of the relationships may require that we grant exclusive distribution rights in defined territories. These exclusive distribution arrangements could result in our being unable to enter into other arrangements at a time when the OEM or distributor with whom we form a relationship is not successful in selling our products or has reduced its commitment to market our products. We cannot provide assurance that we will be able to negotiate collaborative relationships on favorable terms or at all. Our inability to have appropriate distribution in our target markets may adversely affect our financial condition, results of operations and cash flow.

***If any of our distributor relationships is not successful, we may terminate or choose not to renew the related distributor agreement, which may result in interference with the wind down of the relationship or the transition of end-user service agreements, and could potentially negatively impact our distribution channel or result in litigation costs or other expenses.***

Successfully managing our distribution channel in an effort to reach various potential customer segments for our products and services is a complex process. Each of our distributors is a strategically placed independent partner that provides for marketing and selling of our products and services on our behalf. If our distribution relationships are not successful, we may lose sales opportunities, customers, and revenues. Our agreements with our distribution partners require them to comply with performance conditions that are subject to interpretation, which could result in disagreements. At any given time, we may be in disputes with one or more distribution partners. Any such dispute could result in lengthy and costly litigation, even if the outcome is ultimately in our favor. We cannot predict the outcome of any arbitration or litigation, the effect of any negative judgment against us or the amount of any settlement that we may enter into with such distribution partners. A contractual dispute with a distribution partner may result in our or our distribution partner seeking to terminate the related distribution agreement, even if such termination would be wrongful, which could harm our business, or interfere with a previously agreed wind down of the relationship or transition of end-user service agreements. Any prolonged disruptions of our distribution channels that results from the termination of one or more of our distributions or our failure to renew our distribution agreements with our desired distributors, could negatively affect our ability to effectively sell our products and would materially and adversely affect our business, financial condition, results of operations and prospects.

***We have substantial accounts receivable, and increased bad debt expense or delays in collecting accounts receivable could have a material adverse effect on our cash flows and results of operations.***

Our accounts receivable balance, net of allowances, was \$24.7 million and \$20.6 million as of March 31, 2022 and 2021, respectively. Days sales outstanding in accounts receivable ("DSO") at the end of Fiscal 2022 was 150 days, compared with 111 days at the end of Fiscal 2021. We recorded net bad debt recovery of approximately \$0.2 million during Fiscal 2021, and net bad debt expense of approximately \$1.1 million during Fiscal 2022. No assurances can be given that future bad debt expense will not increase above current operating levels. Increased bad debt expense or delays in collecting accounts receivable could have a material adverse effect on results of operations and cash flows.

***Loss of a significant customer could have a material adverse effect on our results of operations.***

E-Finity accounted for approximately 18% of our revenue for Fiscal 2022. Additionally, E-Finity accounted for 28% of net accounts receivable as of March 31, 2022. The loss of E-Finity or any other significant customer could have a material adverse effect on our results of operations and financial condition.

***We may not achieve production cost reductions necessary to competitively price our products, which would adversely affect our sales.***

We believe that we will need to reduce the unit production cost of our products over time to maintain our ability to offer competitively priced products. Our ability to achieve cost reductions will depend on our ability to develop low cost design enhancements, to obtain necessary tooling and favorable supplier contracts and to increase sales volumes so we can achieve economies of scale. We cannot provide assurance that we will be able to achieve any such production cost reductions. Our failure to achieve such cost reductions could have a material adverse effect on our business and results of operations.

***We have realized reductions in our operating costs and, as a result, our ability to cut costs further and sustain our business initiatives may be limited.***

Since April 2015, we have implemented various initiatives to reduce operating costs across all functions of the Company and focus our business efforts on our most promising near-term product opportunities. As a result of these cost-cutting initiatives, which we have already undertaken over an extended period of time, we may have a more limited ability to further reduce costs to increase our liquidity should such measures become necessary. In March 2022, we implemented an expense reduction plan, which included furloughs, employment terminations and pay cuts. See “—*Our recently implemented expenses reduction plan and organizational changes undertaken to align to our focus on our EaaS business and achieving profitability may not be successful.*” Any further reductions may have a materially negative impact on our business.

***We may incur costs and liabilities as a result of product liability claims.***

We face a risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in injury or other damage. Although we currently maintain product liability insurance coverage, we may not be able to obtain such insurance on acceptable terms in the future, if at all, or obtain insurance that will provide adequate coverage against potential claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. A significant unsuccessful product liability defense could have a material adverse effect on our financial condition and results of operations. In addition, we believe our business depends on the strong brand reputation we have developed. If our reputation is damaged, we may face difficulty in maintaining our market share and pricing with respect to some of our products, which could reduce our sales and profitability.

***Operational restructuring may result in asset impairment or other unanticipated charges.***

As a result of our corporate strategy, we have identified opportunities to outsource to third-party suppliers certain functions which we currently perform. We believe outsourcing can reduce product costs, improve product quality and increase operating efficiency. These actions may not yield the expected results, and outsourcing may result in production delays or lower quality products. Transitioning to outsourcing may cause certain of our affected employees to leave before the outsourcing is complete. This could result in a lack of the experienced in-house talent necessary to successfully implement the outsourcing. Further, depending on the nature of operations outsourced and the structure of agreements we reach with suppliers to perform these functions, we may experience impairment in the value of manufacturing assets related to the outsourced functions or other unanticipated charges, which could have a material adverse effect on our operating results.

***We may not be able to manage our growth effectively, expand our production capabilities or improve our operational, financial and management information systems, which would impair our results of operations.***

If we are successful in executing our business plan, we will experience growth in our business that could place a significant strain on our business operations, management and other resources. Our ability to manage our growth will require us to expand our production capabilities, continue to improve our operational, financial and management information systems, and to motivate and effectively manage our employees. We cannot provide assurance that our systems, procedures and controls or financial resources will be adequate, or that our management will keep pace with this growth. We cannot provide assurance that our management will be able to manage this growth effectively.

***Our success depends in significant part upon the continuing service of management and key employees.***

Our success depends in significant part upon the continuing service of our executive officers, senior management and sales and technical personnel. The failure of our personnel to execute our strategy or our failure to retain management and personnel could have a material adverse effect on our business. In March 2022, we implemented an expense reduction plan, which included furloughs, employment terminations and pay cuts. See “—*Our recently implemented expenses reduction plan and organizational changes undertaken to align to our focus on our EaaS business and achieving profitability may not be successful.*”

Our success, growth prospects, and ability to capitalize on market opportunities also depend to a significant extent on our ability to identify, hire, motivate and retain qualified managerial personnel, including senior members of management. There can be no assurances that we can do so. Our growth may be constrained by resource limitations as competitors and customers compete for increasingly scarce human capital resources. The demand for skilled workers is currently high. We face an increasingly competitive labor market due to sustained labor shortages in part from the COVID-19 pandemic and are subject to inflationary pressures on employee wages and salaries which may increase labor costs. In addition, we have already experienced involuntary turnover due to increased commuting costs for our employees. If gas prices remain high for a sustained period, we may experience further involuntary turnover as employees seek to shorten their commutes. Our competitors may be able to offer a work environment with higher compensation or more opportunities than we can. If we are unable to attract and retain a sufficient number of skilled personnel, our ability to successfully implement our business plan, grow our Company and maintain or expand our product offerings may be adversely affected, and the costs of doing so may increase, which may adversely impact our business, financial condition and results of operations.

In addition, our internal control systems rely on employees trained in the execution of the controls, particularly within our financial and accounting function. Loss of these employees or our inability to replace them with similarly skilled and trained individuals or new processes in a timely manner could adversely impact our internal control mechanisms.

***Our operations are vulnerable to interruption by fire, earthquake and other events beyond our control.***

Our operations are vulnerable to interruption by fire, earthquake, and other events beyond our control. Our executive offices, manufacturing facility, and auxiliary inventory storage facility are located in Southern California. Because the Southern California area is located in an earthquake-sensitive area and because we have no redundancy facility located within or outside of Southern California, we are particularly susceptible to the risk of damage to, or total destruction of, our facilities in Southern California and the surrounding transportation infrastructure, which could affect our ability to make and transport our products. While we take steps to mitigate the impact of severe weather, environmental and natural disasters, the frequency and severity of which may be impacted by climate change and other natural and manmade events, such events could result in severe disruption to our business operations at these facilities. If an earthquake, fire, or other man-made or natural disaster occurs at or near our facilities, our business, financial condition, operating results and cash flow could be materially adversely affected.

***Activities necessary to integrate any future acquisitions may result in costs in excess of current expectations or be less successful than anticipated.***

We may acquire other businesses in the future and the success of these transactions will depend on, among other things, our ability to develop productive relationships with the corresponding distributors and to integrate assets and personnel, if any, acquired in these transactions and to apply our internal controls processes to these acquired businesses. Future acquisitions may require us to raise financing including by issuing common stock that would dilute our current stockholders' percentage ownership, assume or otherwise be subject to liabilities of an acquired company, record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, incur large acquisition and integration costs, immediate write-offs, and restructuring and other related expenses, and become subject to litigation. The benefits of an acquisition may also take considerable time to develop, and we cannot be certain that any particular acquisition will produce the intended benefits in a timely manner or to the extent anticipated or at all. We may experience difficulties integrating the operations, technologies, products, and personnel of an acquired company or be subjected to liability for the target's pre-acquisition activities or operations as a successor in interest. Such integration may divert management's attention from normal daily operations of our business. Future acquisitions may also expose us to potential risks, including risks associated with entering markets in which we have no or limited prior experience, especially when competitors in such markets have stronger market positions, the possibility of insufficient revenues to offset the expenses we incur in connection with an acquisition and potential loss of, or harm to, our relationships with employees, customers, consumers and suppliers as a result of integration of new businesses. If we are unable to fully benefit from anticipated synergies, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

***We may be adversely impacted by the effects of climate change and may incur increased costs and experience other impacts due to new or more stringent greenhouse gas regulations designed to address climate change.***

The scientific consensus indicates that emissions of greenhouse gases (GHG) continue to alter the composition of Earth's atmosphere in ways that are affecting, and are expected to continue to affect, the global climate. The potential impacts of climate change on our customers, product offerings, operations, facilities and suppliers are accelerating and uncertain, as they will be particular to local and customer-specific circumstances. These potential impacts may include, among other items, physical long-term changes in freshwater availability and the frequency and severity of weather events as well as customer product changes either through preference or regulation.

Concerns regarding climate change may lead to additional international, national, regional and local legislative and regulatory responses. Various stakeholders, including legislators and regulators, shareholders and non-governmental organizations, are continuing to look for ways to reduce GHG emissions. Increased input costs, such as fuel, utility, transportation and compliance-related costs could increase our operating costs.

While we aim to position ourselves as a solution for climate change related issues to our customers, there are other solutions in the market that may be cheaper or better suited to our customers' needs, and we may not be able to capitalize on the move towards renewable energy.

As the impact of any future GHG legislative or regulatory requirements on our global businesses and products is dependent on the timing, scope and design of the mandates or standards, we are currently unable to predict its potential impact which could have a material adverse effect on our results of operations, financial condition and cash flows.

### ***Risks Related to Our Product Offerings***

***We depend upon the development of new products and enhancements of existing products***

Our operating results depend on our ability to develop and introduce new products, enhance existing products and reduce the costs to produce our products. The success of our products is dependent on several factors, including proper product definition, product cost, timely completion and introduction of the products, differentiation of products from those of our competitors, meeting changing customer requirements, emerging industry standards and market acceptance of these products. The development of new, technologically advanced products and enhancements is a complex and uncertain

process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. There can be no assurance that we will successfully identify new product opportunities, develop and bring new or enhanced products to market in a timely manner, successfully lower costs and achieve market acceptance of our products, or that products and technologies developed by others will not render our products or technologies obsolete or uncompetitive. We continued to expand and develop our new hydrogen products during Fiscal 2022, which are commercially available running on a 30% hydrogen – 70% natural gas mix. Continued development towards a 100% hydrogen product will require a long time horizon and a significant amount of financial resources. We do not currently have and there can be no assurance that we will develop the resources or financial ability to develop a 100% hydrogen product.

***Our operating results are dependent, in large part, upon the successful commercialization of our products. Failure to produce our products as scheduled and budgeted would materially and adversely affect our business and financial condition.***

We cannot be certain that we will deliver ordered products in a timely manner. We have limited production slots for our products. Any delays in production will increase our costs, reduce future production slots and could significantly impact our business, financial condition and operating results.

***We may not be able to produce our products on a timely basis if we fail to correctly anticipate product supply requirements or if we suffer delays in production resulting from issues with our suppliers. Our suppliers may not supply us with a sufficient amount of components or components of adequate quality, or they may provide components at significantly increased prices.***

Some of our components are currently available only from a single source or limited sources. We may experience delays in production if we fail to identify alternative suppliers, or if any parts supply is interrupted, each of which could materially adversely affect our business and operations. In addition, the COVID-19 pandemic continues to cause labor shortages and disrupt global supply chains, which has contributed to prolonged disruptions. The COVID-19 pandemic is also contributing to growing inflationary pressures, particularly in the U.S., where inflation continues to show signs of acceleration. In order to reduce manufacturing lead times and ensure adequate component supply, we enter into agreements with certain suppliers that allow them to procure inventories based upon criteria defined by us. If we fail to anticipate customer demand properly, an oversupply of parts could result in excess or obsolete inventories, which could adversely affect our business. Additionally, if we fail to correctly anticipate our internal supply requirements, an undersupply of parts could limit our production capacity. Our inability to meet volume commitments with suppliers could affect the availability or pricing of our parts and components. A reduction or interruption in supply, a significant increase in price of one or more components or a decrease in demand of products could materially adversely affect our business and operations and could materially damage our customer relationships. Financial problems of suppliers on whom we rely could limit our supply of components or increase our costs. Also, we cannot guarantee that any of the parts or components that we purchase will be of adequate quality or that the prices we pay for the parts or components will not increase. Inadequate quality of products from suppliers could interrupt our ability to supply quality products to our customers in a timely manner. Additionally, defects in materials or products supplied by our suppliers that are not identified before our products are placed in service by our customers could result in higher warranty costs and damage to our reputation. We also outsource certain of our components internationally. As a result of outsourcing internationally, we may be subject to delays in delivery because of regulations associated with the import/export process, delays in transportation or regional instability.

***Commodity market factors impact our costs and availability of materials.***

Our products contain a number of commodity materials from metals, which include steel, special high temperature alloys, copper, nickel and molybdenum, to computer components. The availability of these commodities could impact our ability to acquire the materials necessary to meet our production requirements. The cost of metals has historically fluctuated. The pricing could impact the costs to manufacture our products. During Fiscal 2022, as a result of COVID-19 and other ongoing macroeconomic events, we saw significant price increases in the cost of our commodity materials. If we are not able to acquire commodity materials at prices and on terms satisfactory to us or at all, our operating results may be materially adversely affected.

***We operate in a highly competitive market among competitors that have significantly greater resources than we have and we may not be able to compete effectively.***

We compete with several technologies, including reciprocating engines, fuel cells and solar power. Competing technologies may receive certain benefits, like governmental subsidies or promotion, or be able to offer consumer rebates or other incentives that we cannot receive or offer to the same extent. This could enhance our competitors' abilities to fund research, penetrate markets or increase sales. We also compete with other manufacturers of microturbines.

Our competitors include several well-known companies with histories of providing power solutions. They have substantially greater resources than we do and have established worldwide presence. Because of greater resources, some of our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, to devote greater resources to the promotion and sale of their products than we can or lobby for governmental regulations and policies to create competitive advantages vis-à-vis our products. We believe that developing and maintaining a competitive advantage will require continued investment by us in product development and quality, as well as attention to product performance, our product prices, our conformance to industry standards, manufacturing capability and sales and marketing. In addition, current and potential competitors have established or may in the future establish collaborative relationships among themselves or with third parties, including third parties with whom we have business relationships. Accordingly, new competitors or alliances may emerge and rapidly acquire significant market share.

Overall, the market for our products is highly competitive and is changing rapidly. We believe that the primary competitive factors affecting the market for our products, including some that are outside of our control, include:

- name recognition, historical performance and market power of our competitors;
- product quality and performance;
- operating efficiency;
- product price;
- availability, price and compatibility of fuel;
- development of new products and features; and
- emissions levels.

There is no assurance that we will be able to successfully compete against either current or potential competitors or that competition will not have a material adverse effect on our business, operating results, financial condition and cash flow.

***Our business and financial performance depends in part on the oil and natural gas industry, where a continued movement towards clean energy and away from fossil fuels, as well as a decline in prices for oil and natural gas may have an adverse effect on our revenue, cash flows, profitability and growth.***

Revenue in the oil and natural gas industry has been in decline for several years from our historical highs, due to volatility in oil prices, as well as a movement towards clean energy and away from fossil fuels, which has impacted capital expenditures in the oil and natural gas industry. We continue to be impacted by the volatility of the global oil and gas industry. If prices were to decline and remain low for a sustained period, we would expect to see additional declines in our customers' spending which would have an adverse effect on our revenue. In addition, a worsening of these conditions may result in a material adverse impact on certain of our customers' liquidity and financial position resulting in further spending reductions, delays in the collection of amounts owing to us and other similar adverse effects. Despite a recent increase in oil prices, we have not yet seen a corresponding increase in sales activity, primarily due to the customers in our natural resources market vertical not yet increasing their spend on capital expenditures that would include our microturbine product.

***Our sales and results of operations could be materially and adversely impacted by risks inherent in international markets.***

As we expand in international markets, customers may have difficulty or be unable to integrate our products into their existing systems or may have difficulty complying with foreign regulatory and commercial requirements. As a result, our products may require redesign. Any redesign of the product may delay sales or cause quality issues. In addition, we may be subject to a variety of other risks associated with international business, including import/export restrictions, fluctuations in currency exchange rates and economic or political instability. Our business in particular is also subject to risks relating to uncertainties and effects of the implementation of the United Kingdom's referendum to withdraw membership from the EU (referred to as "Brexit"), including financial, legal, tax and trade implications. In addition, doing business internationally subjects us to risks relating to political or social unrest, as well as corruption and government regulation, including laws such as the Foreign Corrupt Practices Act and the U.K. Bribery Act, that impose stringent requirements on how we conduct our foreign operations.

***We may not be able to develop sufficiently trained applications engineering, installation and service support to serve our targeted markets.***

Our ability to identify and develop business relationships with companies that can provide quality, cost-effective application engineering, installation and service can significantly affect our success. The application engineering and proper installation of our microturbines, as well as proper maintenance and service, are critical to the performance of the units. Additionally, we need to reduce the total installed cost of our microturbines to enhance market opportunities. Our inability to improve the quality of applications, installation and service while reducing associated costs could affect the marketability of our products.

***Changes in our product components may require us to replace parts held at distributors.***

We have entered into agreements with some of our distributors requiring that if we render parts obsolete in inventories they own and hold in support of their obligations to serve fielded microturbines, we are required to replace the affected stock at no cost to the distributors. As a result, it is possible that future changes in our product technology could involve costs that have a material adverse effect on our results of operations, cash flow or financial position.

***Utility companies or governmental entities could place barriers to our entry into the marketplace, and we may not be able to effectively sell our products.***

Utility companies or governmental entities could place barriers on the installation of our products or the interconnection of the products with the electric grid. Further, they may charge additional fees to customers who install on-site generation or have the capacity to use power from the grid for back-up or standby purposes. These types of restrictions, fees or charges could hamper the ability to install or effectively use our products or increase the cost to our potential customers for using our systems. This could make our systems less desirable, thereby adversely affecting our revenue and other operating results. In addition, utility rate reductions can make our products less competitive which would have a material adverse effect on our operations. The cost of electric power generation bears a close relationship to natural gas and other fuels. However, changes to electric utility tariffs often require lengthy regulatory approval and include a mix of fuel types as well as customer categories. Potential customers may perceive the resulting swings in natural gas and electric pricing as an increased risk of investing in on-site generation.

#### ***Risks Related to Pending Litigation and Government Regulation***

***We operate in a highly regulated business environment, and changes in regulation could impose significant costs on us or make our products less economical, thereby affecting demand for our microturbines.***

Our products are subject to federal, state, local and foreign laws and regulations, governing, among other things, emissions and occupational health and safety. Regulatory agencies may impose special requirements for the implementation and operation of our products or that may significantly affect or even eliminate some of our target markets. We may incur material costs or liabilities in complying with government regulations. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations,



requirements and approvals that may be adopted or imposed in the future. We can provide no assurances that we will be able to obtain any such approvals in a timely manner, or at all. Non-compliance with applicable regulations could have a material adverse effect on our operating results. Furthermore, our potential utility customers must comply with numerous laws and regulations. The deregulation of the utility industry may also create challenges for our marketing efforts. For example, as part of electric utility deregulation, federal, state and local governmental authorities may impose transitional charges or exit fees, which would make it less economical for some potential customers to switch to our products.

The market for electricity and generation products is heavily influenced by federal and state government regulations and policies. The deregulation and restructuring of the electric industry in the United States and elsewhere may cause rule changes that may reduce or eliminate some of the advantages of such deregulation and restructuring. We cannot determine how any deregulation or restructuring of the electric utility industry may ultimately affect the market for our microturbines. Changes in regulatory standards or policies could reduce the level of investment in the research and development of alternative power sources, including microturbines. Any reduction or termination of such programs could increase the cost to our potential customers, making our systems less desirable, and thereby adversely affect our revenue and other operating results.

***We have significant tax assets, usage of which may be subject to limitations in the future.***

At March 31, 2022, we had federal and state net operating loss carryforwards of approximately \$566.5 million and \$177.1 million, respectively, which may be utilized to reduce future taxable income, subject to limitations under Section 382 of the Internal Revenue Code of 1986. These deferred tax assets have been fully offset by a valuation allowance. Any subsequent accumulations of common stock ownership leading to a change of control under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, including through sales of stock by large stockholders, which are outside of our control, could limit and defer our ability to utilize our net operating loss carryforwards to offset future federal income tax liabilities.

***We may be subject to lawsuits.***

We may be named as defendants in future lawsuits. These current and future matters may result in significant liabilities and diversion of our management's time, attention and resources. Given the uncertain nature of litigation generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome in these matters. In view of these uncertainties, the outcome of these matters may result in charges in excess of any established reserves and, to the extent available, liability insurance. Protracted litigation, including any adverse outcomes, may have an adverse impact on our business, financial condition or results of operations. In addition, any significant judgment or settlement amount may require us to incur additional indebtedness, adversely affect our liquidity and ability to service our indebtedness, or require us to restructure or amend the terms of our indebtedness. See Item 3—Legal Proceedings of this Form 10-K for more information regarding currently pending legal proceedings.

In addition, from time to time, we may face litigation relating to intellectual property, labor, product liability, stockholder and other matters. An adverse judgment could negatively impact our financial position and results of operations, the trading price of our common stock and our ability to obtain future financing on favorable terms or at all. Whether or not resolved in a manner adverse to us, any litigation could be costly, divert management attention or result in increased costs of doing business. Further, our insurance coverage is limited for these and other claims against us, and we may not have adequate insurance or financial resources to pay for our liabilities or losses from any such claims.

