

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

(Mark One)

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

For the fiscal year ended March 31, 2022

or

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

For the transition period from _____ to _____

Commission file number 001-15957

CAPSTONE GREEN ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
16640 Stagg Street,
Van Nuys, California
(Address of principal executive offices)

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

91406
(Zip Code)

(818) 734-5300

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Large accelerated filer
Emerging growth company

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

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

The aggregate market value of the shares of Common Stock of the registrant held by non-affiliates on September 30, 2021 was approximately \$51.7 million.

As of July 11, 2022, there were 15,315,565, shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

CAPSTONE GREEN ENERGY CORPORATION

FORM 10-K

TABLE OF CONTENTS

	<u>Page</u>	
<u>PART I</u>		
Item 1.	Business	3
Item 1A.	Risk Factors	17
Item 1B.	Unresolved Staff Comments	38
Item 2.	Properties	38
Item 3.	Legal Proceedings	38
Item 4.	Mine Safety Disclosures	38
<u>PART II</u>		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
Item 6.	Selected Financial Data	39
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	54
Item 8.	Financial Statements and Supplementary Data	54
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	56
Item 9A.	Controls and Procedures	54
Item 9B.	Other Information	55
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	56
<u>PART III</u>		
Item 10.	Directors, Executive Officers and Corporate Governance	56
Item 11.	Executive Compensation	56
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	56
Item 13.	Certain Relationships and Related Transactions, and Director Independence	56
Item 14.	Principal Accounting Fees and Services	56
<u>PART IV</u>		
Item 15.	Exhibits, Financial Statement Schedules	57
Item 16.	Form 10-K Summary	57

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

PART I

Item 1. Business.

Overview

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

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

Company Response to COVID-19

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

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

[Table of Contents](#)

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

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

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

Products

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

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

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

Applications

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

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

Energy Efficiency—CHP/CCHP

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

When compared to onsite boilers, microturbines generally produce fewer commonly found air pollutants (“criteria pollutants”), such as nitrogen oxides (“NOx”), carbon monoxide (“CO”) and volatile organic compounds (“VOCs”). In fact, our CHP or CCHP system can displace local boiler emissions altogether. A high efficiency CHP or CCHP system can allow for reduced net utility costs for end users as well as improved fuel consumption. The most common uses for captured thermal energy include space heating and air conditioning, water heating and water chilling, direct-drying and steam for industrial applications. In CCHP applications, the microturbine exhaust drives an absorption chiller, which produces the chilled water necessary for air conditioning and local use. Organizations of all sizes have used the heat generated by our microturbines at the many different types of commercial and industrial applications they serve, including hotels and resorts, hospitals, and medical centers, as well as office buildings and large retail facilities.

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

Renewable Energy

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

[Table of Contents](#)

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

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

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

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

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

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

Critical Power Supply

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

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

[Table of Contents](#)

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

Microgrid

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

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

Sales and Marketing

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

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

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

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

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

Our Geographic Markets

United States and Canada

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

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

Latin America

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

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

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

[Table of Contents](#)

Asia and Australia

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

Middle East and Africa

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

Europe

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

Customers

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

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

Competition

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

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

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

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

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

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

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

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

Governmental and Regulatory Impact

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

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

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

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

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

Sourcing and Manufacturing

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

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

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

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

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

Research and Development (“R&D”)

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

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

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

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

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

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

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

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

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

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

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

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

Protecting our Intellectual Property Rights and Patents

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

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

Human Capital

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

Diversity

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

Workforce Statistics

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

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

Corporate Information

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

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

Available Information

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

Item 1A. Risk Factors

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

Summary of Risk Factors

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

Risks Related to Our Business Operations and Financial Results

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

Risks Related to Our Product Offerings

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

Risks Related to Pending Litigation and Government Regulation

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

Risks Related to Data, Security, and Intellectual Property

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

Risks Related to Ownership of Our Common Stock

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

General Risk Factors

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

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

Risks Related to Our Business Operations and Financial Results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Product Offerings

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

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

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

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

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

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

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

Commodity market factors impact our costs and availability of materials.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Pending Litigation and Government Regulation

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

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

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

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

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

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

We may be subject to lawsuits.

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

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

Risks Related to Data, Security, and Intellectual Property

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

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

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

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

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

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

General Risk Factors

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

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

Stockholders

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

[Table of Contents](#)

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plan.

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

Issuer Purchases of Equity Securities

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

Item 6. [Reserved]

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

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

Overview

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

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

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

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

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

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

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

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

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

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

Energy Efficiency—CHP/CCHP

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

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

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

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

Renewable Energy

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

Critical Power Supply

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

Microgrid

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

Backlog

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

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

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

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

[Table of Contents](#)

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

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

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

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

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

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

At-the-market offerings

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

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

Common Stock Offering

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

Warrants

Goldman Warrant

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

Goldman “2020 Warrant”

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

September 2019 Pre-Funded and Series D Warrants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

Impact of Recently Issued Accounting Standards

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

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

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

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

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

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

[Table of Contents](#)

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

Changes in Internal Control Over Financial Reporting

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

Inherent Limitations of the Effectiveness of Internal Control

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

Item 9B. Other Information.

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

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

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

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

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

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

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

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

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

Delinquent Section 16(a) Reports

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

Item 11. Executive Compensation.

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

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

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

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

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

Item 14. Principal Accounting Firm Fees and Services.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

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

3. Exhibits

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

Item 16. Form 10-K Summary.

Not applicable.

