
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2024

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 Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-1514270

(I.R.S. Employer
Identification No.)

**16640 Stagg Street
Van Nuys, California**

(Address of principal executive offices)

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 \$0.001 per share	CGEH	OTC Pink

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, a 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of February 13, 2025, the registrant had 18,540,789 shares of voting common stock, par value \$0.001 per share, and 508,475 shares of non-voting common stock, par value \$0.001 per share, outstanding.

CAPSTONE GREEN ENERGY HOLDINGS, INC.
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CAPSTONE GREEN ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(Unaudited)

	December 31, 2024	March 31, 2024
Assets		
Current Assets:		
Cash	\$ 3,314	\$ 2,085
Accounts receivable, net as of allowances of \$535 at December 31, 2024 and \$3,287 as of March 31, 2024	11,426	6,552
Inventories	19,413	20,642
Prepaid expenses and other current assets	3,805	5,449
Total current assets	37,958	34,728
Property, plant, equipment and rental assets, net	21,058	25,854
Finance lease right-of-use assets	3,938	4,391
Operating lease right-of-use assets	9,321	12,279
Non-current portion of inventories	3,295	3,917
Other assets	2,791	3,037
Total assets	<u>\$ 78,361</u>	<u>\$ 84,206</u>
Liabilities, Temporary Equity and Stockholders' Deficiency		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 17,603	\$ 18,212
Accrued salaries and wages	1,053	1,220
Accrued warranty reserve	1,080	1,437
Deferred revenue, current	15,332	11,183
Finance lease liability, current	595	964
Operating lease liability, current	3,775	4,041
Factory protection plan liability	6,298	7,259
Exit new money notes, net of discount, current	7,845	28,911
Total current liabilities	53,581	73,227
Deferred revenue, non-current	609	675
Finance lease liability, non-current	1,933	2,300
Operating lease liability, non-current	5,806	8,527
Exit new money notes, net of discount, non-current	23,851	—
Other non-current liabilities	264	264
Total liabilities	86,044	84,993
Commitments and contingencies (Note 13)		
Temporary equity:		
Redeemable noncontrolling interests	13,859	13,859
Stockholders' deficiency:		
Preferred stock, \$.001 par value; 1,000,000 shares authorized, and none issued	—	—
Common stock, \$.001 par value; 59,400,000 shares authorized, 18,540,789 shares issued and outstanding at December 31, 2024 and March 31, 2024	18	18
Non-voting common stock, \$.001 par value; 600,000 shares authorized, 508,475 shares issued and outstanding at December 31, 2024 and March 31, 2024	1	1
Additional paid-in capital	955,313	955,145
Accumulated deficit	(976,874)	(969,810)
Total stockholders' deficiency	(21,542)	(14,646)
Total liabilities, temporary equity and stockholders' deficiency	<u>\$ 78,361</u>	<u>\$ 84,206</u>

See accompanying notes to condensed consolidated financial statements.

CAPSTONE GREEN ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Revenue, net:				
Product and accessories	\$ 8,272	\$ 5,165	\$ 24,903	\$ 33,464
Parts, services and rentals	11,876	9,435	33,610	33,407
Total revenue, net	20,148	14,600	58,513	66,871
Cost of goods sold:				
Product and accessories	9,072	6,575	25,622	36,037
Parts, services and rentals	6,082	5,007	17,101	19,124
Total cost of goods sold	15,154	11,582	42,723	55,161
Gross profit	4,994	3,018	15,790	11,710
Operating expenses:				
Research and development	744	579	1,882	1,897
Selling, general and administrative	6,313	9,749	19,496	25,713
Total operating expenses	7,057	10,328	21,378	27,610
Loss from operations	(2,063)	(7,310)	(5,588)	(15,900)
Other income, net	364	53	1,577	59
Interest income	4	7	6	106
Interest expense	(986)	(1,100)	(3,003)	(4,619)
Reorganization items, net	—	32,589	—	33,042
Income (loss) before provision (benefit) for income taxes	(2,681)	24,239	(7,008)	12,688
Provision (benefits) for income taxes	23	(1)	56	14
Net income (loss)	(2,704)	24,240	(7,064)	12,674
Net income (loss) per share of common stock and non-voting common stock—basic and diluted	\$ (0.14)	\$ 1.27	\$ (0.37)	\$ 0.68
Weighted average shares used to calculate basic and diluted net income (loss) per share of common stock and non-voting common stock	19,049	19,047	19,049	18,655

See accompanying notes to condensed consolidated financial statements.

CAPSTONE GREEN ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TEMPORARY EQUITY AND STOCKHOLDERS'
DEFICIENCY
(In thousands, except share amounts)
(Unaudited)

	Temporary Equity		Permanent Equity				Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficiency
	Redeemable Noncontrolling Interest		Common Stock		Non-Voting Common Stock				
	LLC Units	Amount	Shares	Amount	Shares	Amount			
Balance, March 31, 2024	10,449,863	\$ 13,859	18,540,789	\$ 18	508,475	\$ 1	\$ 955,145	\$ (969,810)	\$ (14,646)
Stock-based compensation	—	—	—	—	—	—	57	—	57
Net loss	—	—	—	—	—	—	—	(3,937)	(3,937)
Balance, June 30, 2024	10,449,863	13,859	18,540,789	18	508,475	1	955,202	(973,747)	(18,526)
Stock-based compensation	—	—	—	—	—	—	52	—	52
Net loss	—	—	—	—	—	—	—	(423)	(423)
Balance, September 30, 2024	10,449,863	13,859	18,540,789	18	508,475	1	955,254	(974,170)	(18,897)
Stock-based compensation	—	—	—	—	—	—	59	—	59
Net loss	—	—	—	—	—	—	—	(2,704)	(2,704)
Balance, December 31, 2024	10,449,863	\$ 13,859	18,540,789	\$ 18	508,475	\$ 1	\$ 955,313	\$ (976,874)	\$ (21,542)

	Temporary Equity		Permanent Equity				Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Deficiency
	Redeemable Noncontrolling Interest		Common Stock		Non-Voting Common Stock				Shares	Amount	
	LLC Units	Amount	Shares	Amount	Shares	Amount					
Balance, March 31, 2023	—	\$ —	18,511,555	\$ 18	—	\$ —	\$ 955,228	\$ (977,202)	117,014	\$ (2,139)	\$ (24,095)
Vested restricted stock awards	—	—	39,923	—	—	—	11	—	8,771	(11)	—
Stock-based compensation	—	—	—	—	—	—	306	—	—	—	306
Net loss	—	—	—	—	—	—	—	(5,679)	—	—	(5,679)
Balance, June 30, 2023	—	—	18,551,478	18	—	—	955,545	(982,881)	125,785	(2,150)	(29,468)
Vested restricted stock awards	—	—	10,743	—	—	—	4	—	3,730	(4)	—
Issuance of non-voting common stock	—	—	—	—	508,475	1	—	—	—	—	1
Stock awards to Board of Directors	—	—	97,275	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	81	—	—	—	81
Net loss	—	—	—	—	—	—	—	(5,887)	—	—	(5,887)
Balance, September 30, 2023	—	—	18,659,496	18	508,475	1	955,630	(988,768)	129,515	(2,154)	(35,273)
Vested restricted stock awards	—	—	10,808	—	—	—	—	—	—	—	—
Cancellation of Capstone Green Energy Corporation stock	—	—	(18,670,392)	(18)	(508,475)	(1)	(2,154)	—	(129,515)	2,154	(19)
Issuance of Capstone Green Energy Holdings, Inc. stock	—	—	18,540,877	18	508,475	1	—	—	—	—	19
Preferred units issued, subject to possible redemption	10,449,863	13,859	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	1,670	—	—	—	1,670
Net income	—	—	—	—	—	—	—	24,240	—	—	24,240
Balance, December 31, 2023	10,449,863	\$ 13,859	18,540,789	\$ 18	508,475	\$ 1	\$ 955,146	\$ (964,528)	—	\$ —	\$ (9,363)

See accompanying notes to condensed consolidated financial statements.

CAPSTONE GREEN ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended December 31,	
	2024	2023
Cash Flows from Operating Activities:		
Net income (loss)	\$ (7,064)	\$ 12,674
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,023	3,001
Amortization of financing costs and discounts	71	49
Paid-in-kind interest expense	2,714	1,100
Non-cash lease expense	2,957	2,482
Provision for credit loss expense	621	—
Inventory provision	639	552
Provision (benefit) for warranty expenses	(203)	143
Stock-based compensation	168	2,057
Non-cash reorganization items, net	—	(35,255)
Changes in operating assets and liabilities:		
Accounts receivable	(6,066)	981
Inventories	4,279	6,638
Prepaid expenses, other current assets and other assets	1,887	(1,029)
Accounts payable and accrued expenses	(606)	(4,646)
Operating lease liability, net	(2,988)	(2,464)
Accrued salaries and wages and long-term liabilities	(166)	59
Accrued warranty reserve	(154)	(126)
Deferred revenue	4,083	(5,752)
Factory protection plan liability	(961)	(2,527)
Net cash provided by (used in) operating activities	<u>2,234</u>	<u>(22,063)</u>
Cash Flows from Investing Activities:		
Expenditures for property, plant, equipment and rental assets	(841)	(4,551)
Net cash used in investing activities	<u>(841)</u>	<u>(4,551)</u>
Cash Flows from Financing Activities:		
Proceeds from debtors-in-process facility	—	12,000
Proceeds from three-year term note	—	3,000
Proceeds from exit new money note	—	3,000
Debt issuance costs	—	(244)
Repayment of finance lease obligations	(164)	(115)
Net cash provided by (used) in financing activities	<u>(164)</u>	<u>17,641</u>
Net increase (decrease) in Cash	1,229	(8,973)
Cash, Beginning of Period	2,085	12,839
Cash, End of Period	<u>\$ 3,314</u>	<u>\$ 3,866</u>
Supplemental Disclosures of Cash Flow Information:		
Interest	\$ 97	\$ 1,620
Income taxes	\$ 100	\$ 14
Supplemental Disclosures of Non-Cash Information:		
Right-of-use assets obtained in exchange for lease obligations	\$ —	\$ 7,348
Rental assets transferred to inventory	\$ 3,067	\$ —
Rental assets capitalized from prepaids	\$ —	\$ 623
Settlement of lease liabilities through accounts receivable	\$ 572	\$ 502
Conversion of inventory to rental assets	\$ —	\$ 280
Paid-in-kind debt discount in connection with the three-year term note	\$ —	\$ 500

See accompanying notes to condensed consolidated financial statements.