***Risks Related to Data, Security, and Intellectual Property***

***Our business could be negatively impacted if we fail to adequately protect our intellectual property rights or if third parties claim that we are in violation of their intellectual property rights.***

We view our intellectual property rights as important assets. We seek to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing and confidentiality agreements. These protections may not be adequate to prevent third parties from using our intellectual property without our authorization, breaching any confidentiality agreements with us, copying or reverse engineering our products, or

developing and marketing products that are substantially equivalent to or superior to our own. The unauthorized use of our intellectual property by others could reduce our competitive advantage and harm our business. If it became necessary for us to litigate to protect these rights, any proceedings could be burdensome and costly and we may not prevail. We cannot guarantee that any patents, issued or pending, will provide us with any competitive advantage or will not be challenged by third parties. Moreover, the expiration of our patents may lead to increased competition with respect to certain products. In addition, we cannot be certain that we do not or will not infringe third parties' intellectual property rights. Any such claim, even if it is without merit, may be expensive and time-consuming to defend, subject us to damages, cause us to cease making, using or selling certain products that incorporate the disputed intellectual property, require us to redesign our products, divert management time and attention and/or require us to enter into costly royalty or licensing arrangements.

***We face security and cybersecurity risks related to our electronic processing of sensitive and confidential business and product data. If we are unable to protect our data or the data of our customers, a security breach could damage our reputation and have a material adverse effect on our business.***

As a manufacturer of high technology commercial products, we face security and cyber security threats, as well as the potential for business disruptions associated with information technology failures or cyber security attacks. Given the nature of our business, we collect, process and retain sensitive and confidential customer and associated data, in addition to proprietary business information. Our business, including our turbines and related energy assets may be vulnerable to a data compromise, computer viruses, physical and electronic break-ins and manipulations and similar disruptions, which may not be prevented by our efforts to secure our computer systems and assets, which include vulnerability scans and patching, network firewalls, identity and access management, data encryption, intrusion detection and prevention devices. Our cybersecurity efforts may not be able to prevent rapidly evolving types of cyber-attacks and a successful breach of our computer systems could result in misappropriation of personal, payment or sensitive business information. In addition, we rely on associates, contractors and other third parties that may attempt to circumvent our security measures in order to obtain such information and may purposefully or inadvertently cause a breach involving such information. A security breach involving confidential and proprietary data or the fleet of turbines we have deployed across the globe for our customers could damage our reputation and our ability to retain existing customers or gain new customers and impact the competitive advantages derived from our R&D efforts, the usefulness of our products and services, and ultimately our stock price. In addition, we may incur material liabilities and remediation costs as a result of a security breach, and our insurance may not be sufficient to cover the impact to the business. Moreover, evolving privacy laws in the United States, Europe and elsewhere, including the adoption by the European Union of the General Data Protection Regulation ("GDPR"), which became effective May 2018, establishes new individual privacy rights and imposes increased obligations on companies handling personal data. Consequently, we may incur significant costs related to prevention and compliance with laws regarding the protection and unauthorized disclosure of personal information. Further, a greater number of our employees are working remotely, which could expose us to greater risks related to cybersecurity and our information technologies systems.

#### ***Risks Related to Ownership of Our Common Stock***

***We cannot be certain of the future effectiveness of our internal controls over financial reporting. If we are unable to maintain effective internal controls over our financial reporting, investors may lose confidence in our ability to provide reliable, and timely financial reports and the value of our common stock may decline.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual reports on Form 10-K our assessment of the effectiveness of our internal controls over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of March 31, 2022. We may in the future identify material weaknesses in our internal controls over financial reporting that could result in a material misstatement of our financial statements. Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected. If we cannot adequately maintain the effectiveness of our internal controls over financial reporting, we may not be able to produce timely and accurate financial statements. If that were to

happen, our investors could lose confidence in our reported financial information, the market price of our common stock could decline and we might be subject to sanctions or investigation by regulatory authorities, such as the SEC.

***Future issuances or sales of our common stock or exercises by holders of our outstanding warrants could lower our stock price and dilute the interests of existing stockholders.***

We may issue additional shares of our common stock in the future. The issuance of a substantial amount of common stock could have the effect of substantially diluting the interests of our current stockholders. In addition, the sale of a substantial amount of common stock in the public market, either in the initial issuance or in a subsequent resale by investors that acquired such common stock, could have a material adverse effect on the market price of our common stock. Pursuant to the A&R NPA Second Amendment, we are required to use our commercially reasonable efforts to raise at least \$10 million through a sale of our common stock by September 14, 2022. We may also sell up to \$50 million of shares of our common stock in “at-the-market” offerings pursuant to the sales agreement entered into with H.C. Wainwright & Co., LLC on June 7, 2018 and as amended on July 15, 2020 and March 29, 2021. The sale of a substantial number of shares of our common stock, pursuant to the capital raise contemplated by the A&R NPA Second Amendment, the at-the-market offering sales agreement or otherwise, or anticipation of any such sales, could cause the trading price of our common stock to decline or make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise desire. In addition, issuances of any shares of our common stock sold pursuant to the sales agreement will have a dilutive effect on our existing stockholders.

We cannot predict the effect, if any, that future public sales of our common stock or the availability of additional shares of our common stock for sale will have on the market and trading price of our common stock. In addition, we currently have warrants outstanding for the purchase of up to an aggregate of 0.8 million shares of our common stock and certain of our warrant holders also have the right to require us to register under the Securities Act the shares issuable upon exercise of their warrants. In addition, some of our outstanding warrants contain anti-dilution provisions that may, under certain circumstances, increase the number of shares issuable thereunder. To the extent the warrants outstanding are fully exercised, a significant number of shares of common stock will be issued, which will result in dilution to the holders of our shares of common stock and an increase in the number of shares eligible for resale in the public market. If any of our stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market and trading price of our securities, even if there is no relationship between such sales and the performance of our business.

***The market price of our common stock has been, and may continue to be, highly volatile and you could lose all or part of your investment in our securities.***

An investment in our securities is risky, and stockholders could lose their investment in our securities or suffer significant losses and wide fluctuations in the market value of their investment. The market price of our common stock is highly volatile and is likely to continue to be highly volatile. Given the continued uncertainty surrounding many variables that may affect our business and the industry in which we operate, our ability to foresee results for future periods is limited. This variability could affect our operating results and thereby adversely affect our stock price. Many factors that contribute to this volatility are beyond our control and may cause the market price of our common stock to change, regardless of our operating performance. Factors that could cause fluctuation in our stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- market sentiment toward alternative energy stocks in general or toward us;
- changes in financial estimates or recommendations by securities analysts;
- conditions or trends in our industry or the overall economy;
- loss of one or more of our significant customers;

- errors, omissions or failures by third parties in meeting commitments to us;
- changes in the market valuations or earnings of our competitors or other technology companies;
- the trading of options on our common stock;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- announcements of significant market events, such as power outages, regulatory changes or technology changes;
- changes in the estimation of the future size and growth rate of our market;
- future equity financings;
- the failure to produce our products on a timely basis in accordance with customer expectations;
- the inability to obtain necessary components on time and at a reasonable cost;
- litigation or disputes with customers or business partners;
- capital commitments;
- additions or departures of key personnel;
- sales or purchases of our common stock;
- the trading volume of our common stock;
- developments relating to litigation or governmental investigations; and
- further decreases in or continued low levels of oil, natural gas and electricity prices.

Market conditions may result in volatility in the level of, and fluctuations in, market prices of stocks generally and, in turn, our common stock. For example, between April 1, 2019 and March 31, 2022, the market price of our common stock ranged from \$8.90 to \$4.12. Global financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in securities prices. We are unable to predict the likely duration and severity of the current disruptions in financial markets and adverse economic conditions throughout the world.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against the company. This type of litigation, regardless of whether we prevail on the underlying claim, could result in substantial costs and a diversion of management's attention and resources, which could materially harm our financial condition, results of operations and cash flow.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable independent research about our business, our stock price and trading volume could decline.***

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts that covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

***Provisions in our certificate of incorporation, bylaws and our NOL rights plan, as well as Delaware law, may discourage, delay or prevent a merger or acquisition at a premium price.***

Provisions of our second amended and restated certificate of incorporation, amended and restated bylaws and our stockholder rights plan, as well as provisions of the General Corporation Law of the State of Delaware, could discourage, delay or prevent unsolicited proposals to merge with or acquire us, even though such proposals may be at a premium price or otherwise beneficial to you. These provisions include our Board's authorization to issue shares of preferred stock, on terms the Board determines in its discretion, without stockholder approval, and the following provisions of Delaware law that restrict many business combinations.

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware, which could prevent us from engaging in a business combination with a 15% or greater stockholder for a period of three years from the date such stockholder acquired such status unless appropriate board or stockholder approvals are obtained.

On May 6, 2019, we and Broadridge Financial Solutions, Inc. successor-in-interest to Computershare Inc., as Rights Agent, entered into the NOL Rights Agreement, which is designed to diminish the risk that our ability to use our net operating losses and certain other tax assets to reduce potential future federal income tax obligations would become subject to limitations by reason of us experiencing an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended. The NOL Rights Agreement replaces the Company's Rights Agreement, dated May 6, 2016, by and between the Company and Broadridge Financial Solutions, Inc., as successor-in-interest to Computershare Inc., as rights agent (the "Original Rights Agreement"). On April 7, 2022, our Board approved an extension of the NOL Rights Agreement from May 6, 2022 to May 6, 2025, subject to obtaining shareholder approval ratifying such extension. While this NOL Rights Agreement is intended to preserve our net operating losses, it effectively deters current and future purchasers from becoming 4.99% stockholders. The NOL Rights Agreement could also make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders.

***We do not intend to pay cash dividends. We have never paid dividends on our capital stock and we do not anticipate paying any dividends in the foreseeable future. Consequently, any gains from an investment in our securities will likely depend on whether the price of our common stock increases.***

We have not paid dividends on any of our capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future. Consequently, in the foreseeable future, you will likely only experience a gain from your investment in our securities if the price of our common stock increases.

### ***General Risk Factors***

***Adverse economic conditions may have an impact on our business and financial condition, including some effects we may not be able to predict.***

Adverse economic conditions, such as recent supply chain disruptions, labor shortages and persistent inflation, may prevent our customers from purchasing our products or delay their purchases, which would adversely affect our business, financial condition and results of operations. In addition, our ability to access the capital markets may be severely restricted or made very expensive at a time when we need, or would like, to do so, which could have a material adverse impact on our liquidity and financial resources. Certain industries in which our customers do business and certain geographic areas have been and could continue to be adversely affected by adverse economic conditions. Our revenue continues to be negatively impacted by the volatility of the global oil and gas markets, a strong U.S. dollar (making our products more expensive overseas) and ongoing global geopolitical tensions. Adverse economic developments affect businesses such as ours and those of third parties on which we rely in a number of ways that could result in unfavorable consequences to us. Current economic conditions or a deepening economic downturn in the United States and elsewhere may reduce our ability to access capital, which could negatively impact our short-term and long-term liquidity.

***Our business may be impacted by international instability, war, terrorism, and geopolitical events.***

International political and economic instability or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption, expropriation and other economic or political uncertainties could interrupt and negatively affect the performance of our services, sale of our products or other business operations. See “— Changes to trade regulation, quotas, duties or tariffs, and sanctions caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs or limit the amount of raw materials and products that we can import or may otherwise adversely impact our business” for a discussion of the impact of Russia’s military invasion of Ukraine on our business and results of operations. A slowdown in economic growth in some emerging markets could result in long sales cycles, greater risk of uncollectible accounts and longer collection cycles. Fluctuations or devaluations in currency values, especially in emerging markets, could have an adverse effect on us, our suppliers, logistics providers and manufacturing vendors. All of these factors could result in increased costs or decreased revenues, and could materially and adversely affect our product sales, financial condition and results of operations.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our principal corporate offices, administrative, sales and marketing, R&D and support facilities consist of approximately 79,000 square feet of leased office space, warehouse space and assembly, test space and manufacturing facility for our recuperator cores located at 16640 Stagg Street in Van Nuys, California. This lease will expire in February 2023, and we have one five-year option to extend the term of this lease. Additionally, we lease approximately 9,216 square feet of warehouse space at 16701 Stagg Street in Van Nuys, California. This lease will expire in June 2024, and we have one five-year option to extend the term of this lease. We also lease office and manufacturing facilities located at Unit 800 & 810 Fareham Reach, Fareham Road, Gosport, Hampshire, United Kingdom. These leases will expire in May 2037. Management believes these facilities are adequate for our current needs.

**Item 3. Legal Proceedings.**

Refer to Note 12 – Commitments and Contingencies – Legal matters in the Notes to Consolidated Financial Statements for information regarding legal proceedings in which we are involved. From time-to-time, we are involved in other pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on our results of operations, liquidity, or financial position.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

*Market Information*

Our common stock is publicly traded on the Nasdaq Capital Market under the symbol “CGRN”.

*Stockholders*

As of July 11, 2022, there were 275 stockholders of record of our common stock. This does not include the number of persons whose stock is held in nominee or “street name” accounts through brokers.

### *Dividends*

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be made at the discretion of our board of directors. In addition, the terms of our outstanding indebtedness restrict our ability to pay cash dividends, and any future indebtedness that we may incur could preclude us from paying cash dividends.

### *Securities Authorized for Issuance Under Equity Compensation Plan.*

Information about our equity compensation plans in Item 11 of Part III of this Annual Report on Form 10-K is incorporated herein by reference.

### *Issuer Purchases of Equity Securities*

There were no repurchases of shares of common stock made during Fiscal 2022, except for shares of common stock automatically withheld to cover the tax liability resulting from the vesting of restricted stock units. During Fiscal 2022, the Company automatically withheld 27,679 shares of common stock to cover the tax liability resulting from the vesting of stock units. These withheld shares of common stock are recorded as treasury stock on the Company's Consolidated Balance Sheets.

### **Item 6. [Reserved]**

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

*The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under “Note Regarding Forward-Looking Statements” and Item 1A (Risk Factors) in this Form 10-K. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Form 10-K.*

### Overview

We are the market leader in microturbines based on the number of microturbines sold. Generally, power purchased from the electric utility grid is less costly than power produced by distributed generation technologies. Utilities may also charge fees to interconnect to their power grids. However, we can provide economic benefits to end users in instances where the waste heat from our microturbine has value (CHP and CCHP), where fuel costs are low (renewable energy/renewable fuels), where the costs of connecting to the grid may be high or impractical (such as remote power applications), where reliability and power quality are of critical importance, or in situations where peak shaving could be economically advantageous because of highly variable electricity prices. Our microturbines can be interconnected to other distributed energy resources to form “microgrids” (also called “distribution networks”) located within a specific geographic area and provide power to a group of buildings. Because our microturbines can provide a reliable source of power and can operate on multiple fuel sources, management believes they offer a level of flexibility not currently offered by other technologies such as reciprocating engines. In addition to our existing microturbine products, since September 2020, we have offered additional energy conversion products in the form of Baker Hughes 5 MW, 12 MW, and 16 MW industrial gas turbines, where we will purchase and resell their product (although there was no revenue from sales of additional energy conversion products in the form of Baker Hughes industrial gas turbines for the year ended March 31, 2022 or 2021). We are currently exploring energy conversion options for the smaller end of the power spectrum. We intend to begin to manufacture modular hybrid energy stations and lithium-ion battery energy storage systems (“BESS”) to be sold either individually or combined as part of a custom microturbine-battery storage solution. We consider our microturbines, Baker Hughes turbines, and hybrid energy stations to be a part of our Energy conversion products business line. We also added a new Energy Storage Products business line in Fiscal 2022, and there has not yet been any revenue from this business line.

Our goals for Fiscal 2022 were to broaden our diverse energy products and service offerings; focus on growing top line revenue through our new Direct Solutions Sales (DSS) team, growing the DSS subscription program, and expanding the rental fleet to 21.1 MW (a key component of growing our EaaS business); increase aftermarket margins and escalate parts availability; and focus on managing working capital and inventory turns. During Fiscal 2022 our net loss was \$20.2 million and our basic and diluted net loss per share was \$1.37, compared to \$18.4 million and \$1.63, respectively, in the same period of the previous fiscal year. The \$1.8 million increase in the net loss during Fiscal 2022 was primarily attributable to increases in selling, general and administrative expense primarily driven by lower expense in Fiscal 2021 from the enactment of our Business Continuity Plan in response to the Covid-19 pandemic, as well as additional expense related to the growth of the DSS team during Fiscal 2022. This increase was partially offset by the loss on extinguishment of debt accounting resulting from entering into the A&R Note Purchase Agreement with Goldman Sachs during the third quarter of Fiscal 2021 and the gain on extinguishment of debt resulting from the forgiveness of the PPP Loan during the first quarter of Fiscal 2022. On October 1, 2020, the Company entered into an Amended & Restated Note Purchase Agreement (the “A&R Note Purchase Agreement”), and issued \$20.0 million in additional Notes. See Note 11—Term Note Payable, in the Notes to Consolidated Financial Statements for discussion with respect to this A&R Note Purchase Agreement.

We continue to focus on developing all our major vertical markets (energy efficiency, renewable energy, natural resources, critical power supply, and microgrids). In the energy efficiency market, we continue to expand our market presence in hotels, office buildings, hospitals, retail, and industrial applications globally. The renewable energy market is fueled by landfill gas, biodiesel, and biogas from sources such as food processing, agricultural waste and livestock manure. Our product sales in the oil and gas and other natural resources market are driven by our microturbines’ reliability,



emissions profile and ease of installation. Given the volatility of the oil and gas market, our business strategy is to ensure diversification by also targeting projects within the energy efficiency and renewable energy markets.

We continue to focus on improving our products based on customer input, building brand awareness and new channels to market by developing a diversified network of strategic distribution partners. Our focus is on products and solutions that provide near term opportunities to drive repeatable business rather than discrete projects for niche markets. In addition, management closely monitors operating expenses and strives to improve manufacturing efficiencies while simultaneously lowering direct material costs and increasing average selling prices. The key drivers to our success are revenue growth, higher average selling prices, lower direct material costs, positive new order flow and reduced cash usage.

An overview of our direction, targets and key initiatives are as follows:

- 1) Our Energy Conversion Products business line is driven by our industry-leading, highly efficient, low-emission, resilient microturbine energy systems offering scalable solutions in addition to a broad range of customer-tailored solutions. We target specific market verticals for these products.

**Focus on Vertical Markets** Within the distributed generation markets that we serve, we focus on vertical markets that we identify as having the greatest near-term potential. In our primary products and applications (energy efficiency, renewable energy, natural resources, critical power supply, microgrid and transportation products), we identify specific targeted vertical market segments. Within each of these segments, we identify what we believe to be the critical factors to success and base our plans on those factors. Given the volatility of the oil and gas market, we have refocused our business strategy to target projects within the energy efficiency and renewable energy markets.

The following table summarizes our percentage of product revenues by vertical markets for which we had product revenues for the periods presented:

	Year Ended March 31,	
	2022	2021
Energy efficiency .....	67 %	61 %
Natural resources.....	13 %	25 %
Renewable energy.....	18 %	13 %
Microgrid.....	2 %	1 %

*Energy Efficiency—CHP/CCHP*

Energy efficiency refers to the proper utilization of both electrical and thermal energies in the power production process. In such applications, our microturbines are able to maximize the availability of usable energy to provide a significant economic advantage to customers while reducing their onsite emissions. CHP and CCHP can improve site economics by capturing the waste heat created from a single combustion process to increase the efficiency of the total system, from approximately 30 percent to 80 percent or more. Compared with more traditional, independent generation sources, the increase in operational efficiency also reduces greenhouse gas emissions through the displacement of other separate systems, which can also reduce operating costs.

*Natural Resources—Crude Oil, Natural Gas, Shale Gas & Mining*

Our microturbines are installed in the natural resource market for use in both onshore and offshore applications, including oil and gas exploration, production, and at compression and transmission sites as a highly efficient and reliable source of power. In some cases, these oil and gas or mining operations have no electric utility grid and rely solely on power generated onsite. There are numerous locations, on a global scale, where the drilling, production, compression and transportation of natural resources and other extraction and production processes create fuel byproducts, which are traditionally burned or

released into the atmosphere. Our microturbines can turn these fuel byproducts - flare gas, or associated gas, into a useable fuel to provide prime power to these sites.

### *Renewable Energy*

There is a growing transition to renewable energy sources and technologies on a global scale. Our microturbines run efficiently on renewable fuels such as methane and other biogases from landfills, wastewater treatment facilities and renewable natural gas. They also run efficiently on other small biogas applications like food processing plants, livestock farms and agricultural green waste operations. Microturbines can burn these renewable fuels with minimal emissions, thereby, in some cases, avoiding the imposition of penalties incurred for pollution while simultaneously producing electricity from this “free” renewable fuel source for use at the site or in the surrounding areas. Our microturbines have demonstrated effectiveness in these smaller applications and may outperform conventional combustion engines in some situations, including when the gas contains a high amount of sulfur, as the sulfur can contaminate combustion engines lube oil leading to equipment breakdowns and higher lifecycle costs.

### *Critical Power Supply*

Because of the potentially catastrophic consequences of system failure, momentary or otherwise, certain high demand power users, including high technology, health care and information systems facilities require higher levels of reliability in their power generation service. To meet these customer requirements, traditional solutions utilize Uninterruptible Power Supplies (“UPS”) to protect critical loads from power disturbances along with back-up diesel generators for extended outages. We offer an alternative solution that can both meet customer reliability requirements and reduce operating costs. We have seen continued development in the critical market segment as it relates to health care facilities.

### *Microgrid*

Microgrid is a group of interconnected loads and distributed energy resources that acts as a single controllable energy entity with respect to the grid. Distributed energy resources typically include other dual-mode microturbines, reciprocating engines, solar photovoltaic (PV), wind turbine, fuel cells and battery storage. Microgrids can be connected to larger electricity grids; however, in the event of a widespread outage, the microgrid will disconnect from the main grid and continue to operate independently to maintain the electricity supply to the homes and businesses that are connected to the microgrid’s electricity network. Our microturbines have the ability to meet the needs of microgrid end-users by lowering their overall cost to operate and by providing a versatile dispatchable technology that is fuel flexible and scalable enough to fit a wide variety of applications. We have seen continued development in the microgrid market segment.

### *Backlog*

Net product orders were approximately \$31.8 million and \$25.9 million for Fiscal 2022 and Fiscal 2021, respectively. Ending backlog was approximately \$25.3 million at March 31, 2022 compared to \$29.4 million at March 31, 2021. Book-to-bill ratio was 1.1:1 for both Fiscal 2022 and 2021. Book-to-bill ratio is the ratio of new orders we received to units shipped and billed during a period.

A portion of our backlog is concentrated in the oil and gas market which may impact the overall timing of shipments or the conversion of backlog to revenue. The timing of the backlog is based on the requirement date indicated by our customers. However, based on historical experience, management expects that a significant portion of our backlog may not be shipped within the next 18 months. Additionally, the timing of shipments is subject to change based on several variables (including customer deposits, payments, availability of credit and customer delivery schedule changes), most of which are not in our control and can affect the timing of our revenue. As a result, management believes the book-to-bill ratio demonstrates the current demand for our products in the given period.

- 2) ***Sales and Distribution Channels*** We seek out distributors that have business experience and capabilities to support our growth plans in our targeted markets. A significant portion of our revenue is derived from sales to distributors that resell our products to end users. We have a total of 66 distributors, OEMs and national accounts. In the United States and Canada, we currently have 10 distributors, OEMs and national accounts. Outside of the United States and Canada, we currently have 56 distributors, OEMs and national accounts. We continue to refine our distribution channels to address our specific targeted markets.

Our DSS program provides additional support for distributor business development activities, customer lead generation, brand awareness and tailored marketing services for each of our major geography and market verticals. This program is funded by our distributors and was developed to provide improved worldwide distributor training, sales efficiency, website development, company branding and provide funding for increased strategic marketing activities. See Note 2—Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for additional discussion of revenue recognition for this program.

- 3) ***Service*** As part of our Energy as a Service business line, we provide service primarily through our global distribution network. Together with our global distribution network we offer a comprehensive factory protection plan for a fixed fee to perform regularly scheduled and unscheduled maintenance as needed. We provide factory and on-site training to certify all personnel that are allowed to perform service on our microturbines. Factory protection plans are generally paid quarterly in advance.