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm (PCAOB 00688); Marcum LLP, Los Angeles, CA	F-2
Consolidated Financial Statements:	
Consolidated Balance Sheets as of March 31, 2022 and 2021	F-4
For the years ended March 31, 2022 and 2021:	
Consolidated Statements of Operations	F-5
Consolidated Statements of Stockholders' Equity	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-8

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

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

Basis for Opinion

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

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

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

Critical Audit Matters

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

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

Accounts Receivable Allowances

Description of Matter

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

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

How We Addressed the Matter

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

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

/s/ Marcum LLP

Marcum LLP

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

Los Angeles, CA
July 13, 2022

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share amounts)

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and Basis of Presentation

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

The Company determines revenue recognition through the following steps:

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Significant Judgments - Contracts with Multiple Performance Obligations

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Unsatisfied Performance Obligations

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

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

Practical Expedients

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Company Response to COVID-19

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

Impact of Recently Issued Accounting Standards*Adopted*

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Not yet adopted*

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

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

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

3. Inventories

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

4. Property, Plant and Equipment

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

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

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

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

5. Intangible Assets

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Accrued Warranty Reserve**

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

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

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

7. Revenue Recognition

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Contract Balances

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

8. Income Taxes

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

9. Stockholders' Equity

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

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

2000 and 2017 Equity Incentive Plans

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Restricted Stock Units and Performance Restricted Stock Units

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

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Stockholder Rights Plan

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

At-the-Market Offering

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Warrants

Goldman Warrant

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

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

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

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

Goldman “2020 Warrant”

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

September 2019 Pre-Funded and Series D Warrants

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

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

Stock to Vendors

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

10. Fair Value Measurements

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

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

Level 2. Inputs to the valuation methodology include:

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis for Valuation

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

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

11. Term Note Payable*Three-Year Term Note*

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

SBA Paycheck Protection Program Loan

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

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

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

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

12. Commitments and Contingencies**Purchase Commitments**

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

Lease Commitments

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

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

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

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

	Year Ended March 31,	
	2022	2021
Operating lease cost	\$ 1,157	\$ 1,051

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

Other supplemental operating lease information consists of the following:

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

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

Other Commitments

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

Legal Matters

Capstone Turbine Corporation v. Turbine International, LLC.

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

13. Employee Benefit Plans

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

14. Other Assets

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

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

CAPSTONE GREEN ENERGY CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

15. Subsequent Events

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

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

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

Exhibit Index

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

[Table of Contents](#)

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

[Table of Contents](#)

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

*Management contract or compensatory plan or arrangement

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

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

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

THIS SECOND AMENDMENT TO AMENDED AND RESTATED NOTE PURCHASE AGREEMENT (this "Second Amendment") is entered into as of July 13, 2022 by and among CAPSTONE GREEN ENERGY CORPORATION, a Delaware corporation formerly known as CAPSTONE TURBINE CORPORATION (the "Company"), the Purchaser signatory hereto and GOLDMAN SACHS SPECIALTY LENDING GROUP, L.P. (as successor in interest to Goldman Sachs Specialty Lending Holdings, Inc.), as collateral agent for the Purchasers (in such capacity, the "Collateral Agent").

RECITALS

A. The Company, certain subsidiaries of the Company, the Purchaser and the Collateral Agent are parties to a certain Amended and Restated Note Purchase Agreement, dated as of October 1, 2020 (as amended, restated, supplemented or otherwise modified from time to time, the "Note Purchase Agreement"; capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Note Purchase Agreement), pursuant to which the Purchaser has agreed to purchase the Notes issued by Company;

B. The Collateral Agent has notified the Company that the Company has failed to comply with the Consolidated Adjusted EBITDA covenant set forth in Section 6.8(a) of the Note Purchase Agreement for the Fiscal Quarter ending March 31, 2022 (the "Specified Financial Covenant Breach");

C. The Company did not exercise its right, pursuant to Section 8.2 of the Note Purchase Agreement, to cure such Specified Financial Covenant Breach on or prior to the Specified Debt Cure Deadline of May 27, 2022;

D. By virtue of the Specified Financial Covenant Breach, an Event of Default under Section 8.1 of the Note Purchase Agreement occurred (the "Designated Default");

E. The Note Parties have requested that the Purchaser waive the Designated Default and, subject to the terms and conditions hereof, the Purchaser (being the sole Purchaser under the Note Purchase Agreement) executing this Second Amendment is willing to do so; NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and intending to be legally bound, the parties hereto agree as follows:

A. AMENDMENTS

1. The Note Purchase Agreement is hereby amended by adding new Exhibit 5.18 and Exhibit 5.21 as attached hereto as Exhibit A and Exhibit B, respectively.

2. Section 1.1 of the Note Purchase Agreement is hereby amended by adding the following terms:

"Financial Advisor" means Riveron Consulting, LLC or another advisor

acceptable to Collateral Agent in its sole discretion.

“**Investment Bank**” as defined in Section 5.18.

“**Refinancing**” as defined in Section 5.18.

“**Refinancing Milestone Date**” as defined in Section 5.18.

“**Revised Financial Plan**” means a revised Financial Plan satisfactory to Collateral Agent, in its sole discretion.

“**Second Amendment**” means the Second Amendment to the Note Purchase Agreement, dated as of the Second Amendment Effective Date.

“**Second Amendment Effective Date**” means July 13, 2022.

3. Section 5.1 of the Note Purchase Agreement is hereby amended by adding the following paragraph (t):

“(t) Revised Financial Plan. No later than the date that is forty-two (42) days after the Second Amendment Effective Date, the Revised Financial Plan.”

4. Section 5.1 of the Note Purchase Agreement is hereby amended by adding the following paragraph (u):

“(u) Weekly Cash Flow Forecasts. Company shall deliver to Collateral Agent an updated 13-week cash flow forecast of Company and its Subsidiaries in a form reasonably satisfactory to Collateral Agent no later than each Friday of each week, commencing on July 15, 2022 through October 1, 2022.”