CAPSTONE GREEN ENERGY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Organization

Capstone Green Energy Holdings, Inc. (f/k/a Capstone Turbine International, Inc.), along with its consolidated operating subsidiary Capstone Green Energy LLC (the “Operating Subsidiary”) is a provider of customized microgrid solutions, on-site resilient Energy-as-a-Service (“EaaS”) solutions, and on-site energy technology systems focused on helping customers around the globe solve the “Energy Trilemma” of resiliency, sustainability, and affordability. 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. The Company’s inverter-based technologies solve resiliency by being able to seamlessly connect to the electric grid or be the backbone of a localized microgrid. The Company’s 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. Through the EaaS business line the Company offers build, own, operate and maintain (“BOOM”) as well as energy rental solutions utilizing the Company’s microturbine energy systems. The Company offers comprehensive factory protection plan service contracts that limit life-cycle costs, as well as providing aftermarket spare parts. The Company’s emerging business line is Hydrogen Energy Solutions. Through the Hydrogen Energy Solutions business line, the Company offers customers the ability to run on hydrogen blended fuel source. Because this is still an emerging offering, Hydrogen Energy Solutions revenue has been immaterial to date.

Historically, the business described above was conducted by Capstone Green Energy Corporation, which was organized in 1988 and has been commercially producing its microturbine generators since 1998. In connection with the emergence from Chapter 11 Bankruptcy (the “Chapter 11 Bankruptcy”) on December 7, 2023 (the “Effective Date”), Capstone Green Energy Corporation was reorganized (the “Reorganization”) and became a privately-held company (“Reorganized PrivateCo”). Capstone Turbine International, Inc., a former wholly owned subsidiary of Capstone Green Energy Corporation, which was incorporated in Delaware on June 10, 2004, became a publicly-traded company and was renamed Capstone Green Energy Holdings, Inc. The Operating Subsidiary was also formed as part of the Reorganization.

As a result of past delays in filing the Company’s periodic reports with the Securities Exchange Commission (the “SEC”) and the requirements relating to Market Value of Listed Securities (“MVLS”), the Company was unable to comply with the Nasdaq listing standards. The Company’s common stock was suspended from trading on the Nasdaq Capital Market effective October 5, 2023 and formally delisted effective October 23, 2023. The Company filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 on October 17, 2024, and with the filing, the Company became current with all of its periodic filings with the SEC. On January 2, 2025, the Company’s common stock was approved for trading by Financial Industry Regulatory Authority on the over-the-counter market.

All references in these footnotes to “the Company,” “we,” “us,” “our,” or “Capstone” are to Capstone Green Energy Corporation and its consolidated subsidiaries for the three and nine months ended December 31, 2023 and to Capstone Green Energy Holdings, Inc. and its consolidated subsidiaries as of December 31, 2024 and March 31, 2024 and for the three and nine months ended December 31, 2024.

2. Basis of Presentation, Significant Accounting Policies and Going Concern

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q and Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). They do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated Balance Sheet as of March 31, 2024 was derived from audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2024. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the interim Condensed Consolidated Financial Statements include all adjustments (including normal recurring adjustments) necessary for a fair presentation of the financial condition, results of operations and cash flows for such periods. Results of operations for any interim period are not necessarily indicative of results for any other interim period or for the full year. These Condensed Consolidated Financial Statements should be read in conjunction with the

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Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2024 filed with the SEC on September 26, 2024. This Quarterly Report on Form 10-Q (this "Form 10-Q") refers to the Company's fiscal years ending March 31 as its "Fiscal" years.

Basis for Consolidation The Condensed Consolidated Financial Statements included in this filing include the accounts of the Company, the Operating Subsidiary and Capstone Turbine Financial Services, LLC, its wholly owned subsidiary that was formed in October 2015, after elimination of inter-company transactions.

Significant Accounting Policies Except as described below, there have been no changes to the Company's significant accounting policies described in the Annual Report on Form 10-K for Fiscal Year 2024 filed with the SEC, that have had a material impact on the Company's Condensed Consolidated Financial Statements.

Going Concern In connection with the preparation of these Condensed Consolidated Financial Statements for the three and nine months ended December 31, 2024, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to meet its obligations as they become due over the next twelve months from the date of the issuance of the financial statements. As of December 31, 2024, the Company had cash of \$3.3 million and a working capital deficit of \$15.6 million. The Company incurred a net loss of \$7.1 million during the nine months ended December 31, 2024.

On September 28, 2023, the Company filed for a prepackaged financial restructuring with its senior lender, Goldman Sachs, under the U.S. Chapter 11 Bankruptcy laws. The Company emerged from bankruptcy on December 7, 2023 and effected a financial and organizational restructuring. Given its current cash position, lack of liquidity, limits to accessing capital and debt funding options, current economic and market risks, and the continued impact of the Chapter 11 Bankruptcy and the Reorganization on customer and vendor relationships, there is substantial doubt regarding the Company's ability to continue as a going concern and its ability to meet its financial obligations as they become due over the next twelve months from the date of issuance of the financial statements as of, and for the period ended December 31, 2024.

3. Recently Issued Accounting Pronouncements

Not Yet Adopted

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2023-07, *Segment Reporting: Improvements to Reportable Segment Disclosures* (Topic 280). This update applies to all public entities that are required to report segment information in accordance with Topic 280. The amendments in this update revise reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in this update do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. The new standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024— i.e., beginning with the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 2025, and interim periods thereafter. The standard should be applied retrospectively to all prior periods presented in the financial statements. The adoption of this guidance will impact the Company's disclosures only. The Company is in the process of assessing the effect adoption will have on its annual consolidated financial statement disclosure.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes: Improvements to Income Tax Disclosures* (Topic 740), which requires that an entity, on an annual basis, disclose additional income tax information, primarily related to the rate reconciliation and income taxes paid. The amendment in the ASU is intended to enhance the transparency and decision usefulness of income tax disclosures. The amendments in this update are effective for annual periods beginning after December 15, 2024— i.e., beginning with the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 2026 and interim periods thereafter. The Company is in the process of evaluating the impact that the adoption of this ASU will have on the consolidated financial statements and related disclosures.

In November 2024, the FASB issued ASU No. 2024-03, *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures* (Subtopic 220-40). ASU No. 2024-03 aims to enhance transparency for users of financial statements by requiring public business entities to disaggregate specific expense categories. In January 2025, the FASB issued ASU No. 2025-01, *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures* (Subtopic 220-40): *Clarifying the Effective Date*, which clarified the effective date for non-calendar year-end

entities such as the Company. ASU No. 2024-03 mandates disclosures in the notes to financial statements detailing the composition and trends of key expense categories within major income statement captions. These enhanced disclosures are intended to help investors more effectively assess the entity's performance, understand its cost structure, and make more accurate forecasts of future cash flows. For public business entities, ASU No. 2024-03 is effective for annual periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027, which for the Company will be for Fiscal 2028 and for interim reporting periods beginning with the first quarter of Fiscal 2029. The Company is in the process of assessing the effect adoption of ASU No. 2024-03 will have on its annual consolidated financial statement disclosure.

4. Customer Concentrations and Accounts Receivable

Accounts receivables are presented on the Condensed Consolidated Balance Sheets, net of estimated credit losses. The Company applies the aging method by pooling receivables based on levels of delinquency and applying historical loss rates on what has been historically uncollectible by aging categories. The historical loss rate is adjusted for current conditions and reasonable and supportable forecasts of future losses, as necessary. Additionally, the allowance for credit loss calculation includes subjective adjustments for qualitative risk factors that could likely cause estimated credit losses to differ from historical experience. The factors include assessments of various economic conditions, significant events that occurred, geographic location, size and credit ratings of the customers. The Company may also record a specific reserve for individual accounts when the Company becomes aware of specific customer circumstances, such as in the case of a bankruptcy filing or deterioration in the customer's operating results or financial position. Accounts deemed uncollectible are written off against the allowance for credit loss.

In accordance with Accounting Standard Codification ("ASC") 326, the Company evaluates the collectability of outstanding accounts receivable balances to determine an allowance for credit loss that reflects its best estimate of the current expected credit losses ("CECL") on a quarterly basis.

Changes in the CECL allowance for accounts receivable are as follows (in thousands):

Balance, March 31, 2024	\$	3,287
Provision for credit loss		621
Recoveries		12
Write-offs		(3,385)
Balance, December 31, 2024	\$	<u>535</u>

E-Finity Distributed Generation ("E-Finity"), Lone Star Power Solutions, LLC ("Lone Star") and Cal Microturbine, three of the Company's domestic distributors, accounted for 15%, 14% and 11% of revenue for the three months ended December 31, 2024, respectively. Cal Microturbine accounted for 17% of revenue for the three months ended December 31, 2023. E-Finity and Lone Star accounted for 16% and 13% of revenue for the nine months ended December 31, 2024, respectively. E-Finity and Cal Microturbine accounted for 14% and 11% of revenue for the nine months ended December 31, 2023, respectively.

Additionally, Pan American Energy SL, one of the Company's international direct customers, Cal Microturbine, Lone Star and E-Finity accounted for 16%, 15%, 14% and 12% of accounts receivable as of December 31, 2024, respectively. Supernova Energy Services SAS ("Supernova"), one of the Company's international distributors, and Capstone Engineered Solutions ("CES"), one of the Company's national accounts, accounted for 14% and 11% of accounts receivable as of March 31, 2024, respectively. The Company recorded a credit loss expense of \$0.2 million and zero during the three months ended December 31, 2024 and 2023, respectively. The Company recorded a credit loss expense of \$0.6 million and zero during the nine months ended December 31, 2024 and 2023, respectively.

5. 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):

	December 31, 2024	March 31, 2024
Raw materials	\$ 21,800	\$ 23,779
Work in process	173	—
Finished goods	735	780
Total	22,708	24,559
Less: non-current portion	(3,295)	(3,917)
Total inventory, net non-current portion	<u>\$ 19,413</u>	<u>\$ 20,642</u>

The non-current portion of inventories represents that portion of inventories in excess of amounts expected to be sold or used in the next twelve months. The non-current inventories are primarily comprised of parts for older generation products that are still in operation but are not technologically compatible with current configurations. The Company expects to use the non-current portion of the inventories on hand as of December 31, 2024 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	\$	1,378
25 to 36 months		1,917
Total	<u>\$</u>	<u>3,295</u>

6. Property, Plant, Equipment and Rental Assets

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

	December 31, 2024	March 31, 2024
Machinery, equipment, automobiles and furniture	\$ 14,954	\$ 14,921
Leasehold improvements	8,889	8,889
Molds and tooling	3,476	3,476
Rental assets	28,551	31,762
Total property, plant, equipment and rental assets	55,870	59,048
Less: accumulated depreciation	(34,812)	(33,194)
Total property, plant, equipment and rental assets, net	<u>\$ 21,058</u>	<u>\$ 25,854</u>

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 \$0.9 million and \$1.0 million for the three months ended December 31, 2024 and 2023, respectively. Depreciation expense for property, plant, equipment and rental assets was \$3.0 million and \$3.0 million for the nine months ended December 31, 2024 and 2023, respectively.