Our FPP backlog at the end of Fiscal 2022 and Fiscal 2021 was approximately \$79.1 million and \$75.1 million, respectively, which represents the value of the contractual agreement for FPP services that has not been earned and extends through Fiscal 2042. Additionally, we offer new and remanufactured parts through our global distribution network. Service revenue in Fiscal 2022 was approximately 33% of total revenue.

- 4) ***Product Robustness and Life Cycle Maintenance Costs*** We continue to invest in enhancements that relate to high performance and high reliability. An important element of our continued innovation and product strategy is to focus on the engineering of our product hardware and electronics to make them work together more effectively and deliver improved microturbine performance, reliability and low maintenance cost to our customers.

- 5) ***New Product Development*** Our new product development is targeted specifically to meet the needs of our selected vertical markets. We expect that our existing product platforms, the C65, C200 and C1000 Series microturbines, will be our foundational product lines for the foreseeable future. Our research and development project portfolio is centered on enhancing the features of these base products.

During Fiscal 2022, we continued to expand and develop our new hydrogen products. In March 2022, we released a commercially available hydrogen-based combined heat and power (CHP) product, which can safely run on a 30% hydrogen-70% natural gas mix. In continuing these efforts, we are testing a 100% hydrogen gas combustion system through our research and development partnership with Argonne National Laboratory.

- 6) ***Cost and Core Competencies*** We believe that the core competencies of our products are air-bearing technology, advanced combustion technology and sophisticated power electronics to form efficient and ultra-low emission electricity and cooling and heat production systems. Our core intellectual property is contained within our air-bearing technology. We continue to review avenues for cost reduction by sourcing to the best value supply chain option. In order to utilize manufacturing facilities and technology more effectively, we are focused on continuous improvements in manufacturing processes. Additionally, considerable effort is being directed to manufacturing cost reduction through process improvement, product design, advanced manufacturing technology, supply management and logistics. Management expects to be able to leverage our costs as product volumes increase.

Our manufacturing designs include the use of conventional technology, which has been proven in high-volume automotive and turbocharger production for many years. Many components used in the manufacture of our products are readily fabricated from commonly available raw materials or off the shelf items available from multiple supply sources; however, certain items are custom made to meet our specifications that require longer lead time. We believe that in most cases, adequate capacity exists at our suppliers and that alternative sources of supply are available or could be developed within a reasonable period of time; however, single source suppliers with long lead times may be more challenging to transition to another supplier. We regularly reassess the adequacy and abilities of our suppliers to meet our future needs.

We believe that effective execution in each of these key areas will be necessary to leverage our promising technology and early market leadership into achieving positive cash flow with growing market presence and improving financial performance.

We currently occupy warehouse and office space in Van Nuys, California with a production capacity of approximately 2,000 units per year, depending on product mix.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent liabilities. On an on-going basis, we evaluate our estimates, including but not limited to those related to bad debts, inventories, warranty obligations, and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

- Our revenue consists of sales of products, parts, accessories and service, which includes FPPs, net of discounts. Our distributors purchase products, parts and FPPs for sale to end users and are also required to provide a variety of additional services, including application engineering, installation, commissioning and post-commissioning service. Our standard terms of sales to distributors and direct end users include transfer of title, care, custody and control at the point of shipment, payment terms ranging from full payment in advance of shipment to payment in 90 days, no right of return or exchange, and no post-shipment performance obligations by us except for warranties provided on the products and parts sold. We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, selling price is fixed or determinable and collectability is reasonably assured. Service revenue derived from time and materials contracts is recognized as the service is performed. FPP contracts are agreements to perform certain agreed-upon service to maintain a product for a specified period of time. Service revenue derived from FPP contracts is recognized on a straight-line basis over the contract period. We occasionally enter into agreements that contain multiple elements, such as equipment, installation, engineering and/or service. Effective January 1, 2018, we launched our DSS program to fund additional support for distributor business development activities, customer lead generation, brand awareness and tailored marketing services for each of our major geography and market vertical. Service revenue derived from our DSS program is recognized on a pro rata basis as the distributors purchase our products.
- Our inventories are valued at the lower of cost (determined on a first in first out (“FIFO”) basis) or net realizable value. We routinely evaluate the composition of our inventories and identify slow-moving, excess, obsolete or otherwise impaired inventories. Inventories identified as impaired are evaluated to determine if write-downs are required. Included in this assessment is a review for obsolescence as a result of engineering

changes in our product. Future product enhancement and development may render certain inventories obsolete, resulting in additional write-downs of inventories. In addition, inventories are classified as current or long-term based on our sales forecast and also, in part, based on our projected usage for warranty claims and service. A change in forecast could impact the classification of inventories.

- We provide for the estimated cost of warranties at the time revenue from sales is recognized. We also accrue the estimated costs to address reliability repairs on products no longer under warranty when, in our judgment, and in accordance with a specific plan developed by us, it is prudent to provide such repairs. We estimate warranty expenses based upon historical and projected product failure rates, estimated costs of parts, labor and shipping to repair or replace a unit and the number of units covered under the warranty period. While we engage in extensive quality programs and processes, our warranty obligation is affected by failure rates and service costs in correcting failures. As we have more units commissioned and longer periods of actual performance, additional data becomes available to assess future warranty costs. When we have sufficient evidence that product changes are altering the historical failure occurrence rates, the impact of such changes is then taken into account in estimating future warranty liabilities. Changes in estimates are recorded in the period that new information, such as design changes, cost of repair and product enhancements, becomes available. Should actual failure rates or service costs differ from our estimates, revisions to the warranty liability would be required and could be material to our financial condition, results of operations and cash flow. During Fiscal 2021, we recorded a specific \$4.9 million warranty reserve related to reliability programs to account for the replacement of remaining high risk failure parts in some of our fielded units due to a supplier defect.
- Trade accounts receivable are recorded at the invoiced amount and typically non-interest bearing. We maintain allowances for estimated losses resulting from the inability of our customers to make required payments and other accounts receivable allowances. We evaluate all accounts aged over 60 days past payment terms. If the financial condition of our customers deteriorates or if other conditions arise that result in an impairment of their ability or intention to make payments, additional allowances may be required.
- We recognize stock-based compensation expense associated with stock options in the statement of operations. Determining the amount of stock-based compensation to be recorded requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We calculate the grant-date fair values using the Black-Scholes valuation model.

The use of Black-Scholes model requires us to make estimates of the following assumptions:

- *Expected volatility*—The estimated stock price volatility was derived based upon our actual historic stock prices over the expected option life, which represents our best estimate of expected volatility.
- *Expected option life*—The expected life, or term, of options granted was derived from historical exercise behavior and represents the period of time that stock option awards are expected to be outstanding.
- *Risk-free interest rate*—We used the yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected life assumption as the risk-free interest rate.

The amount of stock-based compensation cost is recorded on a straight-line basis over the vesting period.

## Results of Operations

### Year Ended March 31, 2022 Compared to Year Ended March 31, 2021

The following table summarizes our revenue by geographic markets (amounts in millions):

	Year Ended March 31,	
	2022	2021
United States and Canada . . . . .	\$ 34.7	\$ 32.8
Europe and Russia . . . . .	14.8	17.2
Latin America . . . . .	9.2	7.2
Asia and Australia . . . . .	8.0	9.3
Middle East and Africa . . . . .	2.9	1.1
Total . . . . .	<u>\$ 69.6</u>	<u>\$ 67.6</u>

**Revenue** for Fiscal 2022 increased \$2.0 million, or 3%, to \$69.6 million from \$67.6 million for Fiscal 2021. The change in revenue for Fiscal 2022 compared to Fiscal 2021 included increases in revenue of \$2.0 million from the Latin American markets, \$1.9 million from the United States and Canadian markets, and \$1.8 million from the Middle East and African markets. These overall increases in revenue were offset by decreases in revenue of \$2.4 million from the European and Russian markets and \$1.3 million from the Asian and Australian markets. The decrease in the Europe and Russia markets was primarily due to business impacts from the ongoing conflict between Russia and Ukraine, which has not only impacted Russia but also the European economy. The slight increase in revenue in the Latin American, United States and Canadian and Middle East and African geographic markets was primarily due to increases in product shipments into the energy efficiency and renewable energy vertical markets, as well as an increase in parts shipments.

The following table summarizes our revenue (revenue amounts in millions):

	Year Ended March 31,					
	2022			2021		
	Revenue	Megawatts	Units	Revenue	Megawatts	Units
Microturbine Product . . . . .	\$ 35.9	32.6	188	\$ 34.1	33.5	234
Accessories . . . . .	1.3			2.4		
Total Product and Accessories . . . . .	<u>37.2</u>			<u>36.5</u>		
Parts and Service . . . . .	32.4			31.1		
Total . . . . .	<u>\$ 69.6</u>			<u>\$ 67.6</u>		

For Fiscal 2022, revenue from microturbine products and accessories increased \$0.7 million, or 2%, to \$37.2 million from \$36.5 million for Fiscal 2021. The increase in revenue was primarily due to the mix of products sold during Fiscal 2022 compared to the same period last year. Megawatts shipped during Fiscal 2022 decreased 0.9 megawatts, or 3%, to 32.6 megawatts from 33.5 megawatts during Fiscal 2021. Average revenue per megawatt shipped was approximately \$1.1 million and \$1.0 million in Fiscal 2022 and 2021, respectively. The timing of shipments is subject to change based on several variables (including customer deposits, payments, availability of credit and delivery schedule changes), most of which are not within our control and can affect the timing of our revenue. Accessories revenue decreased \$1.1 million, or 46%, to \$1.3 million from \$2.4 million for Fiscal 2021, primarily due to the types of projects that required accessories in Fiscal 2022 compared to Fiscal 2021.

Parts and service revenue for Fiscal 2022 increased \$1.3 million, or 4%, to \$32.4 million from \$31.1 million for Fiscal 2021. The increase in revenue was primarily driven by an increase in rentals, FPP revenue, and spare parts, partially offset by lower engineering service revenue.

Sales to E-Finity accounted for 18% of our revenue for the year ended March 31, 2022. Sales to CAL and E-Finity accounted for 15% and 12%, respectively, of our revenue for the fiscal year ended March 31, 2021. Sales to CAL were below 10% of our revenues for the year ended March 31, 2022.

**Gross Margin** Cost of goods sold includes direct material costs, production and service center labor and overhead, inventory charges and provision for estimated product warranty expenses. Gross margin was approximately \$8.5 million, or 12% of revenue, for Fiscal 2022, compared to gross margin of \$6.9 million, or 10% of revenue, for Fiscal 2021. The increase in gross margin of \$1.6 million during Fiscal 2022 compared to Fiscal 2021 was primarily because of an incremental decrease of \$5.3 million in warranty expense, partially offset by an increase in production and service center labor and overhead expense of \$2.9 million and higher inventory charges of \$0.8 million.

The decrease in warranty expense of \$5.3 million during Fiscal 2022 compared to Fiscal 2021 was primarily due to the establishment of a reserve in Fiscal 2021 related to reliability programs to account for the replacement of remaining high risk failure parts in some of our fielded units due to a supplier defect, with no such reserve in Fiscal 2022.

Production and service center labor and overhead expense increased \$2.9 million during Fiscal 2022 compared to Fiscal 2021 primarily because of increases of approximately \$1.6 million in facilities costs, \$0.8 million in supplies expense, \$0.6 million in consulting expense and \$0.6 million in labor costs, partially offset by \$0.7 million in overhead allocated to finished goods inventory.

Inventory charges increased \$0.8 million during Fiscal 2022 compared to Fiscal 2021 primarily as the result of an increase in the provision for excess and obsolete inventory.

The following table summarizes our gross margin (in millions except percentages):

	<u>Year Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>Gross Margin</b>		
Product and accessories . . . . .	\$ (3.3)	\$ (5.5)
As a percentage of product and accessories revenue . . . . .	(9)%	(15)%
Parts and service . . . . .	\$ 11.8	\$ 12.4
As a percentage of parts and service revenue . . . . .	36 %	40 %
Total Gross Margin . . . . .	<u>\$ 8.5</u>	<u>\$ 6.9</u>
As a percentage of total revenue . . . . .	12 %	10 %

Product and accessories gross margin improved by \$2.2 million during Fiscal 2022 compared to Fiscal 2021 primarily due to the establishment of a warranty reserve to replace high-risk parts in fielded units affected by sub-optimal parts initially provided by a former strategic parts supplier in Fiscal 2021, a decrease in volume of product shipments from weakness in the oil and gas market due to a decline in oil price in Fiscal 2021, partially offset by higher overhead costs in Fiscal 2022, primarily due to the cost savings from the COVID-19 Business Continuity Plan in Fiscal 2021. Parts and service gross margin decreased \$0.6 million during Fiscal 2022 compared to Fiscal 2021 primarily due to higher FPP costs in Fiscal 2022 driven by higher scheduled and unscheduled maintenance.

Product and accessories gross margin as a percentage of product and accessories revenue improved to (9)% during Fiscal 2022 from (15)% during Fiscal 2021, primarily driven by the warranty reserve for high-risk parts, partially offset by lower overhead costs in Fiscal 2021 due to the enactment of the Business Continuity Plan. Parts and service gross margin as a percentage of parts and service revenue decreased to 36% for Fiscal 2022 compared to 40% for Fiscal 2021 primarily driven by lower overhead costs in Fiscal 2021 due to the enactment of the Business Continuity Plan, as well as lower FPP costs in Fiscal 2021.

**Research and Development Expenses (“R&D”)** R&D expenses for Fiscal 2022 increased \$1.0 million, or 42%, to \$3.4 million from \$2.4 million for Fiscal 2021, as a result of lower costs from our COVID-19 Business Continuity Plan during Fiscal 2021.

**Selling, General and Administrative (“SG&A”) Expenses** SG&A expenses for Fiscal 2022 increased \$4.6 million, or 25%, to \$23.0 million from \$18.4 million for Fiscal 2021. The net increase in SG&A expenses was primarily as a result of increases of approximately \$1.3 million of net bad debt expense, \$1.2 million in labor costs, \$0.6 million in marketing related costs, \$0.6 million in consulting expense, \$0.5 million in business travel expense, \$0.2 million in

facilities costs, and \$0.2 million in shareholder costs. These increases in Fiscal 2022 compared to Fiscal 2021, except for the higher net bad debt expense of \$1.3 million, were primarily a result of the actions taken in our Business Continuity Plan in Fiscal 2021.

**Interest Expense** Interest expense for Fiscal 2022 and 2021 were \$5.0 million and \$5.2 million, respectively. See Liquidity and Capital Resources below for additional discussion on our interest expense.

**Gain and Loss on Extinguishment of Debt** We recognized a gain on extinguishment of debt of approximately \$1.9 million during Fiscal 2022, as the result of the forgiveness of the PPP Loan. See Note 11 – Term Note Payable. We recognized a loss on extinguishment of debt of approximately \$4.3 million during Fiscal 2021. The loss on extinguishment of debt comprised of the write-off of approximately \$1.5 million of unamortized debt issuance costs, a facility fee in the amount of \$1.0 million paid to the lender, an accrual of \$1.0 million for anticipated exit fees due upon repayment of the principal balance to the lender, and the fair value of common stock warrants issued to the warrant holder in connection with Amendment No. 3 to the Purchase Warrant of \$0.8 million.

**Other Income** for Fiscal 2022 includes the payment to the Company of \$0.6 million of PPP Loan proceeds previously repaid in accordance with the Fourth Amendment to the Note Purchase Agreement between the Company and Goldman Sachs Specialty Lending Group, L.P. See Note 11 – Term Note Payable.

**Income Tax Provision** Income tax expense was \$19,000 for Fiscal 2022 and Fiscal 2021. Income tax expense incurred was related to state and foreign taxes. The effective income tax rate of -0.1% differs from the federal and state blended statutory rate of approximately 23.59% primarily as a result of maintaining a full valuation allowance against net deferred tax assets. At March 31, 2022, we had federal and state net operating loss carryforwards of approximately \$566.5 million and \$177.1 million, respectively, which may be utilized to reduce future taxable income, subject to any limitations under Section 382 of the Internal Revenue Code of 1986. We provided a valuation allowance for 100% of our net deferred tax asset of \$153.4 million at March 31, 2022 because the realization of the benefits of these favorable tax attributes in future income tax returns is not deemed more likely than not. Similarly, at March 31, 2021, the net deferred tax asset was fully reserved.

## **Liquidity and Capital Resources**

Our cash requirements depend on many factors, including the execution of our business strategy and plan. Our cash and cash equivalents balances decreased \$27.0 million during Fiscal 2022, compared to an increase of \$34.4 million during Fiscal 2021. The decrease in cash and cash equivalents during Fiscal 2022 compared to the increase in cash and cash equivalents during Fiscal 2021 was due to an increase in cash used in operating activities, as well as an increase in inventory to continue to produce product despite supply chain challenges and the intentional slowdown of incoming material in Fiscal 2021 due to the COVID-19 pandemic and delays in accounts receivable collections primarily related to the COVID-19 pandemic in the current period. Cash used in investing activities was primarily to continue the expansion of the rental fleet, which was partially offset by cash provided by financing activities from the issuance of Common Stock through our June 2021 Common Stock offering and our at-the-market offering program.

**Operating Activities** During Fiscal 2022, net cash used by operating activities was \$27.5 million, consisting of a net loss for the period of \$20.2 million, offset by cash used for working capital of \$11.8 million and non-cash adjustments (primarily warranty provision, accounts receivable allowances, depreciation and amortization, stock based compensation and inventory provision) of \$4.5 million. During Fiscal 2021, net cash provided by operating activities was \$1.7 million, consisting of a net loss for the period of \$18.4 million, offset by cash provided from working capital of \$6.4 million and non-cash adjustments (primarily warranty provision, accounts receivable allowances, depreciation and amortization, stock based compensation and inventory provision) of \$13.7 million.



The following is a summary of the significant sources (uses) of cash from operating activities (amounts in thousands):

	<u>Year Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Net loss.....	\$ (20,211)	\$ (18,387)
Non-cash operating activities(1).....	4,468	13,678
Changes in operating assets and liabilities:		
Accounts receivable.....	(6,413)	(4,125)
Inventories.....	(7,262)	8,702
Accounts payable and accrued expenses.....	4,485	4,652
Prepaid expenses, other current assets and other assets.....	164	653
Other changes in operating assets and liabilities.....	<u>(2,729)</u>	<u>(3,472)</u>
Net cash provided by (used) in operating activities.....	<u>\$ (27,498)</u>	<u>\$ 1,701</u>

(1) Represents warranty provision, change in fair value of warrant liability, depreciation and amortization, stock-based compensation expense, inventory provision and accounts receivable allowances.

The change in non-cash operating activities during Fiscal 2022 compared to Fiscal 2021 was primarily driven by the loss on extinguishment of debt accounting resulting from entering into the A&R Note Purchase Agreement with Goldman Sachs during Fiscal 2021 and the gain on extinguishment of debt resulting from the forgiveness of the PPP Loan during the first quarter of Fiscal 2022. Also contributing to the change was warranty expense during Fiscal 2021 as a result of the warranty reserve established related to reliability programs to account for the replacement of remaining high risk failure parts in some of our fielded units due to a supplier defect. The change in accounts receivable was primarily the result of slower collections in Fiscal 2022 due to continued delays from the COVID-19 pandemic, as well as from impacts from the ongoing conflict between Russia and Ukraine, compared to Fiscal 2021. The change in inventory was primarily to continue to produce product despite supply chain challenges and the intentional slowdown of incoming material in Fiscal 2021 due to the COVID-19 pandemic. The change in accounts payable and accrued expenses was primarily the result of the level of inventory receipts and timing of payments made by us during Fiscal 2022 compared to Fiscal 2021. The change in other operating assets and liabilities during the Fiscal 2022 compared to Fiscal 2021, was primarily the result of additional expenditures for the reliability repair program.

**Investing Activities** Net cash used in investing activities of \$9.9 million and \$3.2 million during Fiscal 2022 and 2021, respectively, related primarily to the additions to our rental fleet of approximately \$8.7 million and \$2.4 million, respectively. The remaining amounts were primarily for sustaining our production and facilities.

**Financing Activities** During Fiscal 2022, we generated approximately \$10.4 million in cash from financing activities compared to cash generated during Fiscal 2021 of approximately \$36.0 million. The funds generated from financing activities during the fiscal year ended March 31, 2022 were primarily the result of net proceeds from our June 2021 Common Stock offering and proceeds from the at-the-market offering program described below. The funds generated from financing activities during the fiscal year ended March 31, 2021 were primarily the result of \$19.0 million in net proceeds from our A&R Note Purchase Agreement with Goldman Sachs, as amended, net borrowings under the PPP Loan, as well as \$15.9 million in proceeds from the at-the-market offering program described below.

*At-the-market offerings*

On June 7, 2018, we entered into a Sales Agreement with H.C. Wainwright & Co., LLC (the “Sales Agreement”) with respect to an at-the-market offering program (the “ATM Program”) pursuant to which we may offer and sell, from time to time at our sole discretion, shares of our Common Stock, having an aggregate offering price of up to \$25.0 million. We will set the parameters for sales of the shares, including the number to be sold, the time period during which sales are requested to be made, any limitation on the number that may be sold in one trading day and any minimum price below which sales may not be made. On July 15, 2020, we entered into an amendment to the Sales Agreement, which modified the Sales Agreement to, among other things, amend the termination provisions of the Agreement and amend the maximum amount of shares of our Common Stock that we may offer and sell through or to H.C. Wainwright & Co., LLC from time to time under the ATM Program. On March 19, 2021, we entered into a second amendment to the Sales Agreement, which

modified the Sales Agreement to, among other things, reflect our filing of a new Registration Statement on Form S-3 with the SEC on March 22, 2021 and set the maximum amount of shares of our Common Stock that we may offer and sell through or to H.C. Wainwright at \$50 million from the date of the amendment to the Sales Agreement, subject to certain limitations set forth in the amendment. During Fiscal 2022, we issued approximately 0.1 million shares of our Common Stock under the ATM program and the net proceeds to us from the sale of our Common Stock were approximately \$0.7 million after deducting commissions paid of approximately \$26,000. As of March 31, 2022, approximately \$49.3 million remained available for issuance under this ATM Program.

#### *Common Stock Offering*

On June 17, 2021, we entered into an amended and restated underwriting agreement (the “Underwriting Agreement”) with H.C. Wainwright & Co., LLC (the “Underwriter”) whereby we agreed to sell to the Underwriter, and the Underwriter agreed to purchase, in a firm commitment underwritten public offering 1,904,763 shares (the “Shares”) of our common stock, \$0.001 par value per share (the “Offering”). The offering price to the public in the Offering was \$5.25 per share of Common Stock, and the Underwriter agreed to purchase the Shares from the Company pursuant to the Underwriting Agreement at a price of \$4.91 per share, representing an underwriting discount of 6.5%. Pursuant to the Underwriting Agreement, we also granted the Underwriter an option to purchase, for a period of 30 days from the date of the Underwriting Agreement, up to an additional 285,714 shares of Common Stock (the “Option Shares”). On June 21, 2021, the Underwriter exercised the option in full. The Offering closed on June 22, 2021, and we received net proceeds of \$10.5 million after deducting \$1.0 million underwriting discounts, commissions and offering expenses paid by the Company.