5. Section 5.1 of the Note Purchase Agreement is hereby amended by adding the following subsection 5.18:

“5.18 Refinancing Milestones. Company shall achieve the following milestones with respect to a Refinancing (as defined below) by the dates indicated below:

Milestone	Deadline
1. The Company shall have entered into an engagement agreement, in form and substance satisfactory to Collateral Agent (including with respect to the scope of the engagement and the compensation for such engagement) in its sole discretion, with an investment banking professional services firm satisfactory to Collateral Agent in its sole discretion (it being understood and agreed that the banking professional services firms set forth on <u>Exhibit 5.18</u> shall be deemed to be satisfactory to Collateral Agent) (the “ <u>Investment Bank</u> ”) in connection with a repayment of all of the	August 10, 2022

Obligations under the Notes (the “ <u>Refinancing</u> ”)	
2. The Company shall have used commercially reasonable best efforts to raise a minimum of \$10,000,000 through a sale of common stock.	September 14, 2022
3. The Company shall have used commercially reasonable best efforts to have closed the Refinancing.	October 1, 2022 (the “ <u>Refinancing Milestone Date</u> ”)

6. Section 5.1 of the Note Purchase Agreement is hereby amended by adding the following subsection 5.19:

“Section 5.19 Financial Advisor. Company shall take all actions necessary to maintain its engagement with Financial Advisor until the Obligations have been Paid in Full or such earlier date designated, in writing, by Collateral Agent. In addition, Company will provide Collateral Agent with access to Financial Advisor, including to review any reports or documents prepared by Financial Advisor (including without limitation the 13-week cash flow projections referenced in Section 5.1(u) hereof) and to discuss Company’s business, financial condition, assets, prospects, and results of operations, for so long as Financial Advisor is engaged by Company.”

7. Section 5 of the Note Purchase Agreement is hereby amended by adding the following subsection 5.20:

“Section 5.20 Interim Chief Financial Officer. Company shall retain an individual acceptable to Collateral Agent to serve as the interim chief financial officer on terms satisfactory to Collateral Agent in its sole discretion (it being understood and agreed that Scott Robinson, and the terms offered to him by Company on or before the Second Amendment Effective Date are deemed to be satisfactory to Collateral Agent) no later than fourteen (14) days after the Second Amendment Effective Date.

8. Section 5 of the Note Purchase Agreement is hereby amended by adding the following subsection 5.21:

“Section 5.21 Collateral Questionnaire. Company shall deliver to Collateral Agent a collateral questionnaire substantially in the form of Exhibit 5.21, or in any other form reasonably satisfactory to Collateral Agent, no later than fourteen (14) days after the Second Amendment Effective Date (or such later date as may be agreed to by Collateral Agent in its sole discretion).”

9. Section 8.1(c) of the Note Purchase Agreement is hereby amended by inserting the following after the words “Section 5.16”:

“Section 5.18, Section 5.19, Section 5.20”

10. Section 8.2 of the Note Purchase Agreement is hereby amended and restated in its entirety as follows:

“8.2 **Company’s Right to Cure.** For purposes of determining whether an Event of Default has occurred under the financial covenant set forth in Section 6.8(a) for the Fiscal Quarter ended June 30, 2022 (the “Specified Financial Covenant”), Company may make a prepayment (such prepayment, the “Specified Debt Prepayment”) of the Notes pursuant to Section 2.12 in an amount up to the amount that the required level for Consolidated Adjusted EBITDA for the Fiscal Quarter ended March 31, 2022 exceeds Consolidated Adjusted EBITDA for the Fiscal Quarter ended March 31, 2022 (the “Cure Cap”) (provided that any reversal by the Company made with respect to allowances or reserves for bad debt for the Fiscal Quarter ended June 30, 2022 shall reduce the Cure Cap on a dollar for dollar basis) and Consolidated Adjusted EBITDA for the Fiscal Quarter ended June 30, 2022 shall be deemed to be increased by the amount of the Specified Debt Prepayment, which Specified Debt Prepayment may be made after June 30, 2022 and on or prior to August 26, 2022 (the “Specified Debt Cure Deadline”); provided that a Specified Debt Prepayment shall not be deemed to increase Consolidated Adjusted EBITDA for any purpose other than for purposes of determining compliance with the Specified Financial Covenant for the Fiscal Quarter for which the Specified Debt Prepayment was made and shall not increase Consolidated Adjusted EBITDA for any Fiscal Quarter ending after the Fiscal Quarter ended June 30, 2022.

Upon satisfying the requirements in the previous sentence, the Note Parties shall be deemed to have satisfied the requirements of such Specified Financial Covenant as of the relevant date of determination with the same effect as though there had been no failure to comply therewith on such date of determination.

Until the expiration of the Cure Deadline in respect of any prospective default with respect to the Specified Financial Covenant, neither Collateral Agent nor any Purchaser shall be permitted to (and shall not) accelerate any Notes held by them or exercise any rights or remedies against any Note Party or any of the Collateral on the basis of a failure to comply with the requirements of the Specified Financial Covenant.”