7. Temporary Equity

Redeemable Preferred Units

Redeemable noncontrolling interests are reported on the Condensed Consolidated Balance Sheet as Temporary Equity.

During Fiscal 2024, in connection with the Reorganization, the Operating Subsidiary issued 10,449,863 Series A Redeemable Preferred Units (the “Preferred Units”) that include a redemption feature. The Preferred Units have an aggregate value representing 37.5% equity ownership in the Operating Subsidiary (“Aggregate Purchase Price”). At any time during the six-month period following the sixth anniversary of the Effective Date, the holders of the Preferred Units may elect to have all, but not less than all, of the then outstanding Preferred Units redeemed. Therefore, the Preferred Units are probable of becoming redeemable and are classified as temporary (‘mezzanine’) equity.

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The Preferred Units also provide the holder with the option to convert all or less than all of the Preferred Units into Operating Subsidiary Common Units (“Common Units”) at any time and from time to time without the payment of additional consideration. If the holder elects to convert the Preferred Units, the specified number of Preferred Units to be converted will be divided by the total number of Preferred Units then outstanding times 37.50% of the Common Units deemed outstanding. To the extent some, but not all of the Preferred Units are converted, the 37.50% percentage will be proportionately reduced, and the same adjustment will apply for purposes of calculating other as-converted entitlements of the Preferred Units. None of the Preferred Units had been converted into Common Units as of December 31, 2024.

Additionally, the Preferred Units provide the holder with a put option to sell the shares to the Operating Subsidiary and the Liquidation Preference provides the holder with the option to exchange the Preferred Units for cash (together, the “Features”).

The holder of the noncontrolling interest hold a liquidation preference that protects the holder from absorbing losses. The Company incurred a net loss of \$2.7 million and \$7.1 million during the three and nine months ended December 31, 2024, respectively, therefore, there were no earnings to allocate to Operating Subsidiary.

The fair value of \$1.32 and \$1.33 per Preferred Unit at December 31, 2024 and March 31, 2024, respectively, below were determined through the use of an option-pricing method (“OPM”) that treats the common and preferred units as call options on the enterprise value of the Company with exercise prices based on the liquidation preference of the preferred units. The OPM incorporated multiple thresholds that represent future change of control sale prices where the payout structure would differ based on the rights and preferences of each share class. The OPM used was the Black-Scholes Merton (“BSM”) model to price the call option, which includes the below variables. The enterprise value utilized by the Company in the OPM represents the value agreed upon by the parties involved in the restructuring as approved by the Bankruptcy Court:

	December 31, 2024	March 31, 2024
Fair value of common units	\$ 1.15	\$ 1.15
Dividend yield	— %	— %
Volatility	105.0 %	93.0 %
Risk-free interest rate	4.4 %	4.2 %
Expected term	5.4 years	6.2 years

At each reporting period, the Company remeasures the redemption value of the Preferred Units and adjusts the carrying value, if that value exceeds the initial fair value, to equal the maximum redemption value to retained earnings. The initial fair value was \$13.9 million. Subsequent remeasurements of fair value have not exceeded the initial fair value; therefore, no adjustments have been made prior to the current period. The remeasurement as of December 31, 2024 resulted in a fair value of \$13.8 million, which does not exceed the initial fair value; therefore, an adjustment to the carrying value was not recorded.

8. Fair Value Measurements

The FASB has established a framework for measuring fair value using GAAP. 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

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- 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 must maximize the use of observable inputs and minimize the use of unobservable inputs.

Basis for Valuation

The carrying values reported in the Condensed Consolidated Balance Sheets for cash, accounts receivable, accounts payable and the exit notes approximate their fair values because of the immediate or short-term maturities of these financial instruments. The fair value of the Company's Exit Notes (as defined below) on the date of issuance approximated their carrying value based on a comparable market yield analysis completed by the Company. Financial and non-financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value at each reporting period and include the Company's Preferred Units. The Company used the BSM model (Level 3) with standard valuation inputs to value the Preferred Units as detailed in Note 7— Temporary Equity.

9. Balance Sheet Information

Prepaid Expenses and Other Assets

As of December 31, 2024, the Company had \$2.3 million of royalty-related assets remaining recorded within the Prepaid expenses and other current assets and Other assets line items on the accompanying Condensed Consolidated Balance Sheets. The assets are being amortized over a 15-year 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 products. 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 performs a re-forecast of C200 System unit shipments to determine if an adjustment to the effective royalty rate is necessary and accordingly whether an impairment exists. The Company determined an impairment did not exist as of December 31, 2024.

The current and long-term portions of prepaid royalties and prepaid and other assets were as follows (in thousands):

	December 31, 2024	March 31, 2024
Other royalty-related current assets	\$ 124	\$ 124
Other royalty-related non-current assets	2,156	2,239
Total royalty-related assets	<u>\$ 2,280</u>	<u>\$ 2,363</u>
Prepaid vendor inventory	2,229	3,417
Prepaid insurance	605	908
Deposits	341	366
Prepaid taxes	736	397
Other assets	405	1,035
Total Prepaid expenses, and other current assets and Other assets	<u>\$ 6,596</u>	<u>\$ 8,486</u>

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Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of (in thousands):

	December 31, 2024	March 31, 2024
Trade payables	\$ 14,540	\$ 15,095
Accrued professional fees	732	2,827
Accrued commissions	690	148
Other	1,641	142
Total Accounts payable and accrued expenses	<u>\$ 17,603</u>	<u>\$ 18,212</u>

10. 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 to 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 consisted of the following (in thousands):

	December 31, 2024	March 31, 2024
Balance, beginning of the year	\$ 1,437	\$ 1,576
Standard warranty provision	(203)	32
Deductions for warranty claims	(154)	(171)
Balance, end of the period	<u>\$ 1,080</u>	<u>\$ 1,437</u>

11. Debt

Exit Note Purchase Agreement

The Company entered into an Exit Facility during Fiscal 2024 (the "Exit Note Purchase Agreement"), for an aggregated principal amount of \$28.1 million, consisting of \$21.1 million of Exit Roll Up Notes, including accrued and unpaid interest and commitment fees and \$7.0 million of Exit New Money Notes (together the "Exit Notes") subject to the terms and conditions set forth in the Exit Note Purchase Agreement by and among Operating Subsidiary, as the issuer, the Company and Capstone Financial Services, as the guarantors (the "Guarantors"), Broad Street Credit Holdings LLC (the "Purchaser") and Goldman Sachs Specialty Lending Holdings, Inc. (the "Collateral Agent").

The Exit Note Purchase Agreement also provides for a \$10.0 million uncommitted incremental facility. The proceeds from the fully drawn \$7.0 million of Exit New Money Notes were used to fund restructuring expenses and for working capital, for general corporate purposes. The Exit Notes bear interest at a rate equal to the Adjusted Term SOFR (as defined in the Exit Note Purchase Agreement) plus 7.00% per annum. A portion of the interest on the Exit Notes is paid-in-kind until the third year following December 7, 2023.

The Exit Roll Up Notes mature on December 7, 2026, and the Exit New Money Notes mature on December 7, 2025.

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The scheduled maturities of the Company's debt are as follows as of December 31, 2024:

Year Ending March 31,	
2025 (remainder of fiscal year)	\$ —
2026	7,881
2027	23,985
2028	—
2029	—
Thereafter	—
Total principal payments and debt maturities	31,866
Less unamortized issuance costs	(170)
Net principal payments and debt maturities	\$ 31,696

The Exit Notes issued pursuant to the Exit Note Purchase Agreement are secured by a lien on substantially all of the present and future property and assets of Operating Subsidiary and each Guarantor, subject to customary exceptions and exclusions. The Exit Note Purchase Agreement also includes conditions precedent, representations and warranties, affirmative and negative covenants, events of default, and other customary provisions, including financial covenants with respect to minimum consolidated liquidity and minimum consolidated adjusted EBITDA.

On March 27, 2024, the Company obtained a waiver from the Purchaser and the Collateral Agent in anticipation of default on March 31, 2024. The waiver granted was specific to the \$1.0 million consolidated adjusted EBITDA covenant for the measurement date of March 31, 2024, and covered the period through June 30, 2024. There can be no assurance that the Purchaser and the Collateral Agent will waive any future defaults that may occur. If future defaults occur, the Purchaser and the Collateral Agent can exercise their rights and remedies under the Exit Note Purchase Agreement (and other security related documents), including a right to accelerate the maturity of the Company's repayment obligations under the Exit Notes. The Company has the right to cure an event of default for a breach of the consolidated adjusted EBITDA covenant with a prepayment on the Exit Notes up to the amount that is required to achieve the minimum consolidated adjusted EBITDA covenant for the quarter. In the event the Company does not cure the breach, the requisite Purchaser may cause the Collateral Agent to enforce any and all liens and security interests created pursuant to the Collateral Documents and may enforce any and all rights and remedies available. The Company believes it is probable the consolidated liquidity and consolidated adjusted EBITDA financial covenants discussed below will be satisfied for all measurement dates in the upcoming 12 months.

On June 28, 2024, the Company entered into the First Amendment (the "First Amendment") to the Exit Note Purchase Agreement. The First Amendment provides for: (i) the amendment of the minimum consolidated adjusted EBITDA financial covenant to (a) allow adjustment for costs related to the restatement of, or other adjustments to, the financial statements of the Company for the period beginning on the Closing Date (as defined in the Exit Note Purchase Agreement) and ending at the end of the 2025 Fiscal Year and (b) the minimum consolidated adjusted EBITDA financial covenant to be first tested at the quarter ended September 30, 2024, (ii) the amendment of the minimum consolidated liquidity financial covenant to (a) reduce the minimum consolidated liquidity to \$1,000,000 from September 30, 2024 to March 30, 2025 and (b) defer the testing of the minimum consolidated liquidity financial covenant to September 30, 2024 and (iii) the extension of the deadline for the delivery of the Company's audited financial statements for the fiscal year ended March 31, 2024 (the "fiscal 2024 financial statements") to September 27, 2024 and the removal of the covenant that the fiscal 2024 financial statements be accompanied by a report and opinion of an independent certified public accountant which is not subject to any "going concern" or like qualification.

The minimum consolidated liquidity covenant will be tested at all times from and after September 30, 2024, and requires the Company and its subsidiaries to maintain a minimum average Consolidated Liquidity (as defined in the First Amendment) during any seven consecutive day period of no less than:

- (i) from September 30, 2024 to March 30, 2025, \$1,000,000;
- (ii) from March 31, 2025 to June 29, 2025, \$2,500,000;
- (iii) from June 30, 2025 to September 29, 2025, \$3,000,000;
- (iv) from September 30, 2025 to March 30, 2026, \$3,500,000; and
- (v) from March 31, 2026 to December 7, 2026, \$4,000,000.