#### *Warrants*

##### *Goldman Warrant*

On February 4, 2019, we sold to Goldman Sachs & Co. LLC (the “Holder”), a Purchase Warrant for shares of our Common Stock (the “Warrant”) pursuant to which the Holder may purchase shares of our Common Stock in an aggregate amount of up to 404,634 shares (the “Warrant Shares”). Our Common Stock and warrant transactions during Fiscal 2021 triggered certain anti-dilution provisions in the warrants outstanding. As of March 31, 2022, the Holder may purchase shares of our Common Stock in an aggregate amount of up to 463,067 shares at an exercise price of \$2.61 per share.

##### *Goldman “2020 Warrant”*

On October 1, 2020, we entered into an Amendment No. 3 to the Purchase Warrant for shares of our Common Stock (the “Amendment No. 3”) with Special Situations Investing Group II, LLC (as successor in interest to Goldman Sachs & Co. LLC) (the “Warrant Holder”) that amended that certain Purchase Warrant for shares of our Common Stock originally issued by the Company to Goldman Sachs & Co. LLC, dated February 4, 2019, as amended (the “Original Warrant”). As of March 31, 2022, the holder may purchase shares of our Common Stock in an aggregate amount of up to 291,295 shares at an exercise price of \$4.76 per share.

##### *September 2019 Pre-Funded and Series D Warrants*

On September 4, 2019, we entered into a Securities Purchase Agreement (the “Securities Purchase Agreement”) with certain institutional and accredited investors pursuant to which we agreed to issue and sell in a registered direct offering (the “Registered Direct Offering”) an aggregate of 580,000 shares of our Common Stock at a negotiated purchase price of \$5.00 per share, and pre-funded warrants to purchase up to an aggregate of 440,000 shares of our Common Stock at a negotiated purchase price of \$5.00 per Pre-Funded Warrant, for aggregate gross proceeds of approximately \$5.1 million (580,000 shares of common stock plus 440,000 pre-funded warrants at a \$5.00 per share purchase price), before deducting placement agent fees and other offering expenses.

In a concurrent private placement, we agreed to issue to the purchasers warrants to purchase 765,000 shares of Common Stock, which represent 75% of the number of shares of Common Stock and shares underlying the Pre-Funded Warrants purchased in the Registered Direct Offering, pursuant to the Securities Purchase Agreement. The Common

Warrants are exercisable for shares of Common Stock at an initial exercise price of \$6.12 per share for a period of five years, starting on April 2, 2020 and expiring on April 2, 2025. In January 2021, three warrant holders exercised their rights to the warrant agreement to exercise on a cashless basis 690,000 Series D warrants at an exercise price of \$6.12 per share under the warrant agreement. In accordance with terms of the warrant agreement, after taking into account the shares withheld to satisfy the cashless exercise option, we issued 352,279 shares of Common Stock. As of March 31, 2022, there were 75,000 Series D warrants outstanding at an exercise price of \$6.12 per share.

There were no stock options exercised during Fiscal 2022 and 2021. Repurchases of shares of our common stock for employee taxes due upon vesting of restricted stock units, net of employee stock purchases, resulted in approximately \$0.1 million of net cash used during Fiscal 2022 and 2021.

**Three-year Term Note** On February 4, 2019, we entered into a Note Purchase Agreement, by and among us, certain subsidiaries of us as guarantors, Goldman Sachs Specialty Lending Holdings, Inc., as collateral agent and any other Purchasers party thereto from time to time, in connection with the sale of senior secured notes of us in a private placement exempt from registration under the Securities Act of 1933, as amended. Under the Note Purchase Agreement, we sold to the Purchaser \$30.0 million aggregate principal amount of senior secured notes (the “Notes”). The first interest payment on the Notes was on March 31, 2019. On October 1, 2020, pursuant to A&R Note Purchase Agreement, we increased the amount of borrowing under the Notes by \$20.0 million to \$50.0 million, and all outstanding Notes bear interest at the Adjusted (London Interbank Offer) LIBO Rate (as defined in the A&R Note Purchase Agreement) plus 8.75% per annum. The Notes do not amortize and the entire principal balance is due in a single payment on the maturity date. As of March 31, 2022, \$51.0 million in borrowings were outstanding under the Notes, which includes the accrual for an exit fee to be paid at maturity or upon pre-payment. Pursuant to the First Amendment to the A&R Note Purchase dated as of May 13, 2021, the minimum consolidated liquidity requirement increased from \$9.0 million to \$12.0 million for the period from the Amendment Date to March 31, 2022, and \$9.0 million thereafter. The financial covenants of the A&R Note Purchase Agreement require the Company not to exceed specified levels of Adjusted EBITDA losses relative to its financial model, beginning with the fiscal quarter ending September 30, 2021. As of March 31, 2022, we were not in compliance with the Adjusted EBITDA covenant contained in the A&R Note Purchase Agreement and did not cure such non-compliance by prepaying the Notes. As a result, we were in breach of the Adjusted EBITDA covenant as of May 27, 2022. On July 13, 2022 we entered into the A&R NPA Second Amendment with the Purchaser and the Collateral Agent, pursuant to which (i) the Purchaser and the Collateral Agent waived our breach of the Adjusted EBITDA covenant and (ii) the A&R Note Purchase Agreement has been amended to, among other things, add certain new covenants, including requirements that we use our commercially reasonable best efforts to raise at least \$10 million through a sale of our common stock by September 14, 2022 and refinance the Notes by October 1, 2022. See Item 9B “Other Information” for a summary of the A&R NPA Second Amendment. As of March 31, 2022, we are in compliance with the other covenants contained in the A&R Note Purchase Agreement.

**Paycheck Protection Program Loan** On April 15, 2020, we applied for an unsecured PPP Loan in the principal amount of \$2,610,200 under the Small Business Administration Paycheck Protection Program enabled by the Coronavirus Aid, Relief and Economic Security Act of 2020. On April 24, 2020, we entered into a promissory note with Western Alliance Bank. The Company received the full amount of the PPP Loan on April 24, 2020. In accordance with the requirements of the CARES Act, we used the proceeds from the PPP Loan to support fixed costs such as payroll costs, rent and utilities. On May 13, 2020, we repaid \$660,200 of the PPP Loan in accordance with the Fourth Amendment to the Note Purchase Agreement between the Company and Goldman Sachs Specialty Lending Group, L.P.

The advance under the PPP Loan bore interest at a rate per annum of 1%.

In February 2021, the Company applied for forgiveness in full of the original balance of the PPP loan and the loan was forgiven in full on June 30, 2021. The Company received a refund of \$660,200 and recorded these amounts within other income on the Company’s Condensed Consolidated Statements of Operations. Management will accounted for forgiveness on the PPP Loan in accordance with ASC 470 and recorded a gain on extinguishment of debt on its condensed consolidated financial statements and related footnote disclosures, provided forgiveness be approved by the SBA.

**Working Capital** Cash used for working capital was \$11.8 million during Fiscal 2022, an increase of \$18.2 million from the cash provided from working capital of \$6.4 million during Fiscal 2021. These increases in cash used for

working capital and other operating assets and liabilities were primarily due to increases in inventory and accounts receivable, partially offset by decreases in accounts payable and accrued expenses.

***Evaluation of Ability to Maintain Current Level of Operations*** In connection with preparing the consolidated financial statements for the fiscal year ended March 31, 2022, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about our ability to meet our obligations as they became due for the next twelve months from the date of issuance of our Fiscal 2022 consolidated financial statements. Management assessed that there were such conditions and events, including a history of recurring operating losses, negative cash flows from operating activities, the continued negative impact by the volatility of the global oil and gas markets, a strong U.S. dollar in certain markets making our products more expensive in such markets, the COVID-19 pandemic, the Russian invasion of Ukraine, and ongoing global geopolitical tensions. We incurred a net loss of \$20.2 million and used cash from operating activities of \$27.5 million during the Fiscal 2022. Our working capital requirements during Fiscal 2022 were primarily for increases in inventory to continue to produce product despite supply chain challenges, as well as the delayed timing of accounts receivable collections due to the COVID-19 pandemic and impacts from the ongoing conflict between Russia and Ukraine. Our net loss increased during Fiscal 2022 primarily due to lower overhead and operating expenses in Fiscal 2021 from our COVID-19 Business Continuity Plan. As of March 31, 2022, we had cash and cash equivalents of \$22.6 million, and outstanding debt of \$51.0 million at fair value (see Note 11—Term Note Payable in the Notes to the Consolidated Financial Statements for further discussion of the outstanding debt).

Management evaluated these conditions in relation to our ability to meet our obligations as they become due. Our ability to continue current operations and to execute on management’s plan is dependent on our ability to generate cash flows from operations. Management believes that we will continue to make progress on our path to profitability through a cost reduction plan implemented in March 2022, expanding the Energy as a Service (“EaaS”) revenue streams, as well as price increases on our Factory Protection Plan and certain product offerings. In March 2022, we implemented an expense reduction plan and announced our efforts to reduce operating costs and modify our operating model to better match our expanding EaaS business. In order to implement the expense reduction plan, we undertook a holistic review of our operations, taking the growing EaaS business into account. Beginning on February 28, 2022, we furloughed 17 employees for a period of 120 days, eliminated the position of Chief Revenue Officer, held by Jim Crouse, effective April 15, 2022, instituted 15% temporary pay cuts for approximately 36 employees and 25% temporary pay cuts for members of our senior leadership team, among other actions.

We believe that the implementation of the expense reduction plan will help better align our current cost structure to support our higher margin EaaS revenues.

In February 2022, we announced that we reached our goal of having 21.1 MW of rental units in our fleet and under contract. The EaaS rental unit timeline includes a delay between the time of manufacture and the time revenue from that unit is realized. The microturbine rental unit is built, allocated by a signed rental contract, and then commissioned at the customer site, at which point it begins to generate revenue. We expect to have all rental units contracted, commissioned, and generating revenue by our second quarter of Fiscal 2023. We expect rental revenue to more than double in Fiscal 2023 from the \$2.8 million of rental revenue in Fiscal 2022. Additionally in March 2022, we announced that we increased the Distributor Support System, or DSS, program fee to 5% of prior calendar year revenue, from 3%, to support the expanding EaaS business.

To help offset inflation and the rising cost of components, as well as improve our profitability, we implemented price increases on our Factory Protection Plan contracts effective April 1, 2022, and implemented price increases on certain of our product offerings including the C65 and C1000 products, effective May 1, 2022.

We may seek to raise funds by selling additional securities (through the at-the-market offering or otherwise) to the public or to selected investors or by obtaining additional debt financing. There is no assurance that we will be able to obtain additional funds on commercially favorable terms or at all. If we raise additional funds by issuing additional equity or convertible debt securities, the fully diluted ownership percentages of existing stockholders will be reduced. In addition, any equity or debt securities that we would issue may have rights, preferences or privileges senior to those of the holders of our common stock.

Based on our current operating plan, management anticipates that, given current working capital levels and current financial projections, including the cost reduction plan, expanding EaaS business, and price increases, we will be able to meet our financial obligations as they become due over the next twelve months from the date of issuance of our Fiscal 2022 financial statements.

Depending on the timing of our future sales and collection of related receivables, managing inventory costs and the timing of inventory purchases and deliveries required to fulfill the backlog, our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will require us to achieve significantly increased sales volume, which is dependent on many factors, including:

- the continuing impact of the COVID-19 pandemic on the global economy;
- the continuing impact from the ongoing conflict between Russia and Ukraine;
- the market acceptance of our products and services;
- our business, product and capital expenditure plans;
- capital improvements to new and existing facilities;
- our competitors' response to our products and services;
- our relationships with customers, distributors, dealers and project resellers; and
- our customers' ability to afford and/or finance our products.

Our accounts receivable balance, net of allowances, was \$24.7 million and \$20.6 million as of March 31, 2022 and 2021, respectively. Days sales outstanding in accounts receivable, (“DSO”), increased to 150 days as of March 31, 2022, compared to 111 days as of March 31, 2021 due to continued delayed collections in all markets due to the COVID-19 pandemic and impacts from the ongoing conflict between Russia and Ukraine. In the Energy Efficiency market vertical we sell to end users that have been significantly, economically impacted by the pandemic, such as in the Hospitality and Health Care industries. Additionally, the COVID-19 Pandemic heavily impacted our natural resources market vertical, where we primarily sell to Oil & Gas end users. While oil prices have rebounded above \$100 per barrel, we have not seen a corresponding rebound in capital expenditures or spending activity. Additionally, the ongoing conflict between Russia and Ukraine has caused a widespread economic slowdown in the region, which has also impacts our collections. We recorded net bad debt expense of approximately \$1.1 million for Fiscal 2022 and a net bad debt recovery of approximately \$0.2 million for Fiscal 2021. Our allowance for doubtful accounts, was \$0.8 million as of March 31, 2022 and \$0.3 million as of March 31, 2021.

No assurances can be given that future bad debt expense will not increase above current operating levels. Increased bad debt expense or delays in collecting accounts receivable could have a material adverse effect on cash flows and results of operations. In addition, our ability to access the capital markets may be severely restricted or made very expensive at a time when we need, or would like, to do so, which could have a material adverse impact on our liquidity and financial resources. Certain industries in which our customers do business and certain geographic areas have been and could continue to be adversely affected by the previously referenced economic and geopolitical considerations.

In March 2022, we implemented an expense reduction plan, which included furloughs, employment terminations and pay cuts. See “—Initiative to Shift Towards Energy as a Service and Reduce Operating Costs” “Risk Factors--Our recently implemented expenses reduction plan and organizational changes undertaken to align to our focus on our EaaS business and achieving profitability may not be successful.”

### **Impact of Recently Issued Accounting Standards**

Refer to Note 2 – Summary of Significant Accounting policies in the Notes to Consolidated Financial Statements for information regarding new accounting standards.

## **Item 7A. Quantitative and Qualitative Disclosure about Market Risk.**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this Item.

## **Item 8. Financial Statements and Supplementary Data.**

Our Consolidated Financial Statements included in this Form 10-K beginning at page F-1 are incorporated in this Item 8 by reference.

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

None.

## **Item 9A. Controls and Procedures.**

### *Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that the information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

In connection with the preparation of this Form 10-K for the fiscal year ended March 31, 2022, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of March 31, 2022 to provide reasonable assurance that the information required to be disclosed by us in reports we submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms prescribed by the SEC and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

### *Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, management concluded that we maintained effective internal control over financial reporting as of March 31, 2022.

#### *Changes in Internal Control Over Financial Reporting*

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our fiscal year ended March 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### *Inherent Limitations of the Effectiveness of Internal Control*

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

#### **Item 9B. Other Information.**

On April 7, 2022, our Board approved an extension of the NOL Rights Agreement from May 6, 2022 to May 6, 2025, subject to obtaining stockholder approval of such extension. We intend to seek that approval at our 2022 annual meeting of stockholders.

On May 20, 2022, we entered into a National Account Agreement with Capstone Engineered Solutions (“CES”), a company directly owned by Jim Crouse, our former Chief Revenue Officer. Under the terms of the National Account Agreement, CES is authorized to market, actively promote, and sell Capstone microturbines, related parts, and service. The dollar value of this contract will depend on the amount of sales generated by CES. On May 20, 2022, the Company also entered into a Consulting Agreement with CES, whereby CES will provide certain engineering services to the Company on an as needed basis, at a rate of \$150 per hour. Additionally on May 10, 2022, the Company entered into an agreement with CES, whereby CES will provide general contract and installation services for one of the Company’s Energy as a Service projects for approximately \$0.2 million.

The foregoing descriptions of the National Account Agreement, Engineering Consulting Agreement, and Installation Services Agreement are not complete and are subject to, and qualified in their entirety by reference to, the text of the National Account Agreement, Engineering Consulting Agreement, and Installation Services Agreement, copies of which are included as Exhibit 10.29, 10.28, and 10.30 respectively, attached hereto.

On July 13, 2022, we entered into the Second Amendment to the A&R Note Purchase Agreement with the guarantors party thereto, the Purchaser and the Collateral Agent. The A&R NPA Second Amendment provides for (i) the waiver by the Purchaser and the Collateral Agent of our breach of the Adjusted EBITDA covenant contained in the A&R Note Purchase Agreement for the 12 months ended June 30, 2022 and (i) the amendment to certain provisions of the A&R Note Purchase Agreement, including to add a number of new covenants. Those include requirements that we (i) deliver a revised financial plan to the Collateral Agent by no later than 42 days after the effective date of the A&R NPA Second Amendment, (ii) deliver 13-week cash flow forecasts to the Collateral Agent every week commencing on July 15, 2022 through October 1, 2022, (iii) enter into an engagement letter with an investment bank satisfactory to the Collateral Agent by August 10, 2022, (iv) use commercially reasonable best efforts to raise a minimum of \$10 million through a sale of common stock by September 14, 2022, and (v) use commercially reasonable best efforts to refinance the Notes by October 1, 2022, (iv) take all actions necessary to maintain our engagement of Riveron Consulting, LLC or another financial advisor acceptable to the Collateral Agent and (v) retain an interim chief financial officer on terms acceptable to the Collateral Agent (it being understood that Scott Robinson and the terms offered to him are acceptable to the Collateral Agent). The A&R NPA Second Amendment also provides that, for purposes of determining our compliance with the Adjusted EBITDA covenant with respect to our fiscal quarter ended June 30, 2022, we may increase our Adjusted EBITDA for the period by prepaying the Notes up to the amount that the required level for consolidated Adjusted EBITDA for the fiscal quarter

ended March 31, 2022 exceeded our consolidated Adjusted EBITDA for that fiscal quarter (i.e., approximately \$1.4 million) (the “Cure Cap”); provided that any reversal made with respect to allowances or reserves for bad debt for that fiscal quarter will reduce the Cure Cap on a dollar for dollar basis. We have not, however, yet determined if we will need to make any such prepayment to comply with the Adjusted EBITDA covenant for the fiscal quarter ended June 30, 2022, as we have not yet closed our books for that fiscal quarter. The A&R NPA Second Amendment eliminates the Adjusted EBITDA covenant cure right for any future period.

The foregoing description of the A&R NPA Second Amendment does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the A&R NPA Second Amendment, which is filed herewith as Exhibit 4.16 and is incorporated by reference herein.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

**Directors**

The information required by this Item will be included in the Company’s 2022 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for the Company’s 2022 Annual Meeting of Shareholders (“2022 Proxy Statement”) and is incorporated herein by reference. Such Proxy Statement will be filed with the SEC within 120 days after the end Fiscal 2022.

**Delinquent Section 16(a) Reports**

The information required regarding our directors’ and executive officers’ compliance with Section 16(a) of the Exchange Act will be included in the Company’s 2022 Proxy Statement under the heading “Delinquent Section 16(a) Reports” and is incorporated herein by reference.

**Item 11. Executive Compensation.**

The information required by this Item will be included in the Company’s 2022 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included in the Company’s 2022 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included in the Company’s 2022 Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accounting Firm Fees and Services.**

The information required by this Item will be included in the Company’s 2022 Proxy Statement and is incorporated herein by reference.



## PART IV

### **Item 15. Exhibits and Financial Statement Schedules.**

*(a) 1. and 2. Financial statements and financial statement schedule*

The financial statements and notes are listed in the Index to Consolidated Financial Statements on page F-1 of this Report. Financial statement schedules not included in this Form 10-K have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

*3. Exhibits*

The exhibits filed as part of this Form 10-K are set forth on the Exhibit Index immediately preceding the signatures of this Form 10-K. The Exhibit Index is incorporated herein by reference.

### **Item 16. Form 10-K Summary.**

Not applicable.

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**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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Financial statement schedules not included in this Form 10-K have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of  
Capstone Green Energy Corporation

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capstone Green Energy Corporation (the “Company”) as of March 31, 2022 and 2021, the related consolidated statements of operations, stockholders’ equity and cash flows for each of the two years in the period ended March 31, 2022, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended March 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## ***Accounts Receivable Allowances***

### *Description of Matter*

The Company's accounts receivable totaled approximately \$24.7 million, net of an allowance of approximately \$845,000, as of March 31, 2022. As a result of the ongoing COVID-19 pandemic, along with current geopolitical tensions, the Company saw an increase in its overall days sales outstanding during the year ended March 31, 2022 resulting in delays in the collections of its accounts receivable. As described in Note 2 to the consolidated financial statements, management maintains allowances for estimated losses resulting from the inability of customers to make required payments and other accounts receivable allowances.

The principal considerations for our determination that performing procedures relating to the accounts receivable allowances is a critical audit matter are (i) the significant judgement required by management when determining the estimate for the accounts receivable allowances; and (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's estimate and significant assumptions related to the customers continued ability to make required payments.

### *How We Addressed the Matter*

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included:

- Obtaining an understanding of the Company's processes in place in order to estimate the allowance for doubtful accounts;
- Testing management's calculation and significant assumptions made in determining its allowance for doubtful accounts;
- Testing the Company's subsequent cash collections through the date the consolidated financial statements were issued;
- Evaluating the credit worthiness of customers whose balances were past due as of March 31, 2022 by testing the historical collection trends over the past 5 years; and
- Evaluating the Company's historical accounts receivable write-offs as compared to their past estimates allowance for doubtful accounts.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2017.