B. WAIVER OF DESIGNATED DEFAULT

Subject to the terms and conditions of this Second Amendment and in reliance upon the representations of the Note Parties set forth in Section D below, Collateral Agent and the Purchaser hereby permanently waive the Designated Default and their right to take any action under the Note Purchase Agreement or the other Note Documents that they may otherwise have or have had as a result of the occurrence of the Designated Default, including the right to charge interest at the default rate due to the occurrence of the Designated Default. This is a limited, one-time waiver and, except as expressly set forth herein, shall not be deemed to: (a) constitute a waiver of any other Event of Default or any other breach of the Note Purchase Agreement or any of the other Note Documents, whether now existing or hereafter arising, (b) constitute a waiver of any right or remedy of Collateral Agent or the Purchaser under the Note Documents which does not arise as a result of the Designated Default, or (c) establish a custom or course of dealing or conduct between

Collateral Agent and the Purchaser, on the one hand, and the Note Parties on the other hand.

C. EFFECTIVENESS

Notwithstanding any other provision of this Second Amendment and without affecting in any manner the rights of the Purchaser hereunder, it is understood and agreed that this Second Amendment shall not become effective, and the Note Parties shall have no rights under this Second Amendment, until the Purchaser shall have received the following documents, in form and substance satisfactory to the Purchaser: executed counterparts to this Second Amendment from the Company, each other Note Party and the Purchaser.

D. REPRESENTATIONS

Each Note Party hereby represents and warrants to the Purchaser and the Collateral Agent that:

1. Each of the Note Parties and its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (b) has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and as proposed to be conducted, to enter into the Note Documents to which it is a party and to carry out the transactions contemplated thereby, and (c) is qualified to do business and in good standing in every jurisdiction where its assets are located and wherever necessary to carry out its business and operations, except in jurisdictions where the failure to be so qualified or in good standing has not had, and could not be reasonably expected to have, a Material Adverse Effect; and

2. The execution, delivery and performance of this Second Amendment has been duly authorized by all necessary action on the part of each Note Party that is a party hereto.

E. OTHER AGREEMENTS

1. Continuing Effectiveness of Note Documents. As amended hereby, all terms of the Note Purchase Agreement and the other Note Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Note Parties party thereto. To the extent any terms and conditions in any of the other Note Documents shall contradict or be in conflict with any terms or conditions of the Note Purchase Agreement, after giving effect to this Second Amendment, such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Note Purchase Agreement as modified and amended hereby. Upon the effectiveness of this Second Amendment such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Note Purchase Agreement as modified and amended hereby.

2. Reaffirmation of Guaranty. Each Guarantor consents to the execution and delivery by the Note Parties of this Amendment and the consummation of the transactions described herein, and ratifies and confirms the terms of the Guaranty to which such Guarantor is a party with respect to the indebtedness now or hereafter outstanding under the Note Purchase Agreement as amended hereby and all promissory notes issued thereunder. Each Guarantor acknowledges that, notwithstanding anything to the contrary contained herein or in any other

document evidencing any indebtedness of the Note Parties to the Purchasers or any other obligation of the Note Parties, or any actions now or hereafter taken by the Purchasers with respect to any obligation of the Note Parties, the Guaranty to which such Guarantor is a party (i) is and shall continue to be a primary obligation of such Guarantor, (ii) is and shall continue to be an absolute, unconditional, continuing and irrevocable guaranty of payment, and (iii) is and shall continue to be in full force and effect in accordance with its terms. Nothing contained herein to the contrary shall release, discharge, modify, change or affect the original liability of any Guarantor under the Guaranty to which such Guarantor is a party.

3. Acknowledgment of Perfection of Security Interest. Each Note Party hereby acknowledges that, as of the date hereof, the security interests and liens granted to Collateral Agent and the Purchasers under the Note Purchase Agreement and the other Note Documents are in full force and effect, are properly perfected and are enforceable in accordance with the terms of the Note Purchase Agreement and the other Note Documents.

4. Effect of Agreement. Except as set forth expressly herein, all terms of the Note Purchase Agreement, as amended hereby, and the other Note Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Note Parties to the Purchasers and Collateral Agent. The execution, delivery and effectiveness of this Second Amendment shall not operate as a waiver of any right, power or remedy of the Purchasers under the Note Purchase Agreement, nor constitute a waiver of any provision of the Note Purchase Agreement, in each case, except as expressly provided herein. This Second Amendment shall constitute a Note Document for all purposes of the Note Purchase Agreement.

5. Governing Law. This Second Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York and all applicable federal laws of the United States of America.

6. No Novation. This Second Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Note Purchase Agreement and the other Note Documents or an accord and satisfaction in regard thereto.

7. Costs and Expenses. The Note Parties agrees to pay on demand all costs and expenses of Purchaser and Collateral Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for Purchaser and Collateral Agent with respect thereto.

8. Counterparts. This Second Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Second Amendment by facsimile transmission, electronic transmission (including delivery of an executed counterpart in .pdf format) shall be as effective as delivery of a manually executed counterpart hereof.

9. Binding Nature. This Second Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns. No third party beneficiaries are intended in connection with this Second Amendment.

10. Entire Understanding. This Second Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

11. Release. (a) Each Note Party hereby releases, acquits, and forever discharges Collateral Agent and each of the Purchasers, and each and every past and present subsidiary, affiliate, stockholder, officer, director, agent, servant, employee, representative, and attorney of Collateral Agent and the Purchasers (each a "Releasee"), from any and all claims, causes of action, suits, debts, liens, obligations, liabilities, demands, losses, costs and expenses (including attorneys' fees) of any kind, character, or nature whatsoever, known or unknown, fixed or contingent, which such Note Party may have or claim to have now or which may hereafter arise out of or connected with any act of commission or omission of Releasee existing or occurring on or prior to the date of this Second Amendment or any instrument executed on or prior to the date of this Second Amendment including, without limitation, any claims, liabilities or obligations arising with respect to the Note Purchase Agreement or the other of the Note Documents. The provisions of this paragraph shall be binding upon each Note Party and shall inure to the benefit of Releasees, and their respective heirs, executors, administrators, successors and assigns, and the other released parties set forth herein. No Note Party is aware of any claim or offset against, or defense or counterclaim to, any Note Party's obligations or liabilities under the Note Purchase Agreement or any other Note Document. The provisions of this Section shall survive payment in full of the Obligations, full performance of the terms of this Second Amendment and the Note Documents, and/or Collateral Agent's or each Purchaser's actions to exercise any remedy available under the Note Documents or otherwise. Each Note Party warrants and represents that such Note Party is the sole and lawful owner of all right, title and interest in and to all of the claims released hereby and each Note Party has not heretofore voluntarily, by operation of law or otherwise, assigned or transferred or purported to assign or transfer to any person any such claim or any portion thereof.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Second Amendment has been duly executed as of the date first written above.