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The minimum consolidated adjusted EBITDA covenant will be tested on the last day of each fiscal quarter, commencing with September 30, 2024, and will require the Company and its subsidiaries to maintain a minimum consolidated adjusted EBITDA (as defined in the First Amendment) as at the end of any fiscal quarter (i) from the Closing Date until September 30, 2024, for the period of the fiscal quarters then ended in such calendar year and (ii) from October 1, 2024, for the four fiscal quarter period then ended, to be less than the correlative amount indicated below (with corresponding calendar quarters also included as reference):

<u>Fiscal Quarter Ending</u>	<u>Consolidated Adjusted EBITDA</u>
September 30, 2024	\$2,500,000
December 31, 2024	\$4,000,000
March 31, 2025	\$5,000,000
June 30, 2025	\$5,500,000
September 30, 2025	\$6,000,000
December 31, 2025	\$6,500,000
March 31, 2026	\$8,000,000
June 30, 2026	\$8,000,000
September 30, 2026	\$8,000,000

As of December 31, 2024, the Company has an outstanding Exit Notes balance of \$31.7 million, comprised of \$21.1 million of Exit Roll Up Notes, \$7.0 million of Exit New Money Notes and \$3.8 million of total PIK interest, less debt issuance costs of \$0.2 million. Debt issuance costs in relation to the Exit New Money Notes and the Exit Roll Up Notes are being amortized over the term at an effective interest rate of 11.95% as of December 31, 2024. As of December 31, 2024, the Company was in compliance with all financial covenants.

12. Revenue Recognition

The Company derives its revenues primarily from the sale of microturbine products, accessories, parts, equipment rentals and 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
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Microturbine Products The Company recognizes revenue when the performance obligation identified under the terms of the contract with its customer is satisfied, which generally occurs, for microturbine products, 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 a microturbine product is recognized at a point in time when the microturbine product is shipped to the customer. On occasion, the Company enters into bill-and-hold arrangements. Each bill-and-hold arrangement is reviewed and revenue is recognized only when certain criteria have been met: (i) the reason for the bill-and-hold arrangement is substantive; (ii) the product is segregated from the Company's other inventory items held for sale; (iii) the product is ready for shipment to the customer; and (iv) the Company does not have the ability to use the product or direct it to another customer.

Accessories The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs, for accessories, upon the transfer of control in accordance with the contractual terms and conditions of the sale.

Parts and Services Revenue from extended warranties 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

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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.

Factory Protection Plan and Service Cost Reimbursement In addition to the provision of standard warranties, the Company offers Factory Protection Plans (“FPP”) to minimize product downtime and control maintenance costs to ensure the microturbine system will operate when needed and perform as intended at the lowest cost of ownership. Revenue related to the Company’s performance obligation to provide replacement parts as needed is recognized over the 30-day FPP contract period with automatic renewals for 5, 10, 15, or 20 years under ASC 606. The related costs are accrued at the time a customer submits an order, and the order’s compliance with the terms of the plan are confirmed, for a replacement part to reflect the Company’s obligation. The accrual reflects the Company’s best estimate of the probable liability under the replacement part obligation. The provision is periodically adjusted to reflect actual experience. FPP contracts typically go into effect once the standard warranty expires.

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 Condensed Consolidated Balance Sheets. Once control transfers to the customer and the Company meets the revenue recognition criteria, the deferred revenue is recognized in the Condensed Consolidated Statement of Operations. The deferred revenue relating to the annual maintenance service contracts is recognized in the Condensed Consolidated Statement of Operations on a straight-line basis over the expected term of the contract.

Some FPPs offer labor reimbursement on the labor performed on a microturbine system. Due to the nature of the arrangement, labor reimbursements are accounted for under ASC 460. An Authorized Service Provider (“ASP”) must perform the labor. ASPs submit claims for labor reimbursements and are credited for the cost of labor if the repairs meet the Company’s prescribed standards. The Company is unable to develop a reasonable estimate of the maximum potential payout under these arrangements because the FPPs do not contain a limit on the number of labor reimbursements that may be submitted. However, given historical practice, the Company has priced the FPP to cover all costs incurred related to the labor reimbursement and is not exposed to significant losses over the FPP premium.

The labor reimbursement is separate and distinct from the parts offering; therefore, the Company allocates a portion of the transaction price to the labor reimbursement based on SSP. The Company applies judgment in determining the SSP as the labor reimbursement is not sold separately. The Company will recognize a liability at the inception of the executed FPP agreement for the premium received in advance for the Labor offering. Income will be recognized on a net, straight-line basis with labor reimbursement costs recognized when incurred.

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 approval by the

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Company's management, taking into consideration the go-to-market strategy. As the Company's go-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.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Microturbine Products	\$ 7,873	\$ 5,078	\$ 24,021	\$ 32,553
Accessories	399	87	882	911
Total Product and Accessories	8,272	5,165	24,903	33,464
Parts and Services	7,405	6,603	23,228	23,906
Rentals	4,471	2,832	10,382	9,501
Total Revenue	\$ 20,148	\$ 14,600	\$ 58,513	\$ 66,871

The following table presents disaggregated revenue by geography based on the primary operating location of the Company's customers (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
United States	\$ 12,447	\$ 8,032	\$ 37,233	\$ 36,879
Mexico	800	1,310	2,418	4,553
All other North America	18	526	155	1,213
Total North America	13,265	9,868	39,806	42,645
Europe	3,271	2,578	8,222	13,898
Asia	1,027	1,019	1,923	2,786
Australia	367	850	2,284	4,179
All other	2,218	285	6,278	3,363
Total Revenue	\$ 20,148	\$ 14,600	\$ 58,513	\$ 66,871

Contract Balances

The Company's deferred revenues consist of advance payments for microturbine products, parts, accessories and FPP contracts, as well as advance payments on service obligations and extended warranties. Deferred revenue is included in Deferred revenue, current and Deferred revenue, non-current liability line items on the Condensed Consolidated Balance Sheets.

Changes in deferred revenue consisted of the following (in thousands):

	December 31, 2024	March 31, 2024
Opening balance, beginning of the year	\$ 11,858	\$ 24,189
Closing balance, end of the period	\$ 15,941	\$ 11,858
Revenue recognized in the period from:		
Amounts included in deferred revenue at the beginning of the period	\$ 4,447	\$ 16,527

Deferred revenue attributed to FPP contracts represent the unearned portion of the Company's contracts. FPP contracts are generally paid quarterly in advance, with revenue recognized on a straight-line basis over the contract period. As of December 31, 2024, approximately \$5.5 million of revenue is expected to be recognized from the remaining performance obligations for FPP contracts. The Company expects to recognize revenue on approximately \$4.9 million of

these remaining performance obligations over the next 12 months and the balance of \$0.6 million will be recognized thereafter.

The Distributor Support System (“DSS”) provides additional support for distributor business development activities, customer lead generation, brand awareness and tailored marketing services for each of our major geographic and market verticals. This program is funded by the distributors and was developed to provide improved worldwide distributor training, access to online documentation and technical publications, paperless service software, sales efficiency, website development, company branding and funding for increased strategic business-to-business marketing activities. Capstone Distributor Support Services Corporation (CDSSC), a related party, owns and operates the DSS program for the Company under a service agreement. Refer to Note 13— Commitments and Contingencies— Services Agreement between Reorganized PrivateCo and Operating Subsidiary for further details.

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.

Practical Expedients

The Company applies 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 in the accompanying Condensed Consolidated Statements of Operations.

13. Commitments and Contingencies

Purchase Commitments

As of December 31, 2024, the Company had firm commitments to purchase inventories of approximately \$23.8 million through Fiscal 2027. 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

See Note 14— Leases.

Related Party Transactions

On the Effective Date, Reorganized PrivateCo continues to own assets consisting of (i) all of the Company’s right, title, and interest in and to certain trademarks of the Company and (ii) assets owned by the Company relating to distributor support services ((i) and (ii) together, the “Retained Assets”) and certain income tax attributes that remained with Reorganized PrivateCo.

Services Agreement between Reorganized PrivateCo and Operating Subsidiary

On the Effective Date, Operating Subsidiary entered into a Services Agreement by and among Reorganized PrivateCo and Operating Subsidiary (the “Reorganized PrivateCo Services Agreement”). The Reorganized PrivateCo Services Agreement provides that, among other things, Operating Subsidiary will provide certain services to Reorganized PrivateCo, and Reorganized PrivateCo will provide the Operating Subsidiary’s distributors on a subcontracted basis and, where applicable, to Operating Subsidiary, certain ongoing services and transition services related to Reorganized PrivateCo’s distributor support services business. Reorganized PrivateCo will pay to Operating Subsidiary a service fee (the “Reorganized PrivateCo Services Fee”) of an amount in cash equal to 90% of Reorganized PrivateCo’s Income (as defined in the Reorganized PrivateCo Services Agreement) less itemized expenses incurred and actually paid in cash by Reorganized PrivateCo in direct support of Operating Subsidiary’s distributors and in Reorganized PrivateCo’s performance of the services (excluding the Reorganized PrivateCo Services Fees). The Company reported \$0.4 and \$1.7 million of DSS service fees in Other income, net, during the three and nine months ended December 31, 2024, respectively.

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Trademark License Agreement

On the Effective Date, the Company entered into a Trademark License Agreement (the “Trademark License Agreement”) by and between Reorganized PrivateCo, as licensor, and the Company, as licensee. The Trademark License Agreement provides that, among other things, Reorganized PrivateCo grants the Company a non-exclusive, royalty-bearing, non-transferable, non-sublicensable (except to the Company’s affiliates), worldwide, perpetual (subject to the terms and conditions of the Trademark License Agreement), irrevocable (subject to the terms and conditions of the Trademark License Agreement), limited license, under all of its right, title and interest in and to the Capstone Trademarks (as defined in the Trademark License Agreement) to use the Capstone Trademarks solely in connection with the Business (as defined in the Trademark License Agreement). In consideration for the license, the Company pays Reorganized PrivateCo an annual royalty of \$100,000. Reorganized PrivateCo may not assign the Capstone Trademarks to any third party without the Company’s consent, not to be unreasonably withheld, delayed or conditioned (subject to the terms and conditions of the Trademark License Agreement). If Reorganized PrivateCo does not use any of the Capstone Trademarks for six consecutive months, then the Capstone Trademarks will be assigned to the Company for no further consideration.

Services Agreement between the Company and Operating Subsidiary

On the Effective Date, the Company entered into a Services Agreement (the “Services Agreement”) by and among the Company and Operating Subsidiary. The Services Agreement provides, among other things, that the Company will provide certain services to Operating Subsidiary, in its capacity as a majority equity holder of Operating Subsidiary, and in consideration for the services provided by the Company, Operating Subsidiary will reimburse the Company for its reasonable audit, board and executive compensation expenses incurred in connection with being a publicly traded company (the “New Capstone Services Fee”). The New Capstone Services Fee will not exceed \$2,500,000 per fiscal year (the “Services Fee Cap”), to be increased on April 1 of each year, beginning with April 1, 2024, by an amount equal to the greater of (a) 3.5000% and (b) the Consumer Price Index, as set by the U.S. Bureau of Labor Statistics and available on March 31 of each year; provided however, that for the Fiscal Year ending March 31, 2024, such amount was prorated based on the number of days in such fiscal year following the execution of the Reorganized PublicCo Services Agreement; provided, further, however, that such increase effective on April 1, 2024, was equal to 1.7500%.