Los Angeles, CA  
July 13, 2022

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share amounts)**

	<u>March 31,</u> <u>2022</u>	<u>March 31,</u> <u>2021</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents . . . . .	\$ 22,559	\$ 49,533
Accounts receivable, net of allowances of \$845 at March 31, 2022 and \$314 at March 31, 2021 . . . . .	24,665	20,593
Inventories, net . . . . .	18,465	11,829
Prepaid expenses and other current assets . . . . .	5,519	4,953
Total current assets . . . . .	<u>71,208</u>	<u>86,908</u>
Property, plant, equipment and rental assets, net . . . . .	18,038	9,630
Non-current portion of accounts receivable . . . . .	1,212	—
Non-current portion of inventories . . . . .	1,680	1,845
Other assets . . . . .	8,635	7,639
Total assets . . . . .	<u>\$ 100,773</u>	<u>\$ 106,022</u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued expenses . . . . .	\$ 25,130	\$ 19,767
Accrued salaries and wages . . . . .	1,147	1,889
Accrued warranty reserve . . . . .	1,483	5,850
Deferred revenue . . . . .	9,185	6,374
Current portion of notes payable and lease obligations . . . . .	675	576
Total current liabilities . . . . .	<u>37,620</u>	<u>34,456</u>
Deferred revenue - non-current . . . . .	981	765
Term note payable, net . . . . .	50,949	52,865
Long-term portion of notes payable and lease obligations . . . . .	5,809	4,762
Total liabilities . . . . .	<u>95,359</u>	<u>92,848</u>
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, \$.001 par value; 1,000,000 shares authorized; none issued . . . . .	—	—
Common stock, \$.001 par value; 51,500,000 shares authorized, 15,398,368 shares issued and 15,296,735 shares outstanding at March 31, 2022; 12,898,144 shares issued and 12,824,190 shares outstanding at March 31, 2021 . . . . .	15	13
Additional paid-in capital . . . . .	946,969	934,381
Accumulated deficit . . . . .	(939,482)	(919,271)
Treasury stock, at cost; 101,633 shares at March 31, 2022 and 73,954 shares at March 31, 2021 . . . . .	(2,088)	(1,949)
Total stockholders' equity . . . . .	<u>5,414</u>	<u>13,174</u>
Total liabilities and stockholders' equity . . . . .	<u>\$ 100,773</u>	<u>\$ 106,022</u>

See accompanying notes to consolidated financial statements.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

	Year Ended March 31,	
	<u>2022</u>	<u>2021</u>
Revenue:		
Product and accessories . . . . .	\$ 37,181	\$ 36,517
Parts and service . . . . .	32,464	31,119
Total revenue . . . . .	<u>69,645</u>	<u>67,636</u>
Cost of goods sold:		
Product and accessories . . . . .	40,483	42,025
Parts and service . . . . .	20,624	18,756
Total cost of goods sold . . . . .	<u>61,107</u>	<u>60,781</u>
Gross margin . . . . .	<u>8,538</u>	<u>6,855</u>
Operating expenses:		
Research and development . . . . .	3,359	2,417
Selling, general and administrative . . . . .	22,980	18,391
Total operating expenses . . . . .	<u>26,339</u>	<u>20,808</u>
Loss from operations . . . . .	(17,801)	(13,953)
Other income . . . . .	642	4,993
Interest income . . . . .	21	30
Interest expense . . . . .	(5,004)	(5,156)
Gain (loss) on debt extinguishment . . . . .	1,950	(4,282)
Loss before provision for income taxes . . . . .	<u>(20,192)</u>	<u>(18,368)</u>
Provision for income taxes . . . . .	19	19
Net loss . . . . .	<u>(20,211)</u>	<u>(18,387)</u>
Less: Deemed dividend on purchase warrant for common shares . . . . .	—	15
Net loss attributable to common stockholders . . . . .	<u>\$ (20,211)</u>	<u>\$ (18,402)</u>
Net loss per common share attributable to common stockholders—basic and diluted . . . . .	<u>\$ (1.37)</u>	<u>\$ (1.63)</u>
Weighted average shares used to calculate basic and diluted net loss per common share attributable to common stockholders . . . . .	<u>14,727</u>	<u>11,280</u>

See accompanying notes to consolidated financial statements.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands, except share amounts)

	Common Stock		Additional	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Deficit	Shares	Amount	Stockholders' Equity
Balance, March 31, 2020 . . . . .	10,286,366	\$ 10	\$ 915,755	\$ (900,869)	57,577	\$ (1,875)	\$ 13,021
Purchase of treasury stock . . . . .	—	—	—	—	16,377	(74)	(74)
Vested restricted stock awards . . . . .	71,767	—	74	—	—	—	74
Stock-based compensation . . . . .	—	—	937	—	—	—	937
Stock awards to Board of Directors . . .	57,098	—	(38)	—	—	—	(38)
Issuance of common stock, net of issuance costs . . . . .	2,130,634	3	16,778	—	—	—	16,781
Warrants issued . . . . .	—	—	761	—	—	—	761
Warrants exercised . . . . .	352,279	—	—	—	—	—	—
Change in warrants valuation . . . . .	—	—	99	—	—	—	99
Deemed dividend on purchase warrant for common shares . . . . .	—	—	15	(15)	—	—	—
Net loss . . . . .	—	—	—	(18,387)	—	—	(18,387)
Balance, March 31, 2021 . . . . .	12,898,144	13	934,381	(919,271)	73,954	(1,949)	13,174
Purchase of treasury stock . . . . .	—	—	—	—	27,679	(139)	(139)
Vested restricted stock awards . . . . .	124,184	—	100	—	—	—	100
Stock-based compensation . . . . .	—	—	1,245	—	—	—	1,245
Stock awards to Board of Directors . . .	70,260	—	—	—	—	—	—
Issuance of common stock, net of issuance costs . . . . .	2,305,780	2	11,243	—	—	—	11,245
Net loss . . . . .	—	—	—	(20,211)	—	—	(20,211)
Balance, March 31, 2022 . . . . .	<u>15,398,368</u>	<u>\$ 15</u>	<u>\$ 946,969</u>	<u>\$ (939,482)</u>	<u>101,633</u>	<u>\$ (2,088)</u>	<u>\$ 5,414</u>

See accompanying notes to consolidated financial statements.



**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Year Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss . . . . .	\$ (20,211)	\$ (18,387)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization . . . . .	1,915	1,452
Amortization of financing costs and discounts . . . . .	35	623
Amortization of right-of-use assets . . . . .	657	378
Loss (gain) on debt extinguishment . . . . .	(1,950)	4,282
Bad debt expense (recovery) . . . . .	1,129	(228)
Inventory provision . . . . .	791	305
Provision for warranty expenses . . . . .	646	5,930
Gain on disposal of equipment . . . . .	—	(1)
Stock-based compensation . . . . .	1,245	937
Changes in operating assets and liabilities:		
Accounts receivable . . . . .	(6,413)	(4,125)
Inventories . . . . .	(7,262)	8,702
Prepaid expenses, other current assets and other assets . . . . .	164	653
Accounts payable and accrued expenses . . . . .	4,485	4,652
Accrued salaries and wages and long term liabilities . . . . .	(743)	245
Accrued warranty reserve . . . . .	(5,013)	(2,014)
Deferred revenue . . . . .	3,027	(1,703)
Net cash used in operating activities . . . . .	<u>(27,498)</u>	<u>1,701</u>
<b>Cash Flows from Investing Activities:</b>		
Expenditures for property, plant, equipment and rental assets . . . . .	(9,924)	(3,209)
Net cash used in investing activities . . . . .	<u>(9,924)</u>	<u>(3,209)</u>
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from term note payable . . . . .	—	20,833
Repayment of notes payable and lease obligations . . . . .	(685)	(691)
Cash used in employee stock-based transactions . . . . .	(138)	(74)
Net proceeds from issuance of common stock and warrants . . . . .	11,271	15,905
Net cash provided by financing activities . . . . .	<u>10,448</u>	<u>35,973</u>
Net (decrease) increase in Cash and Cash Equivalents . . . . .	(26,974)	34,465
Cash and Cash Equivalents, Beginning of Period . . . . .	49,533	15,068
Cash and Cash Equivalents, End of Period . . . . .	<u>\$ 22,559</u>	<u>\$ 49,533</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest . . . . .	\$ 5,095	\$ 4,287
Income taxes . . . . .	\$ 20	\$ 14
<b>Supplemental Disclosures of Non-Cash Information:</b>		
Acquisition of property and equipment through accounts payable . . . . .	\$ 264	\$ 36
Renewal of insurance contracts financed by notes payable . . . . .	\$ 567	\$ 593
Issuance of common stock for services to be received . . . . .	\$ 75	\$ —
Deemed dividend . . . . .	\$ —	\$ 15

See accompanying notes to consolidated financial statements.

# CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Description of the Company and Basis of Presentation

Capstone Green Energy Corporation (“Capstone”, “We” or the “Company”) is a provider of customized microgrid solutions, on-site resilient green Energy as a Service (EaaS) solutions, and on-site energy technology systems focused on helping customers around the globe meet their environmental, energy savings, and resiliency goals. These solutions include stationary distributed power generation applications and distribution networks, including cogeneration (combined heat and power (“CHP”), integrated combined heat and power (“ICHP”), and combined cooling, heat and power (“CCHP”), renewable energy, natural resources, and critical power supply. In April 2021, we added additional products to our portfolio and shifted our focus to four key business lines. Our Energy Conversion Products business lines is driven by the Company’s industry-leading, highly efficient, low-emission, resilient microturbine energy systems offering scalable solutions in addition to a broad range of customer-tailored solutions, including hybrid energy systems and larger frame industrial turbines. Through our Energy as a Service business line, we offer rental solutions utilizing our microturbine energy systems and battery storage systems, comprehensive factory protection plan service contracts that guarantee life-cycle costs, as well as aftermarket spare parts. Our two emerging business lines are Energy Storage Products and Hydrogen Energy Solutions. Our Energy Storage Products business line designs and installs microgrid storage systems, creating customized solutions using a combination of battery technologies and monitoring software. Through our Hydrogen Energy Solutions business line, we offer customers a variety of hydrogen products, including the Company’s microturbine energy systems. Because these are new offerings, Energy Storage Products and Hydrogen Energy Solutions revenue has been immaterial to date. The Company was organized in 1988 and has been commercially producing its microturbine generators since 1998.

On April 22, 2021, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of the Company for the sole purpose of changing the Company’s name to Capstone Green Energy Corporation effective as of 12:01 a.m. Eastern Time on April 22, 2021 (the “Corporate Name Change”). In addition, the Company amended and restated its Fourth Amended and Restated Bylaws, effective as of April 22, 2021, solely to reflect the Corporate Name Change.

This Annual Report on Form 10-K (this “Form 10-K”) refers to the Company’s fiscal years ended March 31 as its “Fiscal” years.

The consolidated financial statements include the accounts of the Company, Capstone Turbine International, Inc., its wholly owned subsidiary that was formed in June 2004, and Capstone Turbine Financial Services, LLC, its wholly owned subsidiary that was formed in October 2015, after elimination of inter-company transactions.

### 2. Summary of Significant Accounting Policies

**Cash Equivalents** The Company considers only those investments that are highly liquid and readily convertible to cash with original maturities of three months or less at date of purchase as cash equivalents.

**Fair Value of Financial Instruments** The carrying value of certain financial instruments, including cash equivalents, accounts receivable, accounts payable, revolving credit facility and notes payable approximate fair market value based on their short-term nature. See Note 10—Fair Value Measurements, for disclosure regarding the fair value of other financial instruments.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Accounts Receivable** Trade accounts receivable are recorded at the invoiced amount and are typically non-interest bearing. The Company maintains allowances for estimated losses resulting from the inability of customers to make required payments and other accounts receivable allowances. We evaluate all accounts aged over 60 days past payment terms. If the financial condition of our customers deteriorates or if other conditions arise that result in an impairment of their ability or intention to make payments, additional allowances may be required. Accounts receivable that is expected to be received past 12 months are recorded as non-current accounts receivable. Changes in the accounts receivable allowances are as follows (in thousands):

<b>Balance, March 31, 2020</b> .....	\$ 703
Reductions charged to costs and expenses .....	(228)
Bad debt write-off .....	<u>(161)</u>
<b>Balance, March 31, 2021</b> .....	\$ 314
Additions charged to costs and expenses .....	1,129
Bad debt write-off .....	<u>(598)</u>
<b>Balance, March 31, 2022</b> .....	<u><u>\$ 845</u></u>

**Inventories** The Company values inventories at the lower of cost (determined on a first in first out (“FIFO”) basis) or net realizable value. The composition of inventory is routinely evaluated to identify slow-moving, excess, obsolete or otherwise impaired inventories. Inventories identified as impaired are evaluated to determine if write-downs are required. Included in the assessment is a review for obsolescence as a result of engineering changes in the Company’s products. All inventories expected to be used in more than one year are classified as long-term.

**Depreciation and Amortization** Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of the related assets, ranging from two to ten years. Leasehold improvements are amortized over the lease term or the estimated useful lives of the assets, whichever is shorter. Intangible assets that have finite useful lives are amortized over their estimated useful lives using the straight-line method.

**Long-Lived Assets** The Company reviews the recoverability of long-lived assets, including intangible assets with finite lives, whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the expected future cash flows from the use of such assets (undiscounted and without interest charges) are less than the carrying value, the Company may be required to record a write-down, which is determined based on the difference between the carrying value of the assets and their estimated fair value. The Company performed an analysis as of March 31, 2022 and determined that no impairment was necessary. See Note 5—Intangible Assets.

**Deferred Revenue** Deferred revenue consists of deferred product and service revenue and customer deposits. Deferred revenue will be recognized when earned in accordance with the Company’s revenue recognition policy. The Company has the right to retain all or part of customer deposits under certain conditions.

**Revenue** The Company derives its revenues primarily from system sales, service contracts and professional services. Revenues are recognized when control of the systems and services is transferred to the Company’s customers in an amount that reflects the consideration it expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs, for systems, upon the transfer of control in accordance with the contractual terms and conditions of the sale. The majority of the Company's revenue associated with systems is recognized at a point in time when the system is shipped to the customer. Revenue from service contracts and post-shipment performance obligations is recognized when or as those obligations are satisfied. The Company primarily offers assurance-type standard warranties that do not represent separate performance obligations and will separately offer and price extended warranties that are separate performance obligations for which the associated revenue is recognized over-time based on the extended warranty period. The Company records amounts billed to customers for reimbursement of shipping and handling costs within revenue. Shipping and handling costs associated with outbound freight after control over a system has transferred to a customer are accounted for as fulfillment costs and are included in cost of goods sold. Sales taxes and other usage-based taxes are excluded from revenue. The Company extends payment terms past one year only on a limited basis, and thus any financing component is not considered material.

Comprehensive factory protection plan service contracts require payment at the beginning of the contract period. Advance payments are not considered a significant financing component as they are typically received less than one year before the related performance obligations are satisfied. These payments are treated as a contract liability and are classified in deferred revenue in the Consolidated Balance Sheets. Once control transfers to the customer and the Company meets the revenue recognition criteria, the deferred revenue is recognized in the Consolidated Statement of Operations. The deferred revenue relating to the annual maintenance service contracts is recognized in the Consolidated Statement of Operations on a straight line basis over the expected term of the contract.

#### **Significant Judgments - Contracts with Multiple Performance Obligations**

The Company enters into contracts with its customers that often include promises to transfer multiple products, parts, accessories, FPP and services. A performance obligation is a promise in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

Products, parts and accessories are distinct as such services are often sold separately. In determining whether FPP and service contracts are distinct, the Company considers the following factors for each FPP and services agreement: availability of the services from other vendors, the nature of the services, the timing of when the services contract was signed in comparison to the product delivery date and the contractual dependence of the product on the customer's satisfaction with the professional services work. To date, the Company has concluded that all of the FPP and services contracts included in contracts with multiple performance obligations are distinct.

The Company allocates the transaction price to each performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which the Company would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation.

The Company determines SSP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of the Company's transactions, the customer demographic, the geographic area where systems and services are sold, price lists, its go-to-market strategy, historical sales and contract prices. The determination of SSP is made through consultation with and approval by the Company's management, taking into consideration the go-to-market strategy. As the Company's go-

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to SSP.

In certain cases, the Company is able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. The Company uses a single amount to estimate SSP when it has observable prices.

If SSP is not directly observable, for example when pricing is highly variable, the Company uses a range of SSP. The Company determines the SSP range using information that may include market conditions or other observable inputs. The Company typically has more than one SSP for individual products and services due to the stratification of those products and services by customer size and geography.

#### Unsatisfied Performance Obligations

The Company has elected the practical expedient to disclose only the value of unsatisfied performance obligations for contracts with an original expected length greater than one year. The majority of the Company's revenues resulted from sales of inventoried systems with short periods of manufacture and delivery and thus are excluded from this disclosure.

As of March 31, 2022, the FPP backlog was approximately \$79.1 million, which represents the value of the contractual agreement for FPP services that has not been earned and extends through Fiscal 2042.

#### Practical Expedients

We apply a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

**Warranty** The Company provides for the estimated costs of warranties at the time revenue is recognized. The specific terms and conditions of those warranties vary depending upon the product sold and geography of sale. The Company's product warranties generally start from the delivery date and continue for up to twenty-four months. Factors that affect the Company's warranty obligation include product failure rates, anticipated hours of product operations and costs of repair or replacement in correcting product failures. These factors are estimates that may change based on new information that becomes available each period. Similarly, the Company also accrues the estimated costs to address reliability repairs on products no longer in warranty when, in the Company's judgment, and in accordance with a specific plan developed by the Company, it is prudent to provide such repairs. The Company assesses the adequacy of recorded warranty liabilities quarterly and adjusts the liability as necessary. When the Company has sufficient evidence that product changes are altering the historical failure occurrence rates, the impact of such changes is then taken into account in estimating future warranty liabilities.

**Research and Development ("R&D")** The Company accounts for grant distributions and development funding as offsets to R&D expenses and both are recorded as the related costs are incurred. There were no offsets to R&D during Fiscal 2022 and 2021.

**Income Taxes** Deferred income tax assets and liabilities are computed for differences between the consolidated financial statement and income tax basis of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized.

ASC Topic 740-10, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in our financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as interest and other expense, net in the statements of operations.

**Contingencies** The Company records an estimated loss from a loss contingency when information available prior to issuance of its financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**Risk Concentrations** Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. At March 31, 2022, the majority of our cash balances were held at financial institutions located in California. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to certain limits. Balances that exceed the insurance coverage aggregate to approximately \$22.0 million as of March 31, 2022. The Company places its cash and cash equivalents with high credit quality institutions. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential credit losses.

Sales to E-Finity accounted for 18% of the Company's revenue for Fiscal 2022. Sales to CAL and E-Finity accounted for 15% and 12%, respectively, of the Company's revenue for Fiscal 2021. Additionally, E-Finity accounted for 28% and 13% of net accounts receivable as of March 31, 2022 and March 31, 2021, respectively.

Certain components of the Company's products are available from a limited number of suppliers. An interruption in supply could cause a delay in manufacturing, which would affect operating results adversely.

**Estimates and Assumptions** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include accounting for accounts receivable allowances, stock-based compensation, inventory write-downs, valuation of long-lived assets including intangible assets with finite lives, product warranties, income taxes and other contingencies. Actual results could differ from those estimates.

**Net Loss Per Common Share** Basic loss per common share is computed using the weighted-average number of common shares outstanding for the period. Diluted loss per share is also computed without consideration to potentially dilutive instruments because the Company incurred losses which would make such instruments antidilutive. Outstanding stock options and restricted stock units at March 31, 2022 and 2021 were 0.6 million and 0.5 million, respectively. As of March 31, 2022 and 2021, the number of warrants excluded from diluted net loss per common share computations was approximately 0.8 million and 1.1 million, respectively.

**Stock-Based Compensation** Options or stock awards are recorded at their estimated fair value at the measurement date. The Company recognizes compensation cost for options and stock awards that have a graded vesting schedule on a straight-line basis over the requisite service period for the entire award.

**Leases** Arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term.

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In calculating the right of use asset and lease liability, the Company elects to combine lease and non-lease components. The Company excludes short-term leases having initial terms of twelve months or less from the new guidance as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

***Evaluation of Ability to Maintain Current Level of Operations*** In connection with preparing the consolidated financial statements for the fiscal year ended March 31, 2022, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about our ability to meet our obligations as they became due for the next twelve months from the date of issuance of our Fiscal 2022 consolidated financial statements. Management assessed that there were such conditions and events, including a history of recurring operating losses, negative cash flows from operating activities, the continued negative impact by the volatility of the global oil and gas markets, a strong U.S. dollar in certain markets making our products more expensive in such markets, the COVID-19 pandemic, the Russian invasion of Ukraine, and ongoing global geopolitical tensions. We incurred a net loss of \$20.2 million and used cash from operating activities of \$27.5 million during the Fiscal 2022. Our working capital requirements during Fiscal 2022 were primarily for increases in inventory to continue to produce product despite supply chain challenges, as well as the delayed timing of accounts receivable collections due to the COVID-19 pandemic and impacts from the ongoing conflict between Russia and Ukraine. Our net loss increased during Fiscal 2022 primarily due to lower overhead and operating expenses in Fiscal 2021 from our COVID-19 Business Continuity Plan. As of March 31, 2022, we had cash and cash equivalents of \$22.6 million, and outstanding debt of \$51.0 million at fair value (see Note 11—Term Note Payable in the Notes to the Consolidated Financial Statements for further discussion of the outstanding debt).

Management evaluated these conditions in relation to our ability to meet our obligations as they become due. Our ability to continue current operations and to execute on management's plan is dependent on our ability to generate cash flows from operations. Management believes that we will continue to make progress on our path to profitability through a cost reduction plan implemented in March 2022, expanding the Energy as a Service ("EaaS") revenue streams, as well as price increases on our Factory Protection Plan and certain product offerings. In March 2022, we implemented an expense reduction plan and announced our efforts to reduce operating costs and modify our operating model to better match our expanding EaaS business. In order to implement the expense reduction plan, we undertook a holistic review of our operations, taking the growing EaaS business into account. Beginning on February 28, 2022, we furloughed 17 employees for a period of 120 days, eliminated the position of Chief Revenue Officer, held by Jim Crouse, effective April 15, 2022, instituted 15% temporary pay cuts for approximately 36 employees and 25% temporary pay cuts for members of our senior leadership team, among other actions. We believe that the implementation of the expense reduction plan will help better align our current cost structure to support our higher margin EaaS revenues.

In February 2022, we announced that we reached our goal of having 21.1 MW of rental units in our fleet and under contract. The EaaS rental unit timeline includes a delay between the time of manufacture and the time revenue from that unit is realized. The microturbine rental unit is built, allocated by a signed rental contract, and then commissioned at the customer site, at which point it begins to generate revenue. We expect to have all rental units contracted, commissioned, and generating revenue by our second quarter of Fiscal 2023. We expect rental revenue to more than double in Fiscal 2023 from the \$2.8 million of rental revenue in Fiscal 2022. Additionally in March 2022, we announced that we increased the Distributor Support System, or DSS, program fee to 5% of prior calendar year revenue, from 3%, to support the expanding EaaS business.

To help offset inflation and the rising cost of components, as well as improve our profitability, we implemented price increases on our Factory Protection Plan contracts effective April 1, 2022, and implemented price increases on certain of our product offerings including the C65 and C1000 products, effective May 1, 2022.

We may seek to raise funds by selling additional securities (through the at-the-market offering or otherwise) to the public or to selected investors or by obtaining additional debt financing. There is no assurance that we will be able to obtain additional funds on commercially favorable terms or at all. If we raise additional funds by issuing additional equity or convertible debt securities, the fully diluted ownership percentages of existing stockholders will be reduced. In addition,

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

any equity or debt securities that we would issue may have rights, preferences or privileges senior to those of the holders of our common stock.

Based on our current operating plan, management anticipates that, given current working capital levels and current financial projections, including the cost reduction plan, expanding EaaS business, and price increases, we will be able to meet our financial obligations as they become due over the next twelve months from the date of issuance of our Fiscal 2022 financial statements.

#### *Company Response to COVID-19*

In March 2020, the Company began to monitor the global effects of COVID-19, the worldwide spread of which led the World Health Organization (“WHO”) to characterize it as a pandemic on March 11, 2020. Thereafter, most U.S. states imposed “stay-at-home” orders on their populations to stem the spread of COVID-19. Of specific interest to the Company, stay-at-home orders were imposed in the state of California on March 20, 2020.

On March 23, 2020 the Company enacted a Business Continuity Plan in response to COVID-19. Beginning March 30, 2020, the Company furloughed 52 employees, leaving behind only staff deemed essential for day-to-day administrative operations for a minimum period of 45 days. The Company’s Senior Leadership Team volunteered to take a 25% temporary salary cut. In addition, 25 other top Company managers volunteered to take a similar 15% reduction in salary. Several employees returned to work June 1, 2020, most with the 15% voluntary salary cuts, with others returning in a staggered manner through the end of September 2020. Additionally, in March 2020, the Board voted to take a temporary 25% reduction in base cash retainer in support of the Company’s Business Continuity Plan. As a result of the continued global economic slowdown due to COVID-19 and the associated decline in global crude oil prices, the Company eliminated 26 positions on June 1, 2020. During the period of March 30, 2020 to June 1, 2020, the Company had limited production capability of new microturbine products, but had pre-built approximately 5.9 MW of microturbine finished goods during March 2020 for shipment during this period of suspended production. On September 28, 2020, salaries were returned to 100% and remaining furloughed employees returned to work. The Company’s vendor supply chain has also been impacted by the pandemic; however, the Company has been able to maintain sufficient supply flow to continue operations as of the date hereof.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief and Economic Security (the “CARES Act”), which, among other things, outlines the provisions of the Paycheck Protection Program (the “PPP”). The Company determined that it met the criteria to be eligible to obtain a loan under the PPP because, among other reasons, in light of the COVID-19 outbreak and the uncertainty of economic conditions related thereto, the loan was necessary to support the Company’s ongoing operations. Under the PPP, the Company could obtain a U.S. Small Business Administration loan in an amount equal to the average of the Company’s monthly payroll costs (as defined under the PPP) for calendar 2019 multiplied by 2.5 (approximately 10 weeks of payroll costs). Section 1106 of the CARES Act contains provisions for the forgiveness of all or a portion of a PPP loan, subject to the satisfaction of certain requirements. The amount eligible for forgiveness is, subject to certain limitations, the sum of the Company’s payroll costs, rent and utilities paid by the Company during the eight-week period beginning on the funding date of the PPP loan.