CAPSTONE GREEN ENERGY CORPORATION, as the Company and as a Note Party

By: _____
Name:
Title:

Guarantors:

CAPSTONE TURBINE INTERNATIONAL, INC.

By: _____
Name:
Title:

CAPSTONE TURBINE FINANCIAL SERVICES, LLC

By: _____
Name:
Title:

BROAD STREET CREDIT HOLDINGS LLC as Purchaser

By: _____
Name:
Title:

GOLDMAN SACHS SPECIALTY LENDING GROUP, L.P. as Collateral Agent

By: _____
Name:
Title:

EXHIBIT A

Exhibit 5.18

- 1) Jefferies – Jeff Finger, (212) 708-2733, and Rich Morgner, Joint Global Head of Restructuring, (212) 284-1746;
- 2) Moelis – Bassam Latif, Restructuring, (713) 343-6422;
- 3) Perella Weinberg Partners – Bruce Mendelsohn, Restructuring, (212) 287-3177;
- 4) Evercore – Roopesh Shah, Restructuring, (212) 857-3100;
- 5) Focal Point Partners - Richard F. NeJame, (646) 343-9847;
- 6) Robert W. Baird & Co. – Durc A. Savini, Global Head of Restructuring, (646) 557-2732;
- 7) Piper Sandler – Spencer Rippstein, Global Co Head Energy, (713) 546-7326; and
- 8) Lazard – Doug Fordyce, Houston Office Head, (713) 236-4640.
- 9) Greenhill & Co. – Neil Augustine (212) 389-1539 and Vinod Chandiramani (212) 389-1573

EXHIBIT B

Exhibit 5.21

CAPSTONE GREEN ENERGY CORPORATION
CONSULTING AGREEMENT

This Consulting Agreement (“**Agreement**”) is entered into as of May 22, 2022 (“**Effective Date**”), by and between Capstone Green Energy Corporation (the “**Company**”), a Delaware corporation, and Capstone Engineered Solutions (“**Consultant**”), a California corporation. The Company desires to retain Consultant as an independent contractor to perform consulting services for the Company, and Consultant is willing to perform such services, on the terms described below. In consideration of the mutual promises contained herein, the parties agree as follows:

1. *Services and Compensation.* Consultant agrees to perform for the Company the services described in Exhibit A (the “**Services**”), and the Company agrees to pay Consultant the compensation described in Exhibit A for Consultant’s performance of the Services.

2. *Confidentiality.*

A. *Definition.* “**Confidential Information**” means any non-public information that relates to the actual or anticipated business or research and development of the Company, technical data, trade secrets or know-how, including, but not limited to, research, product plans or other information regarding Company’s products or services and markets therefore, customer lists and customers (including, but not limited to, customers of the Company on whom Consultant called or with whom Consultant became acquainted during the term of this Agreement), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering and hardware configuration information, marketing, finances or other business information. Confidential Information does not include information that (i) is known to Consultant at the time of disclosure to Consultant by the Company as evidenced by written records of Consultant, (ii) has become publicly known and made generally available through no wrongful act of Consultant, or (iii) has been rightfully received by Consultant from a third party who is authorized to make such disclosure.

B. *Nonuse and Nondisclosure.* Consultant will not, during or subsequent to the term of this Agreement, (i) use the Confidential Information for any purpose whatsoever other than the performance of the Services on behalf of the Company, or (ii) disclose the Confidential Information to any third party. Consultant agrees that all Confidential Information will remain the sole property of the Company. Consultant also agrees to take all reasonable precautions to prevent any unauthorized disclosure of such Confidential Information, including, but not limited to, informing each of Consultant’s officers, directors, employees, agents and contractors, if any, with access to any Confidential Information of the terms of this provision. Without the Company’s prior written approval, Consultant will not directly or indirectly disclose to any individual or entity the existence of this Agreement or the fact that Consultant has this arrangement with the Company.

C. *Former Employer Confidential Information.* Consultant agrees that Consultant will not, during the term of this Agreement, improperly use or disclose any proprietary information or trade secrets of any former or current employer of Consultant or other person or entity with which Consultant has an agreement or duty to keep in confidence information acquired by Consultant, if any. Consultant also agrees that Consultant will not bring onto the Company’s premises any

unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

D. *Third Party Confidential Information.* Consultant recognizes that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Consultant agrees that, during the term of this Agreement and thereafter, Consultant owes the Company and such third parties a duty to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person or entity or to use it except as necessary in carrying out the Services for the Company consistent with the Company's agreement with such third party.

E. *Return of Materials.* Upon the termination of this Agreement, or upon the Company's earlier request, Consultant will deliver to the Company all of the Company's property, including but not limited to all electronically stored information and passwords to access such property, or Confidential Information that Consultant may have in Consultant's possession, custody, or control.