Service Agreement with CFGI

On January 12, 2024, the Company entered into a services agreement with CFGI, pursuant to which CFGI provides third party accounting consultancy services to the Company. A related person who is the son of John Juric, our Chief Financial Officer, is a staff employee at CFGI. We have been advised that, under the CFGI compensation policy, Mr. Juric’s son is being paid a commission related to the fees paid by the Company during the first year of the engagement. The Company incurred service fee expense of \$1.2 million and paid services fees of \$0.9 million to CFGI for the 12-month period ending December 31, 2024. The related party received commission compensation of \$16,000 during the 12-month period ended December 31, 2024.

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 in and yield costs to the Company if significant amounts of inventory are held at distributors. As of December 31, 2024, no significant inventories of this nature 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 alleging breach of contract relating to the parties’ prior distributor relationship (which terminated at the end of March 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. The Company is seeking approximately \$4.8M in compensatory damages, along with injunctive relief and attorney’s fees, interest, and costs. While the Court set a trial date for December 31, 2024, it subsequently ordered default

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judgments against Turbine International and struck its counterclaim, then ordered default judgements against the remaining defendants. The ability of Capstone to collect on the judgement is unclear, as the defendants are overseas or without U.S.-based assets. No liability was required to be recorded by the Company as of December 31, 2024, as the Company has prevailed in the legal matters.

SEC Investigation

In June 2023, prior to the issuance of the Company's consolidated financial statements for the fiscal year ended March 31, 2023, the Audit Committee of the Company's Board commenced an Investigation into certain accounting and internal control matters of the Company, principally focused on certain revenue recognition matters (the "Revenue Recognition Investigation"), and self-reported its findings to the Division of Enforcement of the SEC. Following the self-report, the SEC Enforcement Division commenced an investigation into the circumstances surrounding the restatement of the Company's quarterly and annual financial statements (the "SEC Investigation"). The Audit Committee further self-reported its findings pursuant to an investigation into FPP related practices to the SEC. The Company is cooperating with the SEC in connection with its investigation. Investigations of this nature are costly and require management to devote considerable time and attention away from the ongoing operation of the business. The Company cannot predict the duration or outcome of this matter and has not recorded a liability as of December 31, 2024, as a loss cannot be reasonably estimated.

Cal Microturbine Arbitration

On March 13, 2024, Cal Microturbine, a current distributor of the Company, filed a complaint before the American Arbitration Association, seeking approximately \$24.5 million in damages and alleging that the Company breached the Distributor Agreement between the parties and committed fraud in allowing another company, to sell, rent and service turbines in Cal Microturbine's exclusive territory under the Distribution Agreement. On August 18, 2024, Cal Microturbine amended its complaint and reduced its damage claims to \$18.8 million. On September 9, 2024, the Company filed a counterclaim against Cal Microturbine for \$20.0 million, alleging various violations of the Distributor Agreement. On September 27, 2024, Cal Microturbine provided the second amendment to its complaint to increase its claims and damages to \$25.0 million. The parties have completed selection of a three-person arbitration panel which set a hearing date in June 2025, with a backup date of September 2025. The parties engaged in mediation in November and December 2024, and they are in settlement discussions. Discovery, which was scheduled to begin in November 2024, has been stayed until the parties conclude mediation and their settlement discussions. A termination notice of the Distributor Agreement was issued on December 8, 2024, and has been extended while settlement discussions are ongoing. The Company has not recorded a liability as of December 31, 2024, as it is unable to estimate the possible loss or range of any possible loss.

Spitzer v. Flexon, Jamison, Juric, Robinson, and Hencken

On October 13, 2023, a putative securities class action was filed in the U.S. District Court for the Central District of California, captioned Spitzer v. Flexon, et al., Case No. 2:23-cv-08659, naming certain of the Company's current and former directors and officers as defendants. The suit alleges various claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 based on allegedly false and misleading statements and allegedly inadequate disclosure regarding the Company's business, operations and prospects and the circumstances leading up to the restatement of the Company's quarterly and annual financial statements. The suit is purportedly brought on behalf of persons and entities that purchased or otherwise acquired the Company's securities between June 14, 2021 and September 22, 2023, and seeks to recover unspecified compensatory damages and other relief, including attorney's fees. The Company is not a named respondent in this matter and has not engaged legal counsel.

In August 2024, Petitioners made an unprompted settlement demand. The action has been stayed since September 6, 2024 as the parties explored settlement. Expenses up to the \$1.2 million amount have either been incurred or accrued.

Mark Estrada and Ricardo Montalvo, vs. Capstone Green Energy LLC and Erick Kim

In August 2024, two filings were made by the Bibiyan Law Group against Capstone and an individual supervisory employee at Capstone (to retain state court jurisdiction) on behalf of current and former non-exempt California Capstone employees. Both filings allege various pay violations including failure to pay overtime wages, failure to provide meal periods and breaks, and failure to issue accurate pay statements. The first action was filed with the Superior Court of the State of California and requests that the Court certify the non-exempt employees as a Class. The Court has not ruled on that request. Notably, Capstone has arbitration agreements in place with such current and former employees, which

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agreements include a class action waiver that it believes is enforceable. Accordingly, Capstone has moved that the Court compel arbitration, which Plaintiffs have opposed. The parties await the Court's decision on the motion. The second filing was made with the Labor Development Workforce Agency ("Agency"). As the 65 days that the Agency had to accept the claim expired, Plaintiffs are able to pursue the claim privately under the Private Attorney General Act ("PAGA"). It is expected the Plaintiffs will file under PAGA if the Court rules to compel arbitration since mandatory arbitration provisions are not effective against the Agency. It is notable that recent PAGA reform creates uncertainty in two areas. First, under the reform statute, a defendant can now cap its potential penalties if it conducts an audit into the alleged violations and proposes remedial action. Capstone did conduct such an audit based on its review of the plaintiffs' letter, its pay records, and its existing policies and procedures. The audit did not reveal any deficiencies. Second, under the reform statute, once the Plaintiffs begin to pursue the claims under PAGA, Capstone can request that the Agency conduct an early evaluation and assessment. It is unclear how the Agency will respond to Capstone's request. The Company has not recorded a liability as of December 31, 2024, as the Company is unable to estimate the possible loss or range of any possible loss. The Company intends to fight the claims vigorously.

DV Energy, LLC vs Capstone Green Energy Holdings, Inc, Capstone Turbine Corporation, Capstone Green Energy Corporation, and Capstone Green Energy, LLC.

On August 26, 2024, DV Energy, LLC ("DV Energy"), a Capstone distributor in Russia, filed a lawsuit in the Superior Court of California, County of Los Angeles to recover a \$0.7 million parts deposit, along with interest and legal fees. Among other things, DV Energy alleges breach of contract associated with a deposit that it made for a product order that Capstone was unable to deliver to it due to the imposition of U.S. sanctions following Russia's invasion of Ukraine. DV Energy originally was an unsecured creditor in Capstone's bankruptcy proceeding, but during settlement negotiations, DV Energy filed a complaint in state court. Capstone is disputing DV Energy's state court claim based upon the terms of the contract. The Chapter 11 Bankruptcy court ordered the parties to reach a resolution on DV Energy's claim as a pre-condition of closing the bankruptcy cases. As a result, the Chapter 11 Bankruptcy matters remain open. Interrogatories, discovery and settlement discussion pertaining to the state court litigation are ongoing. The parties continue settlement discussions. The value of the DV Energy deposit is recorded in the Company's financial statements as a current liability as of December 31, 2024.

14. Leases

Lessor

The Company rents microturbine equipment to its customers for terms up to thirty-nine months with an extension option, which may impact the lease term. Monthly rental payments are fixed; however, the leases may include variable payments for fuel, excess labor, additional equipment, or technician labor and engineering support. As further described below, the Company rents certain microturbine equipment back from customers and subleases this equipment to end users as a part of its Energy-as-a-Service business.

At December 31, 2024, the Company's minimum rental revenue to be received was as follows (in thousands):

Year Ending March 31,	Leased Assets	Owned and Financed Assets
2025 (remainder of fiscal year)	\$ 860	\$ 2,781
2026	1,369	4,900
2027	—	672
2028	—	550
2029	—	286
Thereafter	—	792
Total minimum rental revenue	<u>\$ 2,229</u>	<u>\$ 9,981</u>

Lessee

The Company leases facilities and equipment under various non-cancelable operating and finance 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, which may include extension periods.

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During the nine months ended December 31, 2024, the Company did not enter into any rental agreements to rent used microturbine equipment from customers where that equipment was not currently in use. The existing rental agreements provide the Company an option to extend the lease, however, the Company is not likely to exercise these options and therefore not included in the determination of the lease term. As of December 31, 2024, lease commitments totaled approximately 18.4 megawatts of microturbines and had an average term of 36 months and a total remaining commitment value of approximately \$9.7 million.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Finance lease costs (1)	\$ 177	\$ 207	\$ 552	\$ 608
Operating lease costs	1,324	1,362	4,011	3,585
Total lease costs	<u>\$ 1,501</u>	<u>\$ 1,569</u>	<u>\$ 4,563</u>	<u>\$ 4,193</u>

(1) Interest expense is included in finance lease costs.

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

	December 31, 2024	March 31, 2024
Finance lease right-of-use assets	\$ 3,938	\$ 4,391
Operating lease right-of-use assets	9,321	12,279
Total right-of-use assets	<u>\$ 13,259</u>	<u>\$ 16,670</u>
Finance lease liability, current	\$ 595	\$ 964
Operating lease liability, current	3,775	4,041
Finance lease liability, non-current	1,933	2,300
Operating lease liability, non-current	5,806	8,527
Total lease liabilities	<u>\$ 12,109</u>	<u>\$ 15,832</u>
Finance leases:		
Weighted average remaining lease life	0.66 years	1.41 years
Weighted average discount rate	12.77%	13.00%
Operating leases:		
Weighted average remaining lease life	4.34 years	4.48 years
Weighted average discount rate	12.40%	13.00%

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

	Nine Months Ended December 31,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Finance cash flows from finance leases	\$ 736	\$ 764
Operating cash flows from finance leases	\$ 98	\$ 33
Operating cash flows from operating leases	\$ 4,041	\$ 3,568
Right-of-use assets obtained in exchange for lease obligations		
Finance leases	\$ —	\$ 447
Operating leases	\$ —	\$ 6,901

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At December 31, 2024, the Company's minimum commitments under non-cancelable operating and finance leases were as follows (in thousands):

Year Ending March 31,	Finance Leases	Operating Leases
2025 (remainder of fiscal year)	\$ 278	\$ 1,339
2026	2,052	4,368
2027	252	1,747
2028	—	1,636
2029	—	1,337
Thereafter	—	1,882
Total lease payments	\$ 2,582	\$ 12,309
Less: imputed interest	(54)	(2,728)
Present value of lease liabilities	<u>\$ 2,528</u>	<u>\$ 9,581</u>

15. Net Loss Per Common Share

The Company has common and non-voting common stock outstanding. The non-voting common stock has the same economic rights as the common stock; therefore, earnings per share is presented on a combined basis. Basic income (loss) per share is computed using the weighted-average number of common shares and non-voting common shares outstanding for the period. Diluted income (loss) per share is computed without consideration of potentially dilutive common stock equivalents such as stock options, restricted stock units and warrants as the effect would have been anti-dilutive if the Company incurred a loss. In addition, the change in the carrying value of the Preferred Units are excluded from the calculation of diluted earnings per share.