On April 24, 2020, the Company closed on a PPP loan in the amount of \$2,610,200, which was transferred by the Company into an account dedicated to allowable uses of the PPP loan proceeds. On May 13, 2020, the Company repaid \$660,200 of the loan in accordance with the Fourth Amendment to the Note Purchase Agreement between the Company and Goldman Sachs Specialty Lending Group, L.P. In February 2021, the Company applied for forgiveness in full of the original balance of the PPP loan and the loan was forgiven in full on June 30, 2021. The Company received a refund of \$660,200 and recorded these amounts within other income on the Company’s Condensed Consolidated Statements of Operations.



**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Segment Reporting** The Company is considered to be a single reporting segment. The business activities of this reporting segment are the development, manufacture and sale of turbine generator sets and their related parts and service. Following is the geographic revenue information based on the primary operating location of the Company’s customers (in thousands):

	Year Ended March 31,	
	2022	2021
United States .....	\$ 34,116	\$ 32,502
Mexico .....	3,862	3,931
All other North America .....	620	321
Total North America .....	<u>38,598</u>	<u>36,754</u>
Russia .....	3,335	3,577
All other Europe .....	11,494	13,659
Total Europe .....	<u>14,829</u>	<u>17,236</u>
Asia .....	3,774	6,087
Australia .....	4,197	3,165
All other .....	8,247	4,394
Total Revenue .....	<u>\$ 69,645</u>	<u>\$ 67,636</u>

The following table summarizes the Company’s revenue by product (in thousands):

	Year Ended March 31,	
	2022	2021
C30 .....	\$ 503	\$ 1,607
C65 .....	10,387	10,756
C200 .....	2,906	3,603
C600 .....	7,120	7,913
C800 .....	5,843	3,069
C1000 .....	9,120	7,173
Microturbine Products .....	<u>\$ 35,879</u>	<u>\$ 34,121</u>
Accessories .....	1,302	2,396
Total Product and Accessories .....	<u>37,181</u>	<u>36,517</u>
Parts and Service .....	32,464	31,119
Total Revenue .....	<u>\$ 69,645</u>	<u>\$ 67,636</u>

Substantially all of the Company’s operating assets are in the United States.

**Impact of Recently Issued Accounting Standards**

*Adopted*

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes. The new guidance removes certain exceptions to the general principles of Accounting Standards Codification (“ASC”) 740 in order to simplify the complexities of its application. These changes include eliminations to the exceptions for intraperiod tax allocation, recognizing deferred tax liabilities related to outside basis differences, and year-to-date losses in interim periods, among others. The effective date of this guidance for public companies is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company adopted ASU 2019-12 on April 1, 2021 and it did not have a material impact on the Company’s consolidated financial statements and related disclosures.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Not yet adopted*

In August 2020, the FASB issued ASU No. 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity’s own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. The amendments in this ASU reduce the number of accounting models for convertible debt instruments and convertible preferred stock in order to simplify the accounting for convertible instruments. In addition, it amends the guidance for the scope exception surrounding derivatives for contracts in an entity’s own equity. In each case, the related guidance surrounding EPS has also been amended. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. The Company is currently evaluating the impact of ASU 2020-06 on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU provide guidance for estimating credit losses on certain types of financial instruments, including trade receivables, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable forecasts. With certain exceptions, transition to the new guidance will be through a cumulative effect adjustment to opening accumulated deficit as of the beginning of the first reporting period in which the guidance is adopted. In November 2019, the FASB issued ASU 2019-10, Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) (“ASU 2019-10”), which defers the adoption of ASU 2016-13 for Smaller Reporting Companies (“SRCs”) as defined by the SEC for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial statements and related disclosures.

Management considers the applicability and impact of all Accounting Standards Updates (“ASUs”). The ASUs not listed were assessed and determined by management to be either not applicable or are expected to have minimal impact on our consolidated financial position and/or results of operations.

**3. Inventories**

Inventories are valued at the lower of cost (determined on a first in first out (“FIFO”) basis) or net realizable value and consisted of the following (in thousands):

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Raw materials .....	\$ 20,071	\$ 15,755
Work in process.....	—	(30)
Finished goods.....	1,935	—
Total .....	22,006	15,725
Less: inventory reserve.....	(1,861)	(2,051)
Less: non-current portion .....	(1,680)	(1,845)
Total inventory, net-current portion.....	<b>\$ 18,465</b>	<b>\$ 11,829</b>

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The non-current portion of inventories represents that portion of the inventories in excess of amounts expected to be used in the next twelve months. The non-current inventories are primarily comprised of repair parts for older generation products that are still in operation but are not technologically compatible with current configurations. The weighted average age of the non-current portion of inventories on hand as of March 31, 2022 is 1.2 years. The Company expects to use the non-current portion of the inventories on hand as of March 31, 2022 over the periods presented in the following table (in thousands):

Expected Period of Use	Non-current Inventory Balance Expected to be Used
13 to 24 months . . . . .	\$ 784
25 to 36 months . . . . .	896
Total . . . . .	\$ 1,680

**4. Property, Plant and Equipment**

Property, plant, equipment and rental assets consisted of the following (in thousands):

	March 31, 2022	March 31, 2021
Machinery, equipment, automobiles and furniture . . . . .	\$ 15,945	\$ 15,523
Leasehold improvements . . . . .	8,848	8,069
Molds and tooling . . . . .	3,469	3,192
Rental assets . . . . .	17,079	8,378
	45,341	35,162
Less: accumulated depreciation . . . . .	(27,303)	(25,532)
Total property, plant, equipment and rental assets, net . . . . .	\$ 18,038	\$ 9,630

During Fiscal 2022, the Company deployed an additional 11.1 megawatts (“MWs”) of microturbine systems with a book value of approximately \$8.7 million under its long-term rental program, bringing the total rental fleet to 21.1 MWs.

The Company regularly assesses the useful lives of property and equipment and retires assets no longer in service. Depreciation expense for property, plant, equipment and rental assets was \$1.8 million and \$1.3 million for Fiscal 2022 and 2021, respectively.

**5. Intangible Assets**

Intangible assets, net of amortization include intellectual property such as manufacturing licenses providing the Company with the ability to manufacture recuperator cores previously purchased from Solar Turbines Incorporated (“Solar”) and were fully amortized as of March 31, 2022 and March 31, 2021. The Company is required to pay a per-unit royalty fee over a seventeen-year period for cores manufactured and sold by the Company using the technology. Royalties of approximately \$22,600 and \$27,400 were earned by Solar for Fiscal 2022 and 2021, respectively. Earned royalties of approximately \$76,400 and \$53,800 were unpaid as of March 31, 2022 and 2021, respectively, and are included in accrued expenses in the accompanying consolidated balance sheets.

Amortization expense for the intangible assets was \$0.1 million for Fiscal 2022 and 2021.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Accrued Warranty Reserve**

The Company provides for the estimated costs of warranties at the time revenue is recognized. The specific terms and conditions of those warranties vary depending upon the microturbine product sold and the geography of sale. The Company's product warranties generally start from the delivery date and continue for up to twenty-four months. Factors that affect the Company's warranty obligation include product failure rates, anticipated hours of product operations and costs of repair or replacement in correcting product failures. These factors are estimates that may change based on new information that becomes available each period. Similarly, the Company also accrues the estimated costs to address reliability repairs on products no longer in warranty when, in the Company's judgment, and in accordance with a specific plan developed by the Company, it is prudent to provide such repairs. The Company assesses the adequacy of recorded warranty liabilities quarterly and adjusts the liability as necessary. When the Company has sufficient evidence that product changes are altering the historical failure occurrence rates, the impact of such changes is then taken into account in estimating future warranty liabilities. Changes in the accrued warranty reserve during the years ended March 31, 2022 and 2021 are as follows (in thousands):

Balance, beginning of the period . . . . .	\$ 5,850	\$ 1,934
Standard warranty provision . . . . .	646	985
Accrual related to reliability repair programs . . . . .	—	4,945
Deductions for warranty claims . . . . .	<u>(5,013)</u>	<u>(2,014)</u>
Balance, end of the period . . . . .	<u>\$ 1,483</u>	<u>\$ 5,850</u>

During the fourth quarter of Fiscal 2021, the Company recorded a specific \$4.9 million accrual related to a reliability repair program to account for the replacement of remaining high risk failure parts in some of the Company's fielded units due to a supplier defect. As of March 31, 2022, the accrual related to this reliability repair program was zero as the Company has determined it replaced a sufficient quantity of high risk failure parts in its fielded units under this reliability repair program and that it should be terminated.

**7. Revenue Recognition**

The following table presents disaggregated revenue by business group (in thousands):

	<u>Year Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Microturbine Products . . . . .	\$ 35,879	\$ 34,121
Accessories . . . . .	<u>1,302</u>	<u>2,396</u>
Total Product and Accessories . . . . .	37,181	36,517
Parts and Service . . . . .	<u>32,464</u>	<u>31,119</u>
Total Revenue . . . . .	<u>\$ 69,645</u>	<u>\$ 67,636</u>

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Following is the geographic revenue information based on the primary operating location of the Company's customers (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
United States .....	\$ 34,116	\$ 32,502
Mexico .....	3,862	3,931
All other North America .....	620	321
<b>Total North America .....</b>	<b>38,598</b>	<b>36,754</b>
Russia .....	3,335	3,577
All other Europe .....	11,494	13,659
<b>Total Europe .....</b>	<b>14,829</b>	<b>17,236</b>
Asia .....	3,774	6,087
Australia .....	4,197	3,165
All other .....	8,247	4,394
<b>Total Revenue .....</b>	<b>\$ 69,645</b>	<b>\$ 67,636</b>

**Contract Balances**

The Company's contract liabilities consist of advance payments for systems as well as deferred revenue on service obligations and extended warranties. The current portion of deferred revenue is included in current liabilities under deferred revenue and the non-current portion of deferred revenue is included in other non-current liabilities in the consolidated balance sheets.

As of March 31, 2022, the balance of deferred revenue was approximately \$10.2 million compared to \$7.1 million as of March 31, 2021. This overall increase in the balance of deferred revenue of \$3.1 million during Fiscal 2022 was comprised of increases in deferred revenue attributable to deposits of \$2.0 million and Distributor Support System ("DSS program") of \$1.3 million, offset by a decrease in FPP contracts of \$0.2 million. Changes in deferred revenue during the year ended March 31, 2022 and 2021 are as follows (in thousands):

FPP Balance, beginning of the period .....	\$ 4,765	\$ 5,342
FPP Billings .....	17,562	16,700
FPP Revenue recognized .....	(17,783)	(17,277)
Balance attributed to FPP contracts .....	4,544	4,765
DSS Program .....	2,696	1,417
Deposits .....	2,926	957
<b>Deferred revenue balance, end of the period .....</b>	<b>\$ 10,166</b>	<b>\$ 7,139</b>

Deferred revenue attributed to FPP contracts represents the unearned portion of the Company's agreements. FPP agreements are generally paid quarterly in advance with revenue recognized on a straight line basis over the contract period. The DSS program provides additional support for distributor business development activities, customer lead generation, brand awareness and tailored marketing services for each of the Company's major geography and market vertical. This program is funded by the Company's distributors and was developed to provide improved worldwide distributor training, sales efficiency, website development, company branding and provide funding for increased strategic marketing activities. DSS program revenue is generally paid quarterly with revenue recognized on a straight line basis over a calendar year period. Deposits are primarily non-refundable cash payments from distributors for future orders.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of March 31, 2022, approximately \$4.5 million of revenue is expected to be recognized from remaining performance obligations for FPP service contracts. The Company expects to recognize revenue on approximately \$3.5 million of these remaining performance obligations over the next 12 months and the balance of \$1.0 million will be recognized thereafter.

**8. Income Taxes**

Loss before provision for income taxes consisted of the following for the years ended March 31, 2022 and 2021 (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
United States .....	\$ (20,232)	\$ (18,388)
Foreign .....	40	20
Loss before provision for income taxes .....	\$ (20,192)	\$ (18,368)

Current income tax provision is the amount of income taxes reported or expected to be reported on our income tax return. The provision for current income taxes was \$19,000 for the years ended March 31, 2022 and March 31, 2021. The current income taxes were related to state income and foreign taxes. The Company did not have current federal income taxes for the fiscal year ended March 31, 2022.

Actual income tax expense differed from the amount computed by applying statutory corporate income tax rates to loss from operations before income taxes. A reconciliation of income tax (benefit) expense to the federal statutory rate follows (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Federal income tax benefit at the statutory rate .....	\$ (4,240)	\$ (3,857)
State taxes, net of federal effect .....	(601)	(311)
Foreign taxes .....	5	9
Expiring NOLs and tax credits .....	11,028	14,086
Impact of state rate change .....	(263)	160
Valuation allowance .....	(5,997)	(10,154)
Shortfall in tax benefit—stock compensation .....	75	87
True-up .....	(4)	(2)
Other .....	16	1
Income tax expense .....	\$ 19	\$ 19

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company’s deferred tax assets and liabilities consisted of the following at March 31, 2022 and 2021 (in thousands):

	<u>Year Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Inventories . . . . .	\$ 1,438	\$ 889
Warranty reserve . . . . .	350	1,357
Bad debt reserve . . . . .	199	58
Deferred revenue . . . . .	1,708	1,434
Net operating loss (“NOL”) carryforwards . . . . .	131,395	135,895
Tax credit carryforwards . . . . .	13,370	13,988
Depreciation, amortization and impairment loss . . . . .	—	1,237
Lease liability . . . . .	1,464	1,146
Interest limitation . . . . .	4,655	3,735
Other . . . . .	1,094	1,032
Deferred tax assets . . . . .	<u>155,673</u>	<u>160,771</u>
Valuation allowance for deferred tax assets . . . . .	<u>(153,673)</u>	<u>(159,671)</u>
Deferred tax assets, net of valuation allowance . . . . .	2,000	1,100
Deferred tax liabilities:		
Depreciation, amortization and impairment loss . . . . .	(594)	—
Right of use assets . . . . .	<u>(1,406)</u>	<u>(1,100)</u>
Net deferred tax assets . . . . .	<u>\$ —</u>	<u>\$ —</u>

Because of the uncertainty surrounding the timing of realizing the benefits of favorable tax attributes in future income tax returns, the Company has placed a valuation allowance against its net deferred income tax assets. The change in valuation allowance for fiscal years ended March 31, 2022 and 2021 was \$6.0 million and \$10.2 million, respectively.

The Company’s NOL and tax credit carryforwards for federal and state income tax purposes at March 31, 2022 were as follows (in thousands):

	<u>Amount</u>	<u>Expiration Period</u>
Federal NOL generated before April 1, 2018 . . . . .	\$ 494,213	2022 - 2038
Federal NOL generated after March 31, 2018 . . . . .	\$ 72,330	Indefinite
State NOL . . . . .	\$ 177,187	2025 - 2039
Federal tax credit carryforwards . . . . .	\$ 5,713	2022 - 2038
State tax credit carryforwards . . . . .	\$ 9,692	Indefinite

The NOLs and federal and state tax credits can be carried forward to offset future taxable income, if any. Utilization of the NOLs and tax credits are subject to an annual limitation of approximately \$57.3 million due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The federal tax credit carryforward is a research and development credit, which may be carried forward. The state tax credits consist of a research and development credit can be carried forward indefinitely.

Accounting Standards Codification (“ASC”) 740, Income Taxes clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Based on management’s evaluation, the total amount of unrecognized tax benefits related to research and development credits as of March 31, 2022 and 2021 was \$1.9 million and \$1.9 million, respectively. There were no interest or penalties related to unrecognized tax benefits as of March 31, 2022 or March 31, 2021. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

as of March 31, 2022 and March 31, 2021 was \$1.9 million and \$1.9 million, respectively. However, this impact would be offset by an equal increase in the deferred tax valuation allowance as the Company has recorded a full valuation allowance against its deferred tax assets because of uncertainty as to future realization. The fully reserved recognized federal and state deferred tax assets related to research and development credits balance as of March 31, 2022 and 2021 was \$5.7 million and \$9.7 million, and \$6.3 million and \$9.7 million, respectively.

A reconciliation of the beginning and ending amount of total gross unrecognized tax benefits is as follows (in thousands):

<b>Balance at March 31, 2020</b> . . . . .	\$ 2,272
Gross increase related to prior year tax positions . . . . .	—
Gross increase related to current year tax positions . . . . .	—
Lapse of statute of limitations . . . . .	<u>(326)</u>
<b>Balance at March 31, 2021</b> . . . . .	\$ 1,946
Gross increase related to prior year tax positions . . . . .	—
Gross increase related to current year tax positions . . . . .	—
Lapse of statute of limitations . . . . .	<u>(48)</u>
<b>Balance at March 31, 2022</b> . . . . .	<u>\$ 1,898</u>

The Company does not expect a material change to its unrecognized tax benefits over the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local or non-U.S. income tax examinations by tax authorities for the years before 2016. However, net operating loss carryforwards remain subject to examination to the extent they are carried forward and impact a year that is open to examination by tax authorities. The Company's evaluation was performed for the tax years which remain subject to examination by major tax jurisdictions as of March 31, 2022. When applicable, the Company accounts for interest and penalties generated by tax contingencies as interest and other expense, net in the statements of operations.

**9. Stockholders' Equity**

The following table summarizes, by consolidated statements of operations line item, stock-based compensation expense (in thousands):

	Year Ended March 31,	
	2022	2021
Cost of goods sold . . . . .	\$ 109	\$ 83
Research and development . . . . .	79	41
Selling, general and administrative . . . . .	<u>1,057</u>	<u>813</u>
Stock-based compensation expense . . . . .	<u>\$ 1,245</u>	<u>\$ 937</u>

**2000 and 2017 Equity Incentive Plans**

In June 2017, the Company's Board adopted the Capstone Green Energy Corporation 2017 Equity Incentive Plan (the "2017 Plan"), which was approved by the stockholders at the Company's 2017 annual meeting of stockholders on August 31, 2017 (the "2017 Annual Meeting"). The 2017 Plan initially provided for awards of up to 300,000 shares of Common Stock. The 2017 Plan is administered by the Compensation and Human Capital Committee designated by the Board (the "Compensation Committee"). The Compensation Committee's authority includes determining the number of incentive awards and vesting provisions. On June 5, 2018, the Company's Board of Directors adopted an amendment of the 2017 Plan to increase the aggregate number of shares of Common Stock authorized for issuance under the 2017 Plan



**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

by 300,000 shares of Common Stock. The amendment of the 2017 Plan was approved by the Company’s stockholders at the 2018 annual meeting of stockholders on August 30, 2018. Since this time, the Company’s stockholders have approved amendments to increase the aggregate number of shares authorized for issuance under the 2017 Plan by an additional 1,600,000 shares of Common Stock, including, most recently, on June 2, 2021, the Company’s Board of Directors adopted Amendment No. 4 (the “Plan Amendment”) of the 2017 Plan to increase the aggregate number of shares of Common Stock authorized for issuance under the 2017 Plan by 500,000 shares of Common Stock. The Plan amendment was approved by the Company’s stockholders at the 2021 annual meeting of stockholders on August 27, 2021.

As of March 31, 2022, there were 814,708 shares available for future grants under the 2017 Plan.

*Restricted Stock Units and Performance Restricted Stock Units*

The Company issued restricted stock units under the Company’s 2000 Equity Incentive Plan, as well as issued (and may in the future issue) restricted stock units under the 2017 Plan to employees, non-employee directors and consultants. The restricted stock units are valued based on the closing price of the Company’s Common Stock on the date of issuance, and compensation cost is recorded on a straight-line basis over the vesting period. The restricted stock units issued to employees vest over a period of two, three or four years. For restricted stock units with two year vesting, 100% vests on the second year anniversary. For restricted stock units with three year vesting, one-third vest annually beginning one year after the issuance date. For restricted stock units with four year vesting, one-fourth vest annually beginning one year after the issuance date. The restricted stock units issued to non-employee directors vest one year after the issuance date. The following table summarizes restricted stock unit and performance restricted stock unit (“PRSU”) activity during Fiscal 2022:

<u>Restricted Stock Units and Performance Restricted Stock Units</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested restricted stock units outstanding at March 31, 2021 .....	497,281	\$ 5.65
Granted .....	328,963	5.40
Vested and issued .....	(194,444)	5.18
Forfeited .....	(39,995)	5.78
Non-vested restricted stock units outstanding at March 31, 2022 .....	<u>591,805</u>	<u>5.66</u>
Restricted stock units expected to vest beyond March 31, 2022 .....	<u>591,805</u>	<u>\$ 5.66</u>

The following table provides additional information on restricted stock units and performance restricted stock units:

	<u>Year Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Restricted stock compensation expense (in thousands) .....	\$ 1,245	\$ 937
Aggregate fair value of restricted stock units vested and issued (in thousands) .....	\$ 936	\$ 352
Weighted average grant date fair value of restricted stock units granted during the period ...	\$ 5.40	\$ 5.28

As of March 31, 2022, there was approximately \$2.1 million of total compensation cost related to unvested restricted stock units that is expected to be recognized as expense over a weighted average period of 2.2 years.

The Company’s PRSU activity is included in the above restricted stock units tables. The PRSU program has a three-year performance measurement period. The performance measurement occurs in the third year (for a three-year grant) following the grant date. The program is intended to have overlapping performance measurement periods (e.g., a new three-year cycle begins each year on April 1), subject to Compensation Committee approval. At the end of each

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

performance measurement period, the Compensation Committee will determine the achievement against the performance objectives.

During Fiscal 2022, the Company granted 35,986 PRSUs with a third-year performance measurement and the criteria measured by the Company's cash flow from operations and aftermarket sales absorption. There were no PRSUs granted during Fiscal 2021. The target PRSU awards for each participant, will be paid upon achievement of the target level of performance for cash flow from operations and aftermarket sale absorption, taking into account the applicable weighing for the individual metric. Achievement of a performance goal at the threshold level will result in a payment that is 50% of the target PRSU award. Achievement of a performance goal at the maximum level will result in a payment that is 150% of the target PRSU award. The Compensation Committee will use an interpolation table that weighs performance between levels for determining the portion of the Target PRSU that is earned.

The weighted average per share grant date fair value of PRSUs granted during Fiscal 2022 was \$8.39. Based on the Company's assessment as of March 31, 2022, the Company will not meet the threshold of the performance measurements, and as a result, no compensation expense was recorded during Fiscal 2022. Compensation expense is recognized over the corresponding requisite service period and will be adjusted in subsequent reporting periods if the Company's assessment of the probable level of achievement of the performance goals change. The Company will continue to assess the likelihood of the PRSU threshold being met until the end of the applicable performance period.

#### Stockholder Rights Plan

On May 6, 2019, the Board declared a dividend of one right (a "New Right") for each of the Company's issued and outstanding shares of Common Stock. The dividend was paid to the stockholders of record at the close of business on May 16, 2019 (the "Record Date"). Each New Right entitles the registered holder, subject to the terms of the NOL Rights Agreement (as defined below), to purchase from the Company one one-thousandth of a share of the Company's Series B Junior Participating Preferred Stock (the "Preferred Stock") at a price of \$5.22 (the "Exercise Price"), subject to certain adjustments. The description and terms of the New Rights are set forth in the Rights Agreement dated as of May 6, 2019 (the "NOL Rights Agreement") between the Company and Broadridge Financial Solutions, Inc., as Rights Agent (the "Rights Agent").