3. *Ownership.*

A. *Assignment.* Consultant agrees that all copyrightable material, notes, records, drawings, designs, inventions, improvements, developments, discoveries and trade secrets conceived, discovered, developed or reduced to practice by Consultant, its officer(s), director(s), employee(s), contractor(s) or agent(s), solely or in collaboration with others, during the term of this Agreement that relate in any manner to the business of the Company that Consultant may be directed to undertake, investigate or experiment with or that Consultant may become associated with in work, investigation or experimentation in the Company's line of business in performing the Services under this Agreement (collectively, "**Inventions**"), are the sole and exclusive property of the Company. Consultant also agrees to assign (or cause to be assigned) and hereby assigns fully to the Company all Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions. Consultant hereby represents and warrants that Consultant has the full power and authority to enter into and perform the Services under this Agreement and can grant the rights to the Company in the Inventions resulting from the Services performed herein.

B. *Further Assurances.* Consultant agrees to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions in any and all countries, including the disclosure to the Company of all pertinent information and data with respect to all Inventions, the execution of all applications, specifications, oaths, assignments and all other instruments that the Company may deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive right, title and interest in and to all Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating to all Inventions. Consultant also agrees that Consultant's obligation to execute or cause to be executed any such instrument or papers shall continue after the termination of this Agreement.

C. *Pre-Existing Materials.* Subject to **Section 3.A**, Consultant agrees that if, in the course of performing the Services, Consultant incorporates into any Invention developed under this

Agreement any pre-existing invention, improvement, development, concept, discovery or other proprietary information owned by Consultant or in which Consultant has an interest, (i) Consultant will inform Company, in writing before incorporating such pre-existing invention, improvement, development, concept, discovery or other proprietary information into any Invention, and (ii) the Company is hereby granted a nonexclusive, royalty-free, perpetual, irrevocable, transferable, worldwide license to make, have made, modify, use and sell such item as part of or in connection with such Invention. Consultant will not incorporate any pre-existing invention, improvement, development, concept, discovery or other proprietary information owned by any third party into any Invention without Company's prior written permission.

D. *Attorney-in-Fact.* Consultant agrees that, if the Company is unable because of Consultant's unavailability, dissolution, mental or physical incapacity, or for any other reason, to secure Consultant's signature for the purpose of applying for or pursuing any application for any United States or foreign patents or mask work or copyright registrations covering the Inventions assigned to the Company in **Section 3.A**, then Consultant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Consultant's agent and attorney-in-fact, to act for and on Consultant's behalf to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyright and mask work registrations with the same legal force and effect as if executed by Consultant.

4. *Conflicting Obligations.*

A. *Conflicts.* Consultant certifies that Consultant has no outstanding agreement or obligation that is in conflict with any of the provisions of this Agreement or that would preclude Consultant from complying with the provisions of this Agreement. Consultant will not enter into any such conflicting agreement during the term of this Agreement. Consultant's violation of this Section 4.A will be considered a material breach under **Section 6.B**.

B. *Substantially Similar Designs.* In view of Consultant's access to the Company's trade secrets and proprietary information, Consultant agrees that Consultant will not, without the Company's prior written approval, design identical or substantially similar designs as those developed under this Agreement for any third party during the term of this Agreement and for a period of 12 months after the termination of this Agreement. Consultant acknowledges that the obligations in this **Section 4** are ancillary to Consultant's nondisclosure obligations under **Section 2**.

5. *Reports.* Consultant also agrees that Consultant will, from time to time during the term of this Agreement or any extension thereof, keep the Company advised as to Consultant's progress in performing the Services under this Agreement. Consultant further agrees that Consultant will, as requested by the Company, prepare written reports with respect to such progress. The Company and Consultant agree that the time required to prepare such written reports will be considered time devoted to the performance of the Services.

6. *Term and Termination.*

A. *Term.* The term of this Agreement will begin on the date of this Agreement and will continue until the earlier of (i) final completion of the Services, (ii) by the date set forth in Exhibit A hereto, or (iii) termination as provided in **Section 6.B**.

B. *Termination.* Either party may terminate this Agreement upon giving the other party 14 calendar days' prior written notice of such termination pursuant to **Section 11.E** of this Agreement. The Company may terminate this Agreement immediately and without prior notice if Consultant refuses to or is unable to perform the Services or is in breach of any material provision of this Agreement.

C. *Survival.* Upon such termination, all rights and duties of the Company and Consultant toward each other shall cease except:

(1) The Company will pay, within 30 calendar days after the effective date of termination, all reasonable amounts owed to Consultant for Services completed and accepted by the Company prior to the termination date and related expenses, if any, submitted in accordance with the Company's policies and in accordance with the provisions of Section 1 of this Agreement; and

(2) Section 2 (Confidentiality), Section 3 (Ownership), Section 4 (Conflicting Obligations), Section 7 (Independent Contractor; Benefits), Section 8 (Indemnification), Section 9 (Non-solicitation) and Section 10 (Arbitration and Equitable Relief) will survive termination of this Agreement.

7. *Independent Contractor; Benefits.*

A. *Independent Contractor.* It is the express intention of the Company and Consultant that Consultant perform the Services as an independent contractor to the Company. Nothing in this Agreement shall in any way be construed to make Consultant an agent, employee or representative of the Company. Without limiting the generality of the foregoing, Consultant is not authorized to bind the Company to any liability or obligation or to represent that Consultant has any such authority. Consultant agrees to furnish (or reimburse the Company for) all tools and materials necessary to accomplish this Agreement and shall incur all expenses associated with performance, except as expressly provided in Exhibit A. Consultant acknowledges and agrees that Consultant is obligated to report as income all compensation received by Consultant pursuant to this Agreement. Consultant agrees to and acknowledges the obligation to pay all self-employment and other taxes on such income.