The Company did not have any outstanding stock options or warrants as of December 31, 2024. In addition, there were no adjustments to the carrying value of the Preferred Units for the three and nine months ended December 31, 2024, as subsequent remeasurements of fair value have not exceeded the initial fair value.

16. Subsequent Events

The Company has evaluated all subsequent events through the filing date of this Form 10-Q with the SEC, to ensure that this filing includes appropriate disclosure of events both recognized in the financial statements as of December 31, 2024, and events which occurred subsequently but were not recognized in the financial statements. There were no subsequent events, other than what has been described above, which required recognition, adjustment to or disclosure in the financial statements.

Item 2. 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 should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q and the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for our fiscal year ended March 31, 2024 (“Fiscal 2024”). All dollar amounts in this Management’s Discussion and Analysis of Financial Condition and Results of Operations are approximate.

All references in this Quarterly Report on Form 10-Q to “the Company,” “we,” “us,” “our,” or “Capstone” are to Capstone Green Energy Corporation and its consolidated subsidiaries for the three and nine months ended December 31, 2023 and to Capstone Green Energy Holdings, Inc. and its consolidated subsidiaries as of December 31, 2024 and March 31, 2024 and for the three and nine months ended December 31, 2024.

Special Note Regarding Forward-Looking Statements

This Form 10-Q 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”). These statements can be identified by the fact that they do not relate strictly to historical or current facts. 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 forward-looking statements include, among others, statements relating to our future financial performance, our business prospects and strategy, anticipated financial position, liquidity and capital needs and other similar matters. These forward-looking statements are based on management’s current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Our actual results may differ materially from those expressed in, or implied by, the forward-looking statements included in this Form 10-Q as a result of various factors, including, among others:

- our short and long-term liquidity requirements and the adequacy of our capital resources;
- our ability to realize the anticipated benefits of our financial restructuring completed in December 2023;
- the restrictions imposed by the covenants contained in the Note Purchase Agreement (as defined in Note 11— Debt) and the Operating Subsidiary LLC Agreement (as defined in Note 13— Commitments and Contingencies) and our ability to comply with the financial covenants contained in the Note Purchase Agreement;
- the impact of several recent key management changes and our ability to retain key employees following the financial restructuring completed in December 2023;
- risks related to the restatement of our previously issued consolidated financial statements, including costs, risks and uncertainties associated with the pending SEC investigation into the circumstances surrounding such restatement;
- our ability to remediate the material weaknesses in internal control over financial reporting disclosed in our Annual Report on Form 10-K for Fiscal 2024;
- risks related to our history of net losses and ability to raise additional capital and fund future operating requirements;
- risks related to the limitation of capital available to us;
- the impact of pending or threatened litigation;
- 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;
- the availability of sources for and costs of component parts;
- our ability to obtain direct material products on a timely and cost-effective basis;
- 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;

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- 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 tariffs proposed by the current administration and the ongoing conflicts in Ukraine, Israel and Gaza;
- corruption risks in the markets where our products are sold;
- security and cybersecurity risks related to our electronic processing of sensitive and confidential business and product data;
- our ability to adequately develop and protect our intellectual property rights; and
- other risks and uncertainties discussed in “Item 1A. Risk Factors” included in our Annual Report on Form 10-K for Fiscal 2024.

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 of this Form 10-Q. Except as expressly required under federal securities laws and the rules and regulations of the Securities and Exchange Commission (the “SEC”), we do not have any obligation, and do not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-Q, whether as a result of new information or future events or otherwise. Readers should not place undue reliance on the forward-looking statements included in this Form 10-Q or that may be made elsewhere from time to time by us, or on our behalf. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Overview

We are the market leader in microturbine energy systems based on the number of microturbines sold annually and total installed base. Generally, power purchased from the electric utility grid is less costly than power produced by distributed generation technologies in simple cycle mode. Utilities may also charge fees to interconnect to their power grids. However, when considering and including the waste heat from our microturbine (CHP and CCHP) the economic benefit improves significantly. Further, our highly efficient, low emission, resilient technology can produce thermal energy at a lower carbon footprint. These benefits can be especially realized when fuel costs are low, where the costs of connecting to the grid may be high or impractical (such as remote power applications or new grid services need to be provided), 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 are an inverter-based technology and 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 help solve the “Energy Trilemma” of resiliency, sustainability and affordability. Management also believes our products and services offer a level of flexibility not currently offered by other technologies such as reciprocating engines. We are currently exploring energy conversion options for the smaller end of the power spectrum.

During the three months ended December 31, 2024, we had a net loss of \$2.7 million and a basic and diluted net loss per share of \$0.14 compared to net income of \$24.2 million and basic and diluted net income per share of \$1.27 during the three months ended December 31, 2023. The change in net income (loss) was primarily due to the non-recurring positive effect of the reorganization items of \$32.6 million recognized during the three months ended December 31, 2023, offset by an improved gross profit of \$2.0 million, driven by a \$5.5 million revenue increase, \$3.3 million lower total operating expense, \$0.3 million increase in other income, and \$0.1 million of lower interest expense as compared to the three months ended December 31, 2023.

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, reduced cash usage and expansion of the Energy-as-a-Service (“EaaS”) business.

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, natural resources, renewable energy, 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 principally target projects within the energy efficiency and renewable energy markets.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2024	2023	2024	2023
Energy efficiency	77 %	38 %	60 %	41 %
Natural resources	18 %	43 %	30 %	48 %
Renewable energy	5 %	13 %	10 %	10 %
Transportation	—	6 %	—	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 designed to maximize the availability of usable energy to provide a significant economic advantage to our customers while reducing their on-site 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% to approximately 85% for hot water and chilled water to as much as 90% 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 and industrial waste.

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 on-site. 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, such as flare gas, or associated gas, into 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. 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 where 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

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 turbines, 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 versatile dispatchable technology that is fuel flexible and scalable enough to fit a wide variety of applications.

Transportation

Our technology can also be used to support Electric Vehicle (“EV”) market by providing power solutions to charge vehicles. Our products can fill a void in the EV market for vehicle charging capacity and charging convenience. Our customers have applied our products in EV applications for fleets and remote location charging stations. We are continuing to pursue global EV charging opportunities to fill the demand for power in this market segment.

Backlog

Net product orders were approximately \$24.1 million and \$5.9 million for the three months ended December 31, 2024 and 2023, respectively. Ending backlog was approximately \$26.8 million at December 31, 2024, compared to \$14.2 million at March 31, 2024. The book-to-bill ratio was 3.05:1 and 1.2:1 for the three months ended December 31, 2024 and 2023, respectively. Book-to-bill ratio is the ratio of new orders we received to units shipped and billed during a period.

A portion of the backlog is subject to project schedules and supply chain limitations, which are outside the control of the Company. 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 54 distributors, Original Equipment Manufacturers (“OEMs”) and national accounts. In the United States and Canada, we currently have 8 distributors, OEMs and national accounts. Outside of the United States and Canada, we currently have 46 distributors, OEMs and national accounts. We continue to refine our distribution channels to address our specific targeted markets.

3. **Service** As part of our EaaS 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 (“FPPs”) are generally paid quarterly in advance.

We offer new and remanufactured parts through our global distribution network. Parts and Services revenue in the three months ended December 31, 2024 and 2023 was approximately 37% and 46% of total revenue, respectively. Parts and Services revenue during the nine months ended December 31, 2024 and 2023 was approximately 40% and 35% of total revenue, respectively.

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 costs 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, C600, C800 and C1000S Series microturbines, will be our foundational product lines for the foreseeable future. Our research and development project portfolio are centered on enhancing the features of these base products.

We have continued to develop our new hydrogen products. In March 2022, we released a commercially available hydrogen-based combined heat and power 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 our recuperator design, 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 from 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 and require longer lead times. 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, it may be more challenging to transition to another supplier from single source suppliers with long lead times. 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 Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our Condensed 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 Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses

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and related disclosures of contingent liabilities. On an ongoing basis, we evaluate our estimates, including but not limited to those related to inventories, credit losses and redeemable noncontrolling interests valuations. 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.

Critical accounting estimates are defined as follows: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2024 describe the significant accounting estimates used in the preparation of our Condensed Consolidated Financial Statements.

Results of Operations

Three Months Ended December 31, 2024 and 2023

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

	Three Months Ended December 31,	
	2024	2023
United States and Canada	\$ 12.4	\$ 8.6
Europe	3.3	2.6
Latin America	2.9	1.5
Asia and Australia	1.4	1.9
Middle East and Africa	0.1	—
Total Revenue	<u>\$ 20.1</u>	<u>\$ 14.6</u>

Revenue for the three months ended December 31, 2024 increased \$5.5 million to \$20.1 million from \$14.6 million for the three months ended December 31, 2023. The \$5.5 million increase was primarily driven by increases in revenue of \$3.8 million in the United States and Canada, \$1.4 million in Latin America and \$0.7 million in Europe, offset by a decrease in revenue of \$0.5 million in Asia and Australia. The increases in the United States and Canada, Latin America and Europe was due to increased microturbine product, parts and rental demand. The decrease in Asia and Australia were primarily due to decreases in product deliveries for projects in those regions during the three months ended December 31, 2024.

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

	Three Months Ended December 31,					
	2024			2023		
	Revenue	Megawatts	Units	Revenue	Megawatts	Units
Microturbine Product	\$ 7.9	6.5	28	\$ 5.1	4.4	27
Accessories	0.3			0.1		
Total Product and Accessories	<u>8.2</u>			<u>5.2</u>		
Parts and services	7.4			6.6		
Rentals	4.5			2.8		
Total Revenue	<u>\$ 20.1</u>			<u>\$ 14.6</u>		

For the three months ended December 31, 2024, revenue from microturbine products and accessories increased \$3.0 million, or 58%, to \$8.2 million from \$5.2 million for the three months ended December 31, 2023. The \$3.0 million increase was driven primarily by a 2.1 megawatts shipped increase during the three months ended December 31, 2024, compared to the three months ended December 31, 2023. Average revenue per megawatt shipped was approximately \$1.3 million and \$1.2 million during the three months ended December 31, 2024 and 2023, respectively. The timing of shipments is variable and based on several factors (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 revenue recognition.