The NOL Rights Agreement replaced the Company's Rights Agreement, dated May 6, 2016, by and between the Company and Broadridge Financial Solutions, Inc., as successor-in-interest to Computershare Inc., as rights agent (the "Original Rights Agreement"). The Original Rights Agreement, and the rights thereunder to purchase fractional shares of Preferred Stock, expired at 5:00 p.m., New York City time, on May 6, 2019 and the NOL Rights Agreement was entered into immediately thereafter.

The purpose of the NOL Rights Agreement is to diminish the risk that the Company's ability to use its net operating losses and certain other tax assets (collectively, "Tax Benefits") to reduce potential future federal income tax obligations would become subject to limitations by reason of the Company's experiencing an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Tax Code"). A company generally experiences such an ownership change if the percentage of its stock owned by its "5-percent shareholders," as defined in Section 382 of the Tax Code, increases by more than 50 percentage points over a rolling three-year period. The NOL Rights Agreement is designed to reduce the likelihood that the Company will experience an ownership change under Section 382 of the Tax Code by (i) discouraging any person or group from becoming a 4.9% or greater shareholder and (ii) discouraging any existing 4.9% or greater shareholder from acquiring additional shares of the Company's stock.

The New Rights will not be exercisable until the earlier to occur of (i) the close of business on the tenth business day after a public announcement or filing that a person has, or group of affiliated or associated persons have, become an "Acquiring Person," which is defined as a person or group of affiliated or associated persons who, at any time after the date of the NOL Rights Agreement, have acquired, or obtained the right to acquire, beneficial ownership of 4.9% or more of the Company's outstanding shares of Common Stock, subject to certain exceptions or (ii) the close of business on the

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tenth business day after the commencement of, or announcement of an intention to commence, a tender offer or exchange offer the consummation of which would result in any person becoming an Acquiring Person (the earlier of such dates being called the “Distribution Date”). Certain synthetic interests in securities created by derivative positions, whether or not such interests are considered to be ownership of the underlying Common Stock or are reportable for purposes of Regulation 13D of the Exchange Act, are treated as beneficial ownership of the number of shares of Common Stock equivalent to the economic exposure created by the derivative position, to the extent actual shares of the Common Stock are directly or indirectly held by counterparties to the derivatives contracts.

With respect to certificates representing shares of Common Stock outstanding as of the Record Date, until the Distribution Date, the New Rights will be evidenced by such certificates for shares of Common Stock registered in the names of the holders thereof, and not by separate Rights Certificates, as described further below. With respect to book entry shares of Common Stock outstanding as of the Record Date, until the Distribution Date, the New Rights will be evidenced by the balances indicated in the book entry account system of the transfer agent for the Common Stock. Until the earlier of the Distribution Date and the Expiration Date, as described below, the transfer of any shares of Common Stock outstanding on the Record Date will also constitute the transfer of the New Rights associated with such shares of Common Stock. As soon as practicable after the Distribution Date, separate certificates evidencing the New Rights (“Right Certificates”) will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date, and such Right Certificates alone will evidence the New Rights.

The New Rights, which are not exercisable until the Distribution Date, will expire prior to the earliest of (i) May 6, 2022 or such later day as may be established by the Board prior to the expiration of the New Rights, provided that the extension is submitted to the Company’s stockholders for ratification at the next annual meeting of stockholders of the Company succeeding such extension; (ii) the time at which the New Rights are redeemed pursuant to the NOL Rights Agreement; (iii) the time at which the New Rights are exchanged pursuant to the NOL Rights Agreement; (iv) the time at which the New Rights are terminated upon the occurrence of certain transactions; (v) the close of business on the first day after the Company’s 2019 annual meeting of stockholders, if approval by the stockholders of the Company of the NOL Rights Agreement has not been obtained on or prior to the close of business on the first day after the Company’s 2019 annual meeting of stockholders; (vi) the close of business on the effective date of the repeal of Section 382 of the Tax Code, if the Board determines that the NOL Rights Agreement is no longer necessary or desirable for the preservation of Tax Benefits; and (vii) the close of business on the first day of a taxable year of the Company to which the Board determines that no Tax Benefits are available to be carried forward, (the earliest of (i), (ii), (iii), (iv), (v), (vi) and (vii) is referred to as the “Expiration Date”). On April 7, 2022, our Board approved an extension of the NOL Rights Agreement from May 6, 2022 to May 6, 2025, subject to obtaining shareholder approval ratifying such extension.

Each share of Preferred Stock will be entitled, when, as and if declared, to a preferential per share quarterly dividend payment equal to the greater of (i) \$1.00 per share or (ii) an amount equal to 1,000 times the aggregate quarterly dividend declared per share of Common Stock since the immediately preceding quarterly dividend payment date for the Common Stock (or, with respect to the first quarterly dividend payment on the Common Stock, since the first issuance of the Preferred Stock). Each share of Preferred Stock will entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Company. In the event of any merger, consolidation or other transaction in which shares of Common Stock are converted or exchanged, each share of Preferred Stock will be entitled to receive 1,000 times the amount received per one share of Common Stock.

#### **Offerings of Common Stock and Warrants and At-the-Market Offering Program**

##### *At-the-Market Offering*

On June 7, 2018, we entered into a Sales Agreement with H.C. Wainwright & Co., LLC (the “Sales Agreement”) with respect to an at-the-market offering program (the “ATM Program”) pursuant to which we may offer and sell, from time to time at our sole discretion, shares of our Common Stock, having an aggregate offering price of up to \$25.0 million. We will set the parameters for sales of the shares, including the number to be sold, the time period during which sales are

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

requested to be made, any limitation on the number that may be sold in one trading day and any minimum price below which sales may not be made. On July 15, 2020, we entered into an amendment to the Sales Agreement, which modified the Sales Agreement to, among other things, amend the termination provisions of the Agreement and amend the maximum amount of shares of our Common Stock that we may offer and sell through or to H.C. Wainwright & Co., LLC from time to time under the ATM Program. On March 19, 2021, we entered into a second amendment to the Sales Agreement, which modified the Sales Agreement to, among other things, reflect our filing of a new Registration Statement on Form S-3 with the SEC on March 22, 2021 and set the maximum amount of shares of our Common Stock that we may offer and sell through or to H.C. Wainwright at \$50 million from the date of the amendment to the Sales Agreement, subject to certain limitations set forth in the amendment. During Fiscal 2022, we issued approximately 0.1 million shares of our Common Stock under the ATM program and the net proceeds to us from the sale of our Common Stock were approximately \$0.7 million after deducting commissions paid of approximately \$26,000. As of March 31, 2022, approximately \$49.3 million remained available for issuance with respect to this ATM Program.

#### *Warrants*

##### *Goldman Warrant*

On February 4, 2019, the Company sold to Goldman Sachs & Co. LLC (the “Holder”), a Purchase Warrant for Common Shares (the “Warrant”) pursuant to which the Holder may purchase shares of the Company’s Common Stock in an aggregate amount of up to 404,634 shares (the “Warrant Shares”). The Warrant was sold to the Holder at a purchase price of \$150,000, in a private placement exempt from registration under the Securities Act. The Warrant may be exercised by the Holder at any time after August 4, 2019 at an exercise price equal to \$8.86 and will expire on February 4, 2024. The Warrant contains standard adjustment provisions in the event of additional stock issuances below the exercise price of the warrant, stock splits, combinations, rights offerings and similar transactions. The value of the Warrant was \$2.3 million, and has been classified as an equity instrument in additional paid in capital in the Company’s condensed consolidated balance sheets. As of March 31, 2022, the Holder may purchase shares of the Company’s Common Stock in an aggregate amount of up to 463,067 shares.

On December 9, 2019, the Company entered into an Amendment No. 1 to the Purchase Warrant for Common Shares (the “Amendment No. 1”) with Special Situations Investing Group II, LLC (as successor in interest to Goldman Sachs & Co. LLC) (the “Warrant Holder”) that amends the Warrant. The Amendment No. 1 amended the Warrant to increase the number of Warrant Shares issuable under the Warrant (on a post-reverse split basis) and to decrease the exercise price from \$8.86 per share (on a post-reverse split basis) to \$3.80 per share (the “Per Share Warrant Exercise Price”). The Amendment No. 1 also amends the Warrant such that the Per Share Anti-Dilution Price is equal to the Per Share Warrant Exercise Price. As a result of the decrease in exercise price, the Company recorded the change in valuation of \$0.3 million as additional debt discount with a corresponding entry to additional paid-in capital in the condensed consolidated balance sheets and statements of stockholders equity.

On June 16, 2020, the Company entered into an Amendment No. 2 to the Purchase Warrant for Common Shares (“Amendment No. 2”) with the Warrant Holder to increase the number of Warrant Shares (as defined therein) issuable under the Warrant and to decrease the exercise price from \$3.80 per share to \$2.61 per share (the “Per Share Warrant Exercise Price”). The Company would receive aggregate gross proceeds of \$1,186,313 if the outstanding Warrant is exercised at the new Per Share Warrant Exercise Price.

Amendment No. 2 also amends the Warrant such that the Per Share Anti-Dilution Price (as defined therein) is equal to the Per Share Warrant Exercise Price as provided in the Amendment No. 2 to the Warrant. As a result of the decrease in exercise price, the Company recorded the change in valuation of \$0.1 million as additional debt discount with a corresponding entry to additional paid in capital in the condensed consolidated balance sheets and statements of stockholders equity. All other terms and provisions in the Warrant remain in effect.

##### *Goldman “2020 Warrant”*

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On October 1, 2020, the Company entered into an Amendment No. 3 to the Purchase Warrant for Common Shares (the “Amendment No. 3”) with Special Situations Investing Group II, LLC (as successor in interest to Goldman Sachs & Co. LLC) (the “Warrant Holder”) that amends that certain Purchase Warrant for Common Shares originally issued by the Company to Goldman Sachs & Co. LLC, dated February 4, 2019, as amended (the “Original Warrant”). Amendment No. 3 amends the Original Warrant to amend Section 2.1, Section 2.2(c) and Section 18.1 of the Warrant to, among other things, make certain changes necessitated by the issuance of a second Warrant (the “2020 Warrant”) to the Warrant Holder pursuant to the Company’s entry into the Amended & Restated (“A&R”) Note Purchase Agreement (See Note 11 – Term Note Payable).

On October 1, 2020, and pursuant to the Company’s entry into the A&R Note Purchase Agreement, the Company sold to the Warrant Holder the 2020 Warrant to purchase up to 291,295 shares (the “2020 Warrant Shares”) of the Company’s Common Stock. The 2020 Warrant was sold to the Warrant Holder at a purchase price of \$10,000, in a private placement exempt from registration under the Securities Act. The 2020 Warrant may be exercised by the Warrant Holder at any time after October 1, 2020 at an exercise price equal to \$4.76 and will expire on February 4, 2024. The Warrant contains standard adjustment provisions in the event of additional stock issuances below the exercise price of the warrant, stock splits, combinations, rights offerings and similar transactions. The value of the Warrant was \$0.8 million, and has been classified as an equity instrument in additional paid in capital in the Company’s consolidated balance sheets. The value of the Warrant was determined using the Black-Scholes Option Pricing model using the following assumptions:

Risk-free interest rate .....	0.2%
Contractual term .....	3 years
Expected volatility .....	81.0%

#### September 2019 Pre-Funded and Series D Warrants

On September 4, 2019, the Company entered into a Securities Purchase Agreement (the “Securities Purchase Agreement”) with certain institutional and accredited investors pursuant to which the Company agreed to issue and sell in a registered direct offering (the “Registered Direct Offering”) an aggregate of 580,000 shares of Common Stock, at a negotiated purchase price of \$5.00 per share, and pre-funded warrants to purchase up to an aggregate of 440,000 shares of Common Stock at a negotiated purchase price of \$5.00 per Pre-Funded Warrant, for aggregate gross proceeds of approximately \$5.1 million (580,000 shares of Common Stock plus 440,000 pre-funded warrants at a \$5.00 per share purchase price), before deducting placement agent fees and other offering expenses. Net proceeds from the offering were \$4.6 million. The offering closed on September 9, 2019. On October 24, 2019, a warrant holder exercised its rights to the warrant agreement to exercise on a cash basis 440,000 pre-funded warrants at an exercise price of \$0.001 per share under the warrant agreement.

In a concurrent private placement, the Company issued to the purchasers warrants to purchase 765,000 shares of Common Stock, which represent 75% of the number of shares of Common Stock and shares underlying the Pre-Funded Warrants purchased in the Registered Direct Offering, pursuant to the Securities Purchase Agreement. The Common Warrants will be exercisable for shares of Common Stock at an initial exercise price of \$6.12 per share for a period of five years, starting on April 2, 2020 and expiring on April 2, 2025. In January 2021, three warrant holders exercised their rights to the warrant agreement to exercise on a cashless basis 690,000 Series D warrants at an exercise price of \$6.12 per share under the warrant agreement. In accordance with terms of the warrant agreement, after taking into account the shares withheld to satisfy the cashless exercise option, the Company issued 352,279 shares of Common Stock. As of March 31, 2022, there were 75,000 Series D warrants outstanding.

#### **Stock to Vendors**

From time to time, the Company may enter into agreements with vendors for sponsorship, marketing or investor relation services whereby it may agree to compensate the vendor in cash and unregistered shares of Common Stock of the

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company. The value of the unregistered shares of Common Stock is recorded as prepaid marketing cost and included in prepaid expenses and other current assets and stockholder's equity in the Condensed Consolidated Balance Sheets and is amortized in proportion to the terms of their respective agreements.

On February 10, 2020, the Company issued 229,886 shares of the Company's Common Stock, under a sponsorship agreement to its vendor. The prepaid marketing cost amortization associated with the Common Stock issued were \$1.1 million during Fiscal 2021 and were included in selling, general and administrative expense in the Consolidated Statements of Operations.

On February 17, 2021 and April 1, 2021, the Company issued 105,933 and 9,541 shares of the Company's Common Stock, under a sponsorship agreement and an investor relations consulting agreement, respectively to vendors. The prepaid marketing cost amortization associated with the Common Stock issued were \$1.0 million during Fiscal 2022, and were included in selling, general and administrative expense in the Consolidated Statements of Operations. As of March 31, 2022, there are no amounts remaining in prepaid marketing cost, prepaid expenses and other current assets in the Consolidated Balance Sheets related to the value of shares issued under the sponsorship agreement and investor relations consulting agreement.

#### 10. Fair Value Measurements

The FASB has established a framework for measuring fair value in generally accepted accounting principles. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

*Level 1.* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2.* Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3.* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Basis for Valuation*

The carrying values reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate their fair values because of the immediate or short-term maturities of these financial instruments. The term note payable has been recorded net of a discount based on the fair value of the associated warrant and capitalized debt issuance costs and as of March 31, 2022 includes both the Three-Year Term Note and the SBA Paycheck Protection Program (“PPP”) Loan as discussed in Note 11—Term Note Payable. The carrying values and estimated fair values of these obligations are as follows (in thousands):

	As of March 31, 2022		As of March 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Term note payable .....	\$ 50,940	\$ 51,000	\$ 50,915	\$ 51,000
PPP loan .....	—	—	1,950	1,950
Total .....	\$ 50,940	\$ 51,000	\$ 52,865	\$ 52,950

**11. Term Note Payable**

*Three-Year Term Note*

On February 4, 2019, the Company entered into a Note Purchase Agreement (as amended, the “Note Purchase Agreement”), by and among the Company, certain subsidiaries of the Company party thereto as guarantors, Goldman Sachs Specialty Lending Holdings, Inc. and any other purchasers party thereto from time to time (collectively, the “Purchaser”). Under the Note Purchase Agreement, the Company sold to the Purchaser \$30.0 million aggregate principal amount of senior secured notes (the “Notes”), bearing interest at a rate of 13.0% per annum and payable quarterly on March 31, June 30, September 30 and December 31 of each year until maturity.

On October 1, 2020, the Company entered into an Amended & Restated Note Purchase Agreement (the “A&R Note Purchase Agreement”). The A&R Note Purchase Agreement amends and restates that certain Note Purchase Agreement, as amended, dated February 4, 2019, by and among the Company, certain of its subsidiaries as guarantors, the Collateral Agent and various purchasers party thereto. Under the A&R Note Purchase Agreement, the Company issued an additional \$20 million in Notes, increasing total borrowings to \$50.0 million. Following entry into the A&R Note Purchase Agreement, all outstanding Notes bear interest at the Adjusted (London Interbank Offer) LIBO Rate (as defined in the A&R Note Purchase Agreement) plus 8.75% per annum, payable on the last day of each interest period of one-, two-, three- or six-months (but, in the case of a six-month interest period, every three months). The Notes do not amortize and the entire principal balance is due in a single payment on the maturity date, October 1, 2023. As of March 31, 2022, \$51.0 million in borrowings were outstanding under the Notes, which includes the accrual for an exit fee to be paid at maturity or upon pre-payment. Obligations under the A&R Note Purchase Agreement are secured by all of the Company’s assets, including intellectual property and general intangibles.

The A&R Note Purchase Agreement contains customary covenants, including, among others, covenants that restrict the Company’s ability to incur debt, grant liens, make certain investments and acquisitions, pay dividends, repurchase equity interests, repay certain debt, amend certain contracts, enter into affiliate transactions and asset sales or make certain equity issuances (including equity issuances that would cause an ownership change within the meaning of Section 382 of the Internal Revenue Code), and covenants that require the Company to, among other things, provide annual, quarterly and monthly financial statements, together with related compliance certificates, maintain its property in good condition, maintain insurance and comply with applicable laws. The financial covenants of the A&R Note Purchase Agreement require the Company not to exceed specified levels of Adjusted EBITDA losses relative to its financial model, beginning with the fiscal quarter ending September 30, 2021. Additionally, the Company shall not permit the Company’s minimum consolidated liquidity, which consists of its cash and cash equivalents, to be less than \$9.0 million. Furthermore,

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the covenants require the Company to expand its Rental Fleet (as defined in the A&R Note Purchase Agreement) by (i) at least 6.25 MW by the 9-month anniversary of the Closing Date, and (ii) at least 12.50 MW by the 18-month anniversary of the Closing Date.

On May 13, 2021, the Company and the collateral agent, entered into a First Amendment, dated as of May 13, 2021 (the "Amendment"), to the A&R Note Purchase Agreement. The Amendment amends certain provisions of the A&R Note Purchase Agreement, including to (a) require the Company to expand its Rental Fleet (as defined in the A&R Note Purchase Agreement) by (i) at least 2.00 MW by the 9-month anniversary of the Closing Date (instead of 6.25 MW as provided in the A&R Note Purchase Agreement prior to the Amendment), and (ii) at least 12.50 MW by the 18-month anniversary of the Closing Date (which is unchanged from the covenant set forth in in the A&R Note Purchase Agreement prior to the Amendment), and (b) increase the Company's minimum consolidated liquidity requirement from \$9.0 million to \$12.2 million for the period from the Amendment Date to March 31, 2022, and \$9.0 million thereafter.

As of March 31, 2022, the Company was in compliance with the covenants contained in the A&R Note Purchase Agreement.

The Notes have been recorded net of a discount based on the debt issuance costs totaling \$0.1 million. Amortization of the debt discount and debt issuance costs was \$34,000 and \$0.6 million for Fiscal 2022 and 2021, respectively, based on an effective interest rate, and has been recorded as interest expense in the consolidated statements of operations.

Interest expense related to the Notes payable during Fiscal 2022 and 2021 was \$5.0 million and \$5.2 million and includes \$34,000 and \$0.6 million in amortization of debt issuance costs, respectively.

#### *SBA Paycheck Protection Program Loan*

On April 15, 2020, the Company submitted an application to its banking partner Western Alliance Bank, an Arizona corporation ("Western Alliance") under the Small Business Administration (the "SBA") Paycheck Protection Program ("PPP") enabled by the Coronavirus Aid, Relief and Economic Security Act of 2020 (the "CARES Act"). Western Alliance entered into a note on April 24, 2020 with the Company and agreed to make available to the Company a loan in the amount of \$2,610,200 (the "PPP Loan"). The Company received the full amount of the PPP Loan on April 24, 2020 (the "Initial Disbursement Date") and has used the proceeds to support fixed costs such as payroll costs, rent and utilities in accordance with the relevant terms and conditions of the CARES Act. The advance under the Loan bears interest at a rate per annum of 1%. The term of the PPP Loan is two years, ending April 24, 2022.

On May 13, 2020, the Company repaid \$660,200 of the PPP Loan in accordance with the Fourth Amendment to the Note Purchase Agreement between the Company and Goldman Sachs Specialty Lending Group, L.P.

In February 2021, the Company applied for forgiveness of the PPP Loan, and the loan was forgiven in full on June 30, 2021 (See "Gain on extinguishment of debt" below).

***Gain and Loss on Extinguishment of Debt*** In June 2021, the Company received notification from Western Alliance that the SBA approved forgiveness of the PPP loan in its entirety. The Company accounted for forgiveness on the PPP Loan in accordance with ASC 470 and recognized a gain on debt extinguishment of \$1.9 million on its Consolidated Statements of Operations and Consolidated Statements of Cash Flows during Fiscal 2022. In June 2021, the Company also received a refund of the \$660,200 previously repaid in accordance with the Fourth Amendment to the Note Purchase Agreement between the Company and Goldman Sachs Specialty Lending Group, L.P. and recorded these amounts within other income on the Company's Consolidated Statements of Operations.

The Company determined the A&R Note Purchase Agreement should be accounted for as an extinguishment of debt rather than a modification of debt in accordance with ASC 470. Accordingly, the Company recognized a loss on extinguishment of debt of approximately \$4.3 million during Fiscal 2021. The loss on extinguishment of debt comprised



**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the write-off of approximately \$1.5 million of unamortized debt issuance costs, a facility fee in the amount of \$1.0 million paid to the lender, an accrual of \$1.0 million for anticipated exit fees due upon repayment of the principal balance to the lender and the fair value of common stock warrants issued to the warrant holder in connection with Amendment No. 3 to the Purchase Warrant of \$0.8 million.

**12. Commitments and Contingencies**

**Purchase Commitments**

As of March 31, 2022, the Company had firm commitments to purchase inventories of approximately \$40.5 million through Fiscal 2023. Certain inventory delivery dates and related payments are not scheduled; therefore amounts under these firm purchase commitments will be payable upon the receipt of the related inventories.

**Lease Commitments**

In June 2019, the Company entered into a new lease of approximately 9,216 square feet of warehouse space at 16701 Stagg Street in Van Nuys, California. Upon the lease commencement date in July 2019, the Company recorded \$0.5 million of right-of-use assets and operating lease liabilities.

In May 2021, the Company entered into new lease of office and warehouse spaces at Unit 800 & 810 Fareham Reach, Fareham Road, Gosport, Hampshire, United Kingdom. Upon commencement of the lease, the Company recorded \$1.9 million of right-of-use assets and operating lease liabilities.

The Company leases offices and manufacturing facilities under various non-cancelable operating leases expiring at various times through Fiscal 2037. All of the leases require the Company to pay maintenance, insurance and property taxes. The lease agreements for primary office and manufacturing facilities provide for rent escalation over the lease term and renewal options for five-year periods. Lease expense is recognized on a straight-line basis over the term of the lease.

The components of lease expense were as follows (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Operating lease cost .....	\$ 1,157	\$ 1,051

Supplemental balance sheet information related to the leases was as follows (in thousands):

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Operating lease right-of-use assets .....	\$ 5,959	\$ 4,741
Total operating lease right-of-use assets .....	\$ 5,959	\$ 4,741
Operating lease liability, current .....	\$ 586	\$ 485
Operating lease liability, non-current .....	5,619	4,456
Total operating lease liabilities .....	\$ 6,205	\$ 4,941
Weighted average remaining lease life .....	8.35 years	6.51 years
Weighted average discount rate .....	12.00%	13.00%

**CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company records its right-of-use assets within other assets (non-current) and its operating lease liabilities within current and long-term portion of notes payable and lease obligations.