B. *Benefits.* The Company and Consultant agree that Consultant will receive no Company-sponsored benefits from the Company. If Consultant is reclassified by a state or federal agency or court as Company's employee, Consultant will become a reclassified employee and will receive no benefits from the Company, except those mandated by state or federal law, even if by the terms of the Company's benefit plans or programs of the Company in effect at the time of such reclassification, Consultant would otherwise be eligible for such benefits.

8. *Indemnification.* Consultant agrees to indemnify and hold harmless the Company and its directors, officers and employees from and against all taxes, losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising directly or indirectly from or in connection with (i) any negligent, reckless or intentionally wrongful act of Consultant or Consultant's assistants, employees or agents, (ii) a determination by a court or agency that the Consultant is not an independent contractor, (iii) any breach by the Consultant or Consultant's

officers, directors, employees, contractors or agents of any of the covenants contained in this Agreement, (iv) any failure of Consultant to perform the Services in accordance with all applicable laws, rules and regulations, or (v) any violation or claimed violation of a third party's rights resulting in whole or in part from the Company's use of the work product of Consultant under this Agreement.

9. *Non-solicitation.* From the date of this Agreement until 12 months after the termination of this Agreement (the "**Restricted Period**"), Consultant will not, without the Company's prior written consent, directly or indirectly, solicit or encourage any employee or contractor of the Company or its affiliates to terminate employment with, or cease providing services to, the Company or its affiliates. During the Restricted Period, Consultant will not, whether for Consultant's own account or for the account of any other person, firm, corporation or other business organization, intentionally interfere with any person who is or during the period of Consultant's engagement by the Company was a partner, supplier, customer or client of the Company or its affiliates.

10. *Arbitration and Equitable Relief.*

A. *Arbitration.* Consultant agrees that any and all controversies, claims or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company, in its capacity as such or otherwise) arising out of, relating to or resulting from Consultant's performance of the Services under this Agreement or the termination of this Agreement, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "**Rules**") and pursuant to California law. CONSULTANT AGREES TO ARBITRATE, AND THEREBY AGREES TO WAIVE ANY RIGHT TO A TRIAL BY JUDGE OR JURY WITH RESPECT TO, ALL DISPUTES ARISING FROM OR RELATED TO THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO: ANY STATUTORY CLAIMS UNDER STATE OR FEDERAL LAW, CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE OLDER WORKERS BENEFIT PROTECTION ACT, THE CALIFORNIA FAIR EMPLOYMENT AND HOUSING ACT, THE CALIFORNIA LABOR CODE, CLAIMS OF HARASSMENT, DISCRIMINATION OR WRONGFUL TERMINATION AND ANY STATUTORY CLAIMS. Consultant understands that this Agreement to arbitrate also applies to any disputes that the Company may have with Consultant.

B. *Procedure.* Consultant agrees that any arbitration will be administered by the American Arbitration Association ("**AAA**"), and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. Consultant agrees that the arbitrator will have the power to decide any motions brought by any party to the arbitration, including discovery motions, motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Consultant agrees that the arbitrator will issue a written decision on the merits. Consultant also agrees that the arbitrator will have the power to award any remedies, including attorneys' fees and costs, available under applicable law. Consultant understands that the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA, except that Consultant shall pay the first \$200.00 of any filing fees associated with any arbitration Consultant initiates. Consultant agrees that the arbitrator will administer and conduct any arbitration in a manner consistent with the Rules and that, to the extent that the AAA's National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules will take precedence.

C. *Remedy.* Except as provided by the Rules, arbitration will be the sole, exclusive and final remedy for any dispute between the Company and Consultant. Accordingly, except as provided for by the Rules, neither the Company nor Consultant will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding the foregoing, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator shall not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

D. *Availability of Injunctive Relief.* In addition to the right under the Rules to petition the court for provisional relief, Consultant agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of Sections 2 (Confidentiality), 3 (Ownership) or 4 (Conflicting Obligations) of this Agreement or any other agreement regarding trade secrets, confidential information, non-solicitation or Labor Code §2870 (Inventions). In the event either the Company or Consultant seeks injunctive relief, the prevailing party will be entitled to recover reasonable costs and attorneys' fees.

E. *Administrative Relief.* Consultant understands that this Agreement does not prohibit Consultant from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board. This Agreement does, however, preclude Consultant from pursuing court action regarding any such claim.

F. *Voluntary Nature of Agreement.* Consultant acknowledges and agrees that Consultant is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. Consultant further acknowledges and agrees that Consultant has carefully read this Agreement and has asked any questions necessary to understand the terms, consequences and binding effect of this Agreement and fully understands it, including that Consultant is waiving its right to a jury trial. Finally, Consultant agrees that Consultant has been provided a more than reasonable opportunity to seek the advice of an attorney of its choice before signing this Agreement.

11. *Miscellaneous.*

A. *Governing Law.* This Agreement shall be governed by the laws of California without regard to California's conflicts of law rules.

B. *Assignability.* Except as otherwise provided in this Agreement, Consultant may not sell, transfer, assign or delegate any rights, responsibilities or obligations under this Agreement.

C. *Entire Agreement.* This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior written and oral agreements between the parties regarding the subject matter of this Agreement.

D. *Headings.* Headings are used in this Agreement for reference only and shall not be considered when interpreting this Agreement.