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Parts, service and rentals revenue (which are part of our EaaS business line and includes revenue from our parts shipments, factory protection plan (“FPP”) contracts, rentals, and other service revenue) increased \$2.5 million, or 27%, to \$11.9 million for three months ended December 31, 2024 from \$9.4 million for the three months ended December 31, 2023. The \$2.5 million increase was primarily due to increases in our part shipments and rentals due to our growing EaaS business line as our distributors increase their sales. Parts and services revenue also increased due to order timing and improved parts availability.

E-Finity Distributed Generation (“E-Finity”), Lone Star Power Solutions, LLC (“Lone Star”) and Cal Microturbine, three of our domestic distributors, accounted for 15%, 14% and 11% of revenue for the three months ended December 31, 2024, respectively. Cal Microturbine, accounted for 17% of revenue for the three months ended December 31, 2023.

Gross Profit 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 profit was \$5.0 million, or 25% of revenue for the three months ended December 31, 2024, compared to a gross profit of \$3.0 million, or 21% of revenue for the three months ended December 31, 2023. The improvement was primarily the result of an increase in product sales volume and pricing, lower warranty charges and decreases in production and service center labor and overhead expenses. Effective March 2024, we increased our sales prices and are negotiating with vendors to reduce material costs.

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

	Three Months Ended December 31,	
	2024	2023
Gross Profit		
Product and accessories	\$ (0.8)	\$ (1.4)
As a percentage of product and accessories revenue	(10)%	(27)%
Parts, services and rentals	\$ 5.8	\$ 4.4
As a percentage of parts, services and rentals revenue	49 %	47 %
Total gross profit	\$ 5.0	\$ 3.0
	25 %	21 %

The improvement of \$0.6 million in product and accessories gross profit was primarily due to an increasing revenue per megawatt, as a result of previously announced product price increases, while decreasing the cost per megawatt.

Product and accessories gross margin as a percentage of product and accessories revenue increased to (10)% during the three months ended December 31, 2024, from (27)% during the three months ended December 31, 2023, primarily due to increased megawatts sold and a favorable product sales mix for the three months ended December 31, 2024. Parts, services and rentals gross margin as a percentage of parts and service revenue increased to 49% during the three months ended December 31, 2024, compared to 47% during the three months ended December 31, 2023, primarily as a result of increased gross profit of \$1.8 million of rentals the three months ended December 31, 2024.

Research and Development (“R&D”) Expenses R&D expenses were \$0.7 million and \$0.6 million during the three months ended December 31, 2024 and 2023, respectively.

Selling, General, and Administrative (“SG&A”) Expenses SG&A expenses decreased \$3.4 million, or 35%, to \$6.3 million for the three months ended December 31, 2024, from \$9.7 million for the three months ended December 31, 2023, primarily due to a \$2.4 million reduction of legal and accounting fees for the restatement and restructuring activities and a \$1.4 million decrease in stock-based compensation expense.

Interest Expense Interest expense for the three months ended December 31, 2024 and 2023 was \$1.0 million and \$1.1 million, respectively, reflecting a decline in interest rates.

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Nine Months Ended December 31, 2024 and 2023

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

	Nine Months Ended December 31,	
	2024	2023
United States and Canada	\$ 37.4	\$ 38.1
Europe	8.2	13.9
Latin America	8.1	7.6
Asia and Australia	4.2	7.0
Middle East and Africa	0.6	0.3
Total Revenue	<u>\$ 58.5</u>	<u>\$ 66.9</u>

Revenue for the nine months ended December 31, 2024, decreased \$8.4 million to \$58.5 million from \$66.9 million for the nine months ended December 31, 2023. The \$8.4 million decrease was primarily driven by decreases in revenue of \$5.7 million in Europe, \$2.8 million in Asia and Australia, and \$0.7 million in the United States and Canada. The decrease was offset by an increase in revenue of \$0.5 million in Latin America and \$0.3 million in the Middle East and Africa. The decreases in Europe, Asia and Australia and the United States and Canada were primarily due to lower product deliveries for projects in those regions during the nine months ended December 31, 2024. The increases in Latin America and in the Middle East and Africa was primarily due to an increase in our parts shipments to the region, compared to the nine months ended December 31, 2023.

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

	Nine Months Ended December 31,					
	2024			2023		
	Revenue	Megawatts	Units	Revenue	Megawatts	Units
Microturbine Product	\$ 24.0	17.3	76	\$ 32.6	27.6	152
Accessories	0.9			0.9		
Total Product and Accessories	<u>24.9</u>			<u>33.5</u>		
Parts and Services	23.2			23.9		
Rentals	10.4			9.5		
Total Revenue	<u>\$ 58.5</u>			<u>\$ 66.9</u>		

For the nine months ended December 31, 2024, revenue from microturbine products and accessories decreased by \$8.6 million, or 26%, to \$24.9 million from \$33.5 million for the nine months ended December 31, 2023. The \$8.6 million decrease was primarily driven by a decrease of 10.3 in megawatts shipped during the nine months ended December 31, 2024, compared to the nine months ended December 31, 2023. Average revenue per megawatt shipped was approximately \$1.4 million and \$1.2 million during the nine months ended December 31, 2024 and 2023, respectively, which resulted from the previously announced product price increases. The timing of shipments is variable and based on several factors (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 revenue recognition.

Parts, service and rentals revenue (which are part of our EaaS business line and includes revenue from our parts shipments, FPP contracts, rentals and other service revenue) increased \$0.2 million, or 1%, to \$33.6 million for the nine months ended December 31, 2024, from \$33.4 million for the nine months ended December 31, 2023, due to an increase in our rental and service contracts revenue of \$1.0 million as a result of increased sales from our EaaS business line distributors and a \$0.4 million increase in parts revenue, offset by a \$1.2 million of DSS fees reported in revenue during the nine months ended December 31, 2023. Those fees are being recorded as Other Income for the nine months ended December 31, 2024.

E-Finity and Lone Star accounted for 16% and 13% of revenue for the nine months ended December 31, 2024, respectively. E-Finity and Cal Microturbine accounted for 14% and 11% of revenue for the nine months ended December 31, 2023, respectively.

Gross Profit 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 profit was \$15.8 million, or 27% of

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revenue for the nine months ended December 31, 2024, compared to a gross profit of \$11.7 million, or 18% of revenue for the nine months ended December 31, 2023. The increase was primarily the result of an increase in product pricing, parts pricing and rental pricing, lower warranty and inventory charges and lower production and service center labor and overhead expense. Effective March 2024, we increased our sales prices and are negotiating with vendors to reduce material costs.

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

	Nine Months Ended December 31,	
	2024	2023
Gross Profit		
Product and accessories	\$ (0.7)	\$ (2.6)
As a percentage of product and accessories revenue	(3)%	(8)%
Parts, services and rentals	\$ 16.5	\$ 14.3
As a percentage of parts, services and rentals revenue	49 %	43 %
Total gross profit	\$ 15.8	\$ 11.7
As a percentage of total revenue	27 %	17 %

Product and accessories gross margin as a percentage of product and accessories revenue increased to (3)% during the nine months ended December 31, 2024, from (8)% during the nine months ended December 31, 2023, primarily due to increased revenue per megawatt in the nine months ended December 31, 2024. Parts, services and rentals gross margin as a percentage of parts and service revenue increased to 49% during the nine months ended December 31, 2024, compared to 43% during the nine months ended December 31, 2023, primarily as a result of increases in parts price, rental price, rental utilization and lower overhead costs in the nine months ended December 31, 2024.

Research and Development (“R&D”) Expenses R&D expenses were \$1.9 million during both the nine months ended December 31, 2024 and 2023.

Selling, General, and Administrative (“SG&A”) Expenses SG&A expenses decreased \$6.2 million, or 24%, to \$19.5 million for the nine months ended December 31, 2024, from \$25.7 million for the nine months ended December 31, 2023, primarily due to a \$3.4 million reduction of legal and accounting fees for the restatement and restructuring activities and a \$1.7 million decrease in stock-based compensation expense.

Interest Expense Interest Expense for the nine months ended December 31, 2024 and 2023 was \$3.0 million and \$4.6 million, respectively, resulting from the Company’s lower debt level following the December 2023 restructuring.

Liquidity and Capital Resources

Cash Flows

Our cash requirements depend on many factors, including the execution of our business strategy and plan. Our cash and cash equivalents balance increased \$1.2 million during the nine months ended December 31, 2024, primarily due to net cash provided by operating activities, partially offset by cash used in investing and financing activities.

Operating Activities During the nine months ended December 31, 2024, \$2.2 million in cash was provided by our operating activities, which consisted of a net loss for the period of \$7.1 million, changes in operating assets and liabilities of \$0.7 million and offset by non-cash adjustments of \$10.0 million. For the nine months ended December 31, 2023, \$22.1 million in cash was used in operating activities, which consisted of net income of \$12.7 million, non-cash adjustments of \$9.4 million, offset by \$35.3 million in non-cash reorganization items and \$8.7 million change in operating assets and liabilities. Non-cash charges consist of primarily of depreciation and amortization, non-cash lease expenses and paid-in-kind (“PIK”) interest, and stock-based compensation.

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

	Nine Months Ended December 31,	
	2024	2023
Net income (loss)	\$ (7,064)	\$ 12,674
Non-cash operating activities(1)	9,990	(25,871)
Changes in operating assets and liabilities:		
Accounts receivable	(6,066)	981
Inventories	4,279	6,638
Accounts payable and accrued expenses	(606)	(4,646)
Operating lease liability, net	(2,988)	(2,464)
Prepaid expenses, other current assets and other assets	1,887	(1,029)
Factory protection plan liability	(961)	(2,527)
Other changes in operating assets and liabilities	3,763	(5,819)
Net cash provided by (used in) operating activities	\$ 2,234	\$ (22,063)

- (1) Represents changes in depreciation and amortization, non-cash lease expenses, PIK interest, stock-based compensation expense, non-cash reorganization items, net, and inventory, warranty and credit loss provisions.

The change in non-cash operating activities during the nine months ended December 31, 2024, compared to the nine months ended December 31, 2023, was primarily due to a decrease in non-cash reorganization expenses of \$35.3 million.