Supplemental cash flow information related to the leases was as follows (in thousands):

	<u>Year Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases . . . . .	\$ 1,106	\$ 1,116
Right-of-use assets obtained in exchange for lease obligations		
Operating leases . . . . .	\$ 1,877	\$ —

Other supplemental operating lease information consists of the following:

At March 31, 2022, the Company’s minimum commitments under non-cancelable operating leases were as follows (in thousands):

<u>Year Ending March 31,</u>	<u>Operating Leases</u>
2023 . . . . .	\$ 1,297
2024 . . . . .	1,324
2025 . . . . .	1,248
2026 . . . . .	1,243
2027 . . . . .	1,279
Thereafter . . . . .	3,358
Total lease payments . . . . .	\$ 9,749
Less: imputed interest . . . . .	(3,544)
Present value of operating lease liabilities . . . . .	<u>\$ 6,205</u>

**Other Commitments**

The Company has agreements with certain of its distributors requiring that, if the Company renders parts obsolete in inventories the distributors own and hold in support of their obligations to serve fielded microturbines, then the Company is required to replace the affected stock at no cost to the distributors. While the Company has never incurred costs or obligations for these types of replacements, it is possible that future changes in the Company’s product technology could result and yield costs to the Company if significant amounts of inventory are held at distributors. As of March 31, 2022, no significant inventories were held at distributors.

**Legal Matters**

*Capstone Turbine Corporation v. Turbine International, LLC.*

On February 3, 2020, Capstone Turbine Corporation filed suit against its former distributor, Turbine International, LLC (“Turbine Intl.”), in the Superior Court of California for the County of Los Angeles under the following caption: Capstone Turbine Corporation v. Turbine International, LLC; Case No. 20STCV04372 (“Capstone-Turbine Intl. Litigation”). The Company has alleged claims against Turbine Intl. for breach of contract and for injunctive relief relating to the parties’ prior distributor relationship, which terminated at the end of March of 2018, and Turbine Intl.’s failure to satisfy its payment obligations under certain financial agreements, namely an accounts receivable agreement and promissory note in favor of Capstone. As remedies for these claims, the Company is seeking compensatory, consequential, along with injunctive relief and attorney’s fees, interest, and costs.

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 18, 2020, Turbine Intl. filed its answer and cross-claims in the Capstone-Turbine Intl. Litigation. In its cross-claims, Turbine Intl. asserted claims against Capstone, and individually against Mr. James Crouse, Capstone's Chief Revenue Officer, for breach of contract under the distributor agreement, accounts receivable agreement and promissory note, fraud, breach of the covenant of good faith and fair dealing, unjust enrichment and constructive trust, negligent misrepresentation, violation of the California unfair practices act, violation of racketeer influenced corrupt organizations act, and conspiracy to commit fraud. As remedies for these alleged claims, Turbine Intl. are seeking compensatory, consequential, and punitive damages along with attorney's fees, interest, and costs. Capstone answered the cross-claims on May 7, 2020.

On June 29, 2020, Capstone filed a motion to file a First Amended Complaint that would add, among other things, a claim for enforcement of a guaranty signed by an entity related to Turbine Intl., Hispania Petroleum, S.A., and personal claims against the principals of Turbine Intl. and Hispania. That motion was granted on August 19, 2020, and the First Amended Complaint ("FAC") is now on file. All of the new defendants have been served and have filed answers. A trial date in the matter has been set for December 12, 2022. Discovery is ongoing. The Company has not recorded any liability as of March 31, 2022 as the matter is too early to estimate.

#### 13. Employee Benefit Plans

The Company maintains a defined contribution 401(k) profit-sharing plan in which all employees are eligible to participate. Employees may contribute up to Internal Revenue Service annual limits or, if less, 90% of their eligible compensation. Employees are fully vested in their contributions to the plan. The plan also provides for both Company matching and discretionary contributions, which are determined by the Board of Directors. The Company has been matching 50 cents on the dollar up to 6% of the employee's contributions since February 2019. Prior to that date, the Company had been matching 50 cents on the dollar up to 4% of the employee's contributions since October 2006. There were no Company contributions to the plan prior to October 2006. The Company's match vests 25% a year over four years starting from the employee's hire date. The Company recorded expense of approximately \$0.1 million and \$0.2 million for Fiscal 2022 and 2021, respectively.

#### 14. Other Assets

The Company was a party to a Development and License Agreement with Carrier Corporation ("Carrier") regarding the payment of royalties on the sale of each of the Company's 200 kilowatt ("C200") microturbines. In 2013, the Company reached its repayment threshold level and the fixed rate royalty was reduced by 50%. On July 25, 2018, the Company and Carrier entered into a Second Amendment to the Development and License Agreement ("Second Amendment") whereby the Company agreed to pay Carrier approximately \$3.0 million to conclude the Company's current royalty obligation under the Development and License Agreement, dated as of September 4, 2007, as amended ("Development Agreement") and release the Company from any future royalty payment obligations. The Second Amendment also removed non-compete provisions from the Development Agreement, allowing the Company to design market or sell its C200 System in conjunction with any energy system and compete with Carrier products in the CCHP market.

On September 19, 2018, the Company paid in full the negotiated royalty settlement of \$3.0 million to Carrier, and as such, there is no further royalty obligation to Carrier. The prepaid royalty of \$3.0 million has been recorded under the captions "Prepaid expenses and other current assets" and "Other assets" in the accompanying consolidated balance sheets and will be amortized in the accompanying consolidated statements of operations over a 15-year amortization period through September 2033 using an effective royalty rate. A 15-year amortization period is the minimum expected life cycle of the current generation of product. The effective royalty rate is calculated as the prepaid royalty settlement divided by total projected C200 System units over the 15-year amortization period. On a quarterly basis, the Company will perform a re-forecast of C200 System unit shipments, to determine if an adjustment to the effective royalty rate is necessary. Accordingly, if the Company's future projections change, its effective royalty rates would change, which could affect the

## CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount and timing of royalty expense the Company recognizes. If impairment exists, then the prepaid royalty asset could be written down to fair value. Prepaid royalties are classified as current assets to the extent that such amounts will be recognized in the Company's consolidated statements of operations within the next twelve months. The current and long-term portions of prepaid royalties, included in other current assets and other assets, respectively, consisted of (in thousands):

	March 31, 2022	March 31, 2021
Other current assets . . . . .	\$ 124	\$ 124
Other assets . . . . .	2,506	2,613
Royalty-related assets . . . . .	<u>\$ 2,630</u>	<u>\$ 2,737</u>

#### 15. Subsequent Events

The Company has evaluated all subsequent events through the filing date of this Form 10-K with the SEC, to ensure that this filing includes appropriate disclosure of events both recognized in the financial statements as of March 31, 2022 and events which occurred subsequently but were not recognized in the financial statements. Except as described below, there were no other subsequent events which required recognition, adjustment to or disclosure in the financial statements.

During the first quarter of Fiscal 2023, the Company has entered into several rental agreements, to rent used microturbine equipment from customers where that equipment was not currently in use. The Company is then renting this equipment to end users as part of its Energy as a Service business. These agreements total approximately 11.8 MW of microturbines, have an average term of 36 months, and have a total commitment value of approximately \$9.5 million.

On July 13, 2022 we entered into the Second Amendment to the A&R Note Purchase Agreement with the Purchaser and the Collateral Agent, pursuant to which (i) the Purchaser and the Collateral Agent waived our breach of the Adjusted EBITDA covenant and (ii) the A&R Note Purchase Agreement has been amended to, among other things, add certain new covenants, including requirements that we use our commercially reasonable best efforts to raise at least \$10 million through a sale of our common stock by September 14, 2022 and refinance the Notes by October 1, 2022.

## Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
3.1	Conformed Copy of Second Amended and Restated Certificate of Incorporation of Capstone Turbine Corporation, as amended through April 22, 2021(a)
3.2	Conformed Copy of Fifth Amended and Restated Bylaws of Capstone Green Energy Corporation effective as of April 22, 2021, as amended through August 26, 2021(b)
3.3	Certificate of Elimination of Series A Junior Participating Preferred Stock of Capstone Turbine Corporation, dated May 9, 2016(d)
3.4	Certificate of Designations of Series B Junior Participating Preferred Stock of Capstone Turbine Corporation(d)
4.1	Specimen stock certificate(e)
4.2	NOL Rights Agreement, dated May 6, 2019, between Capstone Turbine Corporation and Broadridge Financial Solutions, Inc. successor-in-interest to Computershare Inc.(f)
4.3	Form of Series A Warrant issued to investors in the April 2016 public offering(g)
4.4	Form of Pre-Funded Series B Warrant issued to investors in the April 2016 public offering(g)
4.5	Form of Series A Warrant issued to investors in the October 2016 public offering(h)
4.6	Form of Pre-Funded Series B Warrant issued to investors in the October 2016 public offering(h)
4.7	Purchase Warrant for Common Shares issued in favor of Goldman Sachs & Co. LLC, dated February 4, 2019 (i)
4.8	Form of Prefunded Series C Warrant issued to investors in the September 2019 public offering (j)
4.9	Form of Series D Warrant issued to investors in the September 2019 public offering (j)
4.10	Amendment No. 1 to the Purchase Warrant for Common Shares issued in favor of Special Situations Investing Group II, LLC (a successor in interest to Goldman Sachs & Co. LLC), dated December 9, 2019 (k)
4.11	Note between Western Alliance Bank and Capstone Turbine Corporation, effective as of April 24, 2020 (l)
4.12	Amended and Restated Note Purchase Agreement dated October 1, 2020 by and among Capstone Turbine Corporation, certain subsidiaries of the company and Goldman Sachs Specialty Lending Group, L.P. (as successor in interest to Goldman Sachs Specialty Lending Holdings, Inc.) (gg)
4.13	First Amendment to the Amended and Restated Note Purchase Agreement, dated as of May 13, 2021, by and among Capstone Green Energy Corporation, certain subsidiaries of the Company and Goldman Sachs Specialty Lending Group, L.P. (hh)
4.14	Amendment No. 2 to the Purchase Warrant for Common Shares issued in favor of Special Situations Investing Group II, LLC (as successor in interest to Goldman Sachs & Co. LLC), dated June 16, 2020 (n)
4.15	Amendment No. 3 to the Purchase Warrant for Common Shares issued in favor of Special Situations Investing Group II, LLC (as success in interest to Goldman Sachs & Co. LLC), dated October 1, 2020 and Purchase Warrant for Common Shares issued in favor of Special Situations Investing Group II, LLC (as successor in interest to Goldman Sachs & Co. LLC), dated October 1, 2020 (gg)
4.16	Second Amendment to the Amended and Restated Note Purchase Agreement dated as of July 13, 2022, by and among Capstone Green Energy Corporation, certain subsidiaries of the Company, the purchaser party thereto and Goldman Sachs Specialty Lending Group, L.P.
4.17	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as Amended (kk)
10.1	Lease between Capstone Turbine Corporation and Prologis, L.P., formerly known as AMB Property, L.P., dated September 25, 2000, as amended, for leased premises at 16640 Stagg Street, Van Nuys, California(o)

Exhibit Number	Description
10.2	Fourth Amendment to Lease, dated June 7, 2017, between Capstone Turbine Corporation and Prologis, L.P., for leased premises at 16640 Stagg Street, Van Nuys, California(p)
10.3 *	Capstone Turbine Corporation 2017 Equity Incentive Plan effective August 30, 2017(q)
10.4 *	Capstone Turbine Corporation Employee Stock Purchase Plan effective August 30, 2017(r)
10.5 *	Amended and Restated Capstone Turbine Corporation Change of Control Severance Plan(s)
10.6	Development and License Agreement between Capstone Turbine Corporation and Carrier Corporation, successor-in-interest to UTC Power Corporation, dated September 4, 2007(t)
10.7	Promissory Note between Capstone Turbine Corporation and Turbine International, LLC, dated October 13, 2017(u)
10.8	Guaranty between Capstone Turbine Corporation and Hispania Petroleum, S.A., dated October 13, 2017(u)
10.9	First Amendment to the Accounts Receivable Assignment Agreement and Promissory Note between Capstone Turbine Corporation and Turbine International, LLC, dated June 5, 2018 (v)
10.10 *	Capstone Turbine Corporation Amended and Restated Executive Performance Incentive Plan as amended and restated effective August 29, 2013(w)
10.11 *	Amendment to the Capstone Turbine Corporation Amended and Restated Executive Performance Incentive Plan, dated June 9, 2014(x)
10.12 *	Form of Inducement Stock Option Agreement(y)
10.13 *	Form of Inducement Restricted Stock Unit Agreement(y)
10.14 *	Amended and Restated Change in Control Severance Agreement with Darren R. Jamison, dated June 14, 2012(z)
10.15 *	First Amendment to Amended and Restated Change in Control Severance Agreement with Darren R. Jamison, effective June 14, 2015(aa)
10.16 *	Capstone Turbine Corporation Severance Pay Plan as amended and restated effective February 1, 2010(aa)
10.17	Form of Securities Purchase Agreement used in the September 2019 offering (j)
10.18	At the Market Offering Agreement, dated June 7, 2018, between Capstone and H.C. Wainwright & Co., LLC (bb)
10.19	Second Amendment to the Development and License Agreement, dated July 25, 2018, between Capstone Turbine Corporation and Carrier Corporation (cc)
10.20 *	Capstone Turbine Corporation 2017 Equity Incentive Plan, as amended (dd)
10.21 *	Form of Change in Control Agreement (ee)
10.22 *	Form of Restricted Stock Unit Award Agreement for Company Employees under the Capstone Turbine Corporation 2017 Stock Option and Incentive Plan –Four Year Vesting Schedule (kk)
10.23 *	Form of Restricted Stock Unit Award Agreement for Company Employees under the Capstone Turbine Corporation 2017 Stock Option and Incentive Plan –Three Year Vesting Schedule (kk)
10.24 *	Form of Restricted Stock Unit Award Agreement for Company Employees under the Capstone Turbine Corporation 2017 Stock Option and Incentive Plan –Two Year Vesting Schedule (kk)
10.25 *	Form of Performance Restricted Stock Unit Award Agreement for Company Employees under the Capstone Turbine Corporation 2017 Stock Option and Incentive Plan (kk)
10.26	Amendment, dated July 15, 2020, to At The Market Offering Agreement, dated June 7, 2018, between Capstone Turbine Corporation and H.C. Wainwright & Co., LLC (ii)
10.27	Amendment, dated March 19, 2021, to At the Market Offering Agreement, dated June 7, 2018, between Capstone Turbine Corporation and H.C. Wainwright & Co., LLC (jj)

Exhibit Number	Description
10.28	Consulting Agreement between Capstone Green Energy Corporation and Capstone Engineered Solutions, dated May 22, 2022
10.29	National Account Agreement between Capstone Green Energy Corporation and Capstone Engineered Solutions, dated May 20, 2022
10.30	Installation Agreement between Capstone Green Energy Corporation and Capstone Engineered Solutions Corporation
14.1	Code of Business Conduct(ff)
14.2	Code of Ethics for Senior Financial Officers and Chief Executive Officer (ff)
21	Subsidiary List
23	Consent of Marcum LLP
24	Power of Attorney (included on the signature page of this Form 10-K)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes–Oxley Act of 2002
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
104	The cover page from Capstone Green Energy Corporation’s Annual Report on Form 10-K for the fiscal year ended March 31, 2022, formatted in Inline XBRL and contained in Exhibit 101

\*Management contract or compensatory plan or arrangement

- (a) Incorporated by reference to Capstone Turbine Corporation’s Registration Statement on Form S-1/A, dated May 8, 2000 (File No. 333-33024).
- (b) Incorporated by reference to Capstone Turbine Corporation’s Current Report on Form 8-K, filed on October 21, 2019 (File No. 001-15957).
- (c) Incorporated by reference to Capstone Turbine Corporation’s Current Report on Form 8-K, filed September 1, 2017 (File No. 001-15957).
- (d) Incorporated by reference to Capstone Turbine Corporation’s Current Report on Form 8-K, filed on May 9, 2016 (File No. 001-15957).
- (e) Incorporated by reference to Capstone Turbine Corporation’s Registration Statement on Form S-1/A, dated June 21, 2000 (File No. 333-33024).
- (f) Incorporated by reference to Capstone Turbine Corporation’s Current Report on Form 8-K, filed on May 6, 2019 (File No. 001-15957).
- (g) Incorporated by reference to Capstone Turbine Corporation’s Current Report on Form 8-K, filed on April 21, 2016 (File No. 001-15957).
- (h) Incorporated by reference to Capstone Turbine Corporation’s Current Report on Form 8-K, filed on October 18, 2016 (File No. 001-15957).

- (i) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on February 5, 2019 (File No. 001-15957).
- (j) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on September 4, 2019 (File No. 001-15957).
- (k) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on December 9, 2019 (File No. 001-15957).
- (l) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on April 29, 2020 (File No. 001-15957).
- (m) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on April 22, 2021 (File No. 001-15957).
- (n) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on June 17, 2020 (File No. 001-15957).
- (o) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 (File No. 001-15957).
- (p) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K for the fiscal year ended on March 31, 2017 (File No. 001-15957).
- (q) Incorporated by reference to Appendix A to Capstone Turbine Corporation's Definitive Proxy Statement, filed on July 21, 2017 (File No. 001-15957).
- (r) Incorporated by reference to Appendix B to Capstone Turbine Corporation's Definitive Proxy Statement, filed on July 21, 2017 (File No. 001-15957).
- (s) Incorporated by reference to Capstone Turbine Corporation's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004 (File No. 001-15957).
- (t) Incorporated by reference to Capstone Turbine Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 (File No. 001-15957).
- (u) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on October 13, 2017 (File No. 001-15957).
- (v) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K, filed on June 7, 2018 (File No. 001-15957)
- (w) Incorporated by reference to Capstone Turbine Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 (File No. 001-15957).
- (x) Incorporated by reference to Appendix B to Capstone Turbine Corporation's Definitive Proxy Statement, filed on July 16, 2014 (File No. 001-15957).
- (y) Incorporated by reference to Capstone Turbine Corporation's Registration Statement on Form S-8, dated June 17, 2009 (File No. 333-160049).
- (z) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K for the fiscal year ended on March 31, 2012 (File No. 001-15957).
- (aa) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K for the fiscal year ended on March 31, 2015 (File No. 001-15957).



- (bb) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on June 7, 2018 (File No. 001-15957).
- (cc) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K, filed on July 26, 2018 (File No. 001-15957).
- (dd) Incorporated by reference to Appendix A to Capstone Turbine Corporation's Definitive Proxy Statement, filed July 13, 2018 (File No. 001-15957).
- (ee) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K filed on June 5, 2018 (File No. 001-15957).
- (ff) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2014 (File No. 001-15957).
- (gg) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K filed on October 5, 2020 (File No. 001-15957).
- (hh) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K filed on May 14, 2021 (File No. 001-15957).
- (ii) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K filed on July 15, 2020 (File No. 001-15957).
- (jj) Incorporated by reference to Capstone Turbine Corporation's Current Report on Form 8-K filed on March 22, 2021 (File No. 001-15957).
- (kk) Incorporated by reference to Capstone Turbine Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 (File No. 001-15957).

## SIGNATURES

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

CAPSTONE GREEN ENERGY CORPORATION

Date: July 13, 2022

By:                     /s/ Frederick S. Hencken III                      
Frederick S. Hencken III  
Chief Financial Officer  
(Principal Financial Officer)

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of Capstone Green Energy Corporation, hereby severally constitute Darren R. Jamison and Frederick S. Hencken III, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, this Annual Report on Form 10-K and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Capstone Green Energy Corporation to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DARREN R. JAMISON</u> Darren R. Jamison	President, Chief Executive Officer and Director (Principal Executive Officer)	July 13, 2022
<u>/s/ FREDERICK S. HENCKEN III</u> Frederick S. Hencken III	Chief Financial Officer (Principal Financial Officer)	July 13, 2022
<u>/s/ ROBERT C. FLEXON</u> Robert C. Flexon	Chair of the Board of Directors	July 13, 2022
<u>/s/ YON Y. JORDEN</u> Yon Y. Jordan	Director	July 13, 2022
<u>/s/ ROBERT F. POWELSON</u> Robert F. Powelson	Director	July 13, 2022
<u>/s/ DENISE WILSON</u> Denise Wilson	Director	July 13, 2022
<u>/s/ PING FU</u> Ping Fu	Director	July 13, 2022

## BOARD OF DIRECTORS

### **Robert Flexon**<sup>A</sup>

Chair of the Board, Capstone Green Energy  
Non-Executive Director  
Former President & Chief Executive Officer, Dynegy, Inc.

### **Ping Fu**<sup>A, B</sup>

Non-Executive Director  
Former CEO of Geomagic Inc.  
Director of Live Nation Entertainment

### **Darren Jamison**

President & Chief Executive Officer,  
Capstone Green Energy

### **Yon Jordan**<sup>A, C</sup>

Non-Executive Director  
Former Executive Vice President  
& Chief Financial Officer, AdvancePCS

### **Robert Powelson**<sup>B\*, C</sup>

Non-Executive Director  
President & Chief Executive Officer, National  
Association of Water Companies (NAWC)  
Former Commissioner, Federal Energy Regulatory  
Commission (FERC)

### **Denise Wilson**<sup>B, C\*</sup>

Non-Executive Director  
Former Executive Vice President & President Alternative  
Energy Services, NRG Energy

Committee Membership

A: Audit Committee

B: Governance and Sustainability Committee

C: Compensation and Human Capital Committee

\* Chairperson of Committee

## EXECUTIVE OFFICERS

### **Darren Jamison**

President & Chief Executive Officer

### **Scott Robinson**

Interim Chief Financial Officer

## STOCK LISTING

Common Stock traded on NASDAQ: **CGRN**

## TRANSFER AGENT

Broadridge Corporate Issuer Solutions, Inc.  
51 Mercedes Way  
Edgewood, NY 11717  
[www.shareholder.broadridge.com](http://www.shareholder.broadridge.com)

## CORPORATE COUNSEL

Katten Muchin Rosenman LLP  
525 W. Monroe Street  
Chicago, IL 60661-3693  
[www.katten.com](http://www.katten.com)

## INDEPENDENT AUDITORS

Marcum LLP  
777 S. Figueroa Street, Suite 2900  
Los Angeles, CA 90017  
[www.marcumllp.com](http://www.marcumllp.com)

## ANNUAL MEETING OF STOCKHOLDERS

The 2022 Annual Meeting of Stockholders will be held virtually at [www.virtualshareholdermeeting.com/CGRN2022](http://www.virtualshareholdermeeting.com/CGRN2022) on September 12, 2022 at 11:00 a.m. Pacific Time.

This Annual Report contains “forward-looking statements,” as that term is used in the federal securities laws. Forward-looking statements may be identified by words such as “believe,” “expect,” “objective,” “intend,” “targeted,” “plan,” “anticipate,” “project” and similar phrases. These forward-looking statements are subject to numerous assumptions, risks and uncertainties described in Capstone’s Form 10-K filed with the Securities and Exchange Commission on July 14, 2022; that may cause Capstone’s actual results to be materially different from any future results expressed or implied in such statements. Capstone cautions readers not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. Capstone undertakes no obligation, and specifically disclaims any obligation, to release any revision to any forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.

# CLEAN ENERGY TODAY



Capstone Green Energy  
16640 Stagg Street  
Van Nuys, CA 91406

Toll Free: +1.866.422.7786  
Fax: +1.818.734.5320  
[www.capstonegreenenergy.com](http://www.capstonegreenenergy.com)