The \$4.3 million of cash provided from inventory during the nine months ended December 31, 2024, was the result of improved supply chain management from reduced lead times for parts and the sale of rental equipment returned to inventory, compared to the \$6.6 million of cash provided from inventory during the nine months ended December 31, 2023, primarily due to the reduction in finished goods inventory levels. The change in accounts receivable was primarily the result of reduced revenue and collections during the nine months ended December 31, 2024, compared to the nine months ended December 31, 2023. The change in effect of payable and accrued expenses was primarily due to establishing a normal payment rate to vendors during the nine months ended December 31, 2024, compared to the nine months ended December 31, 2023 when vendor payments were accelerated to be in line with their terms. The change in other operating assets and liabilities during the nine months ended December 31, 2024, compared to the nine months ended December 31, 2023, was primarily due to the decreases in deferred revenue attributable to customer deposits and the removal of the DSS service fees.

Investing Activities Net cash used in investing activities of \$0.8 million and \$4.6 million during the nine months ended December 31, 2024 and 2023, respectively, was primarily due to investments in operating and rental fleet assets, respectively.

Financing Activities Net cash used in financing activities during the nine months ended December 31, 2024, was used for repayment of finance lease obligations. The funds generated from financing activities during the nine months ended December 31, 2023 were primarily the result of \$12.0 million of funding under the DIP Facility, cash of \$3.0 million received from the issuance of additional pre-petition senior secured notes under the A&R Note Purchase Agreement during the second quarter of Fiscal 2024 and \$3.0 million of funding under the Exit Facility during the third quarter of Fiscal 2024, partially offset by issuance costs of \$0.2 million.

Debt Refer to Note 11— Debt in the Notes to Condensed Consolidated Financial Statements (Part I, Item 1 of this Form 10-Q) for information related to our notes.

Lease Commitments Refer to Note 14— Leases in the Notes to Condensed Consolidated Financial Statements for information related to our leases.

Going Concern In connection with preparing the Condensed Consolidated Financial Statements for the nine months ended December 31, 2024, 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 financial statements. As of December 31, 2024, we had cash of \$3.3 million, and a working capital deficit of \$15.6 million. We incurred a net loss of \$7.1 million during the nine months ended December 31, 2024.

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On September 28, 2023, we filed for a prepackaged financial restructuring with our senior lender, Goldman Sachs under the U.S. Chapter 11 Bankruptcy laws. We emerged from bankruptcy on December 7, 2023, and effected a financial and organizational restructuring. Given its current cash position, lack of liquidity, limits to accessing capital and debt funding options, current economic and market risks, and the continued impact of the Chapter 11 Bankruptcy and the Reorganization on customer and vendor relationships, there is substantial doubt regarding the Company's ability to continue as a going concern and its ability to meet its financial obligations as they become due over the next twelve months from the date of issuance of the financial statements as of, and for the period ended December 31, 2024.

New Accounting Pronouncements

Refer to Note 3— Recently Issued Accounting Pronouncements in the Notes to Condensed Consolidated Financial Statements (Part I, Item 1 of this Form 10-Q) for information regarding new accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

Item 4. 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-Q for the three and nine months ended December 31, 2024, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in and pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our CEO and CFO have concluded that, as of December 31, 2024, due to the material weaknesses in our internal control over financial reporting described below, our disclosure controls and procedures were not effective.

Material Weakness

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 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 U.S. 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 U.S. 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be detected or prevented on a timely basis. The following material weaknesses were identified:

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- There was an inappropriate tone at the top established by certain former senior executives. For example, certain former senior executives delayed shipments of parts under the FPP service contracts, which because of our incorrect accounting for our FPP program resulted in delayed recording of the associated expense and liabilities on the Company's financial statements. These business practices were also not properly communicated to our Board, Audit Committee, or independent registered public accounting firm.
- We lacked sufficient qualified professionals with an appropriate level of accounting and internal control knowledge, training and experience to (i) appropriately analyze, record and disclose accounting matters timely and accurately and (ii) design and maintain effective internal control over financial reporting.
- We did not perform a sufficient review of accounting policies to ensure ongoing adherence with U.S. GAAP.
- We did not design and maintain effective controls over financial reporting for systems, products, parts, and accessories sales subject to bill and hold arrangements with customers.
- We did not design and maintain effective controls over financial reporting related to the proper accounting, presentation and disclosure for FPP service contracts, including the cost recognition of parts and labor associated with FPP service contracts.

Management's Remediation Plan

Management, with the direction and oversight of the Audit Committee and the Board of Directors, is engaged in remediation actions to address the material weaknesses described above. The Company's remediation actions include, but are not limited to the following:

- The Company has reinforced and will continue to reinforce its tone at the top through employee meetings, CEO letters, management training and enhanced communication of the Company's values and expected business conduct to their personnel directly from the Company's senior leadership.
- Management has enhanced our quarterly disclosure committee meetings to require additional communication of business activities to the appropriate finance and accounting personnel and to our Board and Audit Committee as required.
- The Company has hired and continues to hire additional accounting and compliance personnel as is necessary to maintain an effective control environment commensurate with our financial reporting requirements. Management will continue to assess the composition of its resource needs, both internal and external, which may include hiring additional accounting and compliance resources, including engaging in third-party advisors when necessary.
- Management has implemented a formal process to periodically review and update accounting policies.
- Management has reviewed and refined the Company's current accounting memorandums related to product, parts, and accessories sales and FPP service contracts to address the proper financial reporting considerations. Additionally, management has enhanced the design of and implemented controls over financial reporting for (i) systems, products, parts, and accessories sales subject to bill and hold arrangements with customers and (ii) FPP service contracts, including the cost recognition of parts and labor associated with FPP service contracts.

We believe these measures will remediate the material weaknesses, but management is assessing the need for any additional steps to remediate the underlying causes that gave rise to these weaknesses. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. There is no assurance that additional remediation steps will not be necessary.

Changes in Internal Control Over Financial Reporting

Except as described above, there were no changes in our internal control over financial reporting during the most recent fiscal quarter that were identified in connection with management's evaluation required by paragraph (d) of Rules 13d-15 and 15d-15 under the Exchange Act that have materially affected, or are 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.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 13 – Commitments and Contingencies — Legal Matters, in the Notes to Condensed Consolidated Financial Statements (Part I, Item 1 of this Form 10-Q) for information regarding legal proceedings in which we are involved. The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. In addition, the Company and certain of its former and current directors and officers are a party to several material legal proceedings. The outcome of litigation is inherently uncertain. If one or more legal matters were to be resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section contained in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2024, together with the cautionary statement under the caption "Special Note Regarding Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q. The risks described are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Changes in U.S. and international trade policies, including the export and import controls and laws, particularly with regard to China, Mexico and Canada, may adversely impact our business and operating results.

While our production is located in the United States, a high percentage of our parts used in the production of our vehicles are sourced from China, Mexico and Canada. While we believe this is the best strategic business model, it also is more subject to risks associated with international trade conflicts including between the United States and such countries, particularly with respect to export and import controls and laws. During his previous administration, President Donald J. Trump advocated for greater restrictions on international trade in general, which significantly increased tariffs on certain goods imported into the United States - particularly from China. President Trump also took steps toward restricting trade in certain goods. In response, China and other countries imposed similar retaliatory tariffs and other measures and such international trade conflicts continued under the Biden administration. President Trump has spoken regularly about his desire to implement additional tariffs on foreign products during his forthcoming administration. For example, the new U.S. presidential administration has imposed and has threatened to impose tariffs on foreign imports into the United States from certain jurisdictions, including jurisdictions from which we import components of our microturbine systems.

Rising political tensions could reduce trade volume, investment, technological exchange and other economic activities between major international economies, resulting in a material adverse effect on global economic conditions and the stability of global financial markets. Additionally, increasing tariffs could impact raw material prices, the cost of component parts and transportation. Any of the foregoing could have an adverse effect on our business, prospects, financial condition and results of operations.

Our shares of common stock traded from time to time on the OTC Pink Sheet Market.

Our common stock is subject to reporting of quotation on the OTC Markets Group, Inc. Pink Open Market Platform ("Pink Sheets") under the symbol CGEH. There is currently only a limited trading market in the Company's shares. There can be no assurance that there will be an active trading market for our securities. In the event that an active trading market commences, there can be no assurance as to the market price of our shares of common stock, whether any trading market will provide liquidity to investors, or whether any trading market will be sustained.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the quarter ended December 31, 2024, none of our directors or officers adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities to satisfy the affirmative defense conditions of "Rule 10b5-1 trading arrangement" or any "non-Rule 10b5-1 trading arrangement."

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Item 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of Capstone Green Energy Holdings, Inc. (a)
3.2	Amended and Restated Bylaws of Capstone Green Energy Holdings, Inc. (a)
4.1	Super-Priority Senior Secured Debtor-In-Possession Note Purchase Agreement, dated as of October 2, 2023, among Capstone Green Energy Corporation, as a Chapter 11 Debtor and Debtor-in-Possession, the other debtors party thereto from time to time, each as a Chapter 11 Debtor and Debtor-in-Possession and as a Guarantor, Broad Street Credit Holdings LLC, as Purchaser, and Goldman Sachs Specialty Lending Group, L.P., as Collateral Agent (b)
4.2	First Amendment to Super-Priority Senior Secured Debtor-In-Possession Note Purchase Agreement, dated as of November 15, 2023, among Capstone Green Energy Corporation, as a Chapter 11 Debtor and Debtor-in-Possession, the other debtors party thereto from time to time, each as a Chapter 11 Debtor and Debtor-in-Possession and as a Guarantor, Broad Street Credit Holdings LLC, as Purchaser, and Goldman Sachs Specialty Lending Group, L.P., as Collateral Agent (c)
4.3	Exit Note Purchase Agreement, dated December 7, 2023, by and among Capstone Green Energy LLC, Capstone Green Energy Holdings, Inc., Capstone Financial Services, Broad Street Credit Holdings LLC, as Purchaser, and Goldman Sachs Specialty Lending Group, L.P., as Collateral Agent (a)
4.4	First Amendment to Note Purchase Agreement, dated as of June 28, 2024, by and among Capstone Green Energy Holdings, Inc., Capstone Green Energy LLC, Capstone Turbine Financial Services, LLC, Goldman Sachs Specialty Lending Group, L.P. and the Purchaser party thereto. (d)
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32**	Certification of Chief Executive Officer and Chief Financial Officer 18 U.S.C. Section 1350, as adopted 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 Holdings, Inc.’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2024, formatted in Inline XBRL and contained in Exhibit 101

* Filed herewith
** Furnished herewith

- (a) Incorporated by reference to Capstone Green Energy Holdings, Inc.’s Current Report on Form 8-K12G3 filed on December 11, 2023 (File No. 001-15957).
- (b) Incorporated by reference to Capstone Green Energy Corporation’s Current Report on Form 8-K filed on October 3, 2023 (File No. 001-15957).
- (c) Incorporated by reference to Capstone Green Energy Corporation’s Current Report on Form 8-K filed on November 17, 2023 (File No. 001-15957).
- (d) Incorporated by reference to Capstone Green Energy Holdings, Inc.’s Current Report on Form 8-K filed on June 28, 2024 (File No. 001-15957).