E. *Notices.* Any notice or other communication required or permitted by this Agreement to be given to a party shall be in writing and shall be deemed given if delivered personally or by commercial messenger or courier service, or mailed by U.S. registered or certified mail (return

receipt requested), or sent via facsimile (with receipt of confirmation of complete transmission) to the party at the party's address or facsimile number written below or at such other address or facsimile number as the party may have previously specified by like notice. If by mail, delivery shall be deemed effective three business days after mailing in accordance with this Section 11(E).

(1) If to the Company, to:
16640 Stagg Street, Van Nuys, California 91406
Attention: Legal Department
Telephone: (818) 734-5300
Facsimile: (818) 734-5320

(2) If to Consultant, to the address for notice on the signature page to this Agreement or, if no such address is provided, to the last address of Consultant provided by Consultant to the Company.

F. *Severability*. If any provision of this Agreement is found to be illegal or unenforceable, the other provisions shall remain effective and enforceable to the greatest extent permitted by law.

IN WITNESS WHEREOF, the parties hereto have executed this Consulting Agreement as of the date first written above.

CONSULTANT

CAPSTONE GREEN ENERGY

By: _____

By: _____

Name: Jim Crouse _____

Name: Don Ayers _____

Title: President _____

Title: VP, Technology _____

Tax ID#: On file _____

Address for Notice:
27812 Pollensa _____

Mission Viejo, CA 92692 _____

EXHIBIT A

Services and Compensation

1. *Contact.* Consultant's principal Company contact:

Name: Don Ayers; VP, Technology; dayers@cgrnenergy.com; 818-734-5134

2. *Term.* The term of this Agreement shall be through March 31, 2023.

3. *Services.* The Services shall include, but shall not be limited to the following:

- Powersync controller (PSMM, PSM, PSE) programming support for production, development test, and customer service, upon request
- Customer witness test support. Includes setup, dry runs, and witness test.
- Additional items that may be requested from time to time and mutually agreed upon in writing, in advance by the parties
- Provide training as requested to Capstone employees on above items.

4. *Fees and Payments:*

Capstone will pay to Consultant an hourly rate of \$ 150.00 per hour based upon monthly itemized invoices.

Capstone may request travel upon obtaining approval from Consultant. Capstone will reimburse Consultant's travel expenses not to exceed cost to the Company of \$2,000 per trip, unless specifically authorized. Mileage rates per IRS guidelines shall be used, currently set at \$0.585 per mile for 2022. Includes travel time to and from the locations, not to exceed eight (8) hours each way, or sixteen (16) hours total.

NATIONAL ACCOUNT AGREEMENT
between
Capstone Green Energy Corporation
("Capstone")
and
Capstone Engineered Solutions (CES)
("Purchaser")

1. **Introduction and Purpose.** This National Account Agreement (this "**Agreement**") is between Capstone, a Delaware corporation, located at 16640 Stagg St., Van Nuys, California 91406, and Purchaser, Capstone Engineered Solutions, a California Corporation, located at 27812 Pollensa, Mission Viejo, CA 92692 and is made as of this 20th day of May, 2022 (the "**Effective Date**"). Capstone and Purchaser may also be referenced herein individually as a "**Party**" and collectively as "**Parties**".
 - 1.1 Capstone manufactures MicroTurbine™ generator systems and accessories that can be used for electric power generation. Capstone also manufactures and sells replacement, maintenance or spare parts intended for use in the Products ("**Parts**").
 - 1.2 Purchaser desires to purchase certain products from Capstone as set forth in Exhibit 1.2 ("**Products**") for its own operation to provide energy as a service, globally and for resale as part of an energy solution, and perform services (as described in Section 4.2) on Products.
 - 1.3 Capstone authorizes Purchaser (i) to market, actively promote, and sell the Products, Parts, and Services in accordance with the terms and conditions as set forth in this Agreement; and (ii) to appoint dealers to market, actively promote and sell the Products, Parts, or Services in accordance with the terms and conditions as set forth in this Agreement ("**Dealers**"). This Agreement does not authorize Purchaser or Dealers to use the Products, Parts, or Services or provide services related to the Products, beyond the scope of this Agreement.
 - 1.4 Purchaser and Capstone desire to enter into this Agreement in order to agree and establish general terms and conditions of Capstone's future sales and deliveries of the Products and Parts to Purchaser.
2. **Term.** This Agreement will commence on the Effective Date and shall continue for Sixty (60) months unless terminated earlier in accordance with its terms. Thereafter, this Agreement will automatically for an additional Sixty (60) month periods unless Either Party provides the other Party with written notice of its intention not to renew this Agreement no later than one-hundred and eighty (180) calendar days prior to the end of the then current term.
3. **Capstone's Rights and Responsibilities.**
 - 3.1 **Sale and Supply of Products and Parts.** Capstone agrees to sell Products and Parts to Purchaser for its own use and operation, for purposes of resale to End Users or as part of an energy solution. Capstone will use reasonable efforts to supply Products and Parts ordered by Purchaser in the quantities and at the times mutually agreed between Capstone and Purchaser and under the terms and conditions set forth in this Agreement.
 - 3.2 **Changes to the Products or Parts.** Capstone may change the design, materials and means of manufacture, or otherwise modify, discontinue or limit production of the Products or Parts. Capstone reserves the right from time to time to allocate, terminate or limit deliveries of any Products or Parts.
4. **Purchaser's Rights and Responsibilities.**
 - 4.1 LEFT INTENTIONALLY BLANK
 - 4.2 **Services.** For Products that it owns and operates, Purchaser will establish a plan for the servicing of the Products, either by Capstone Factory Services ("CFS") or by Purchaser or an end user that has agreed to Capstone's End User Terms and Conditions ("End User") after it successfully completes Capstone's Authorized Service Provider ("ASP") training. In no event will Purchaser allow any party engaged by Purchaser to perform any of the functions of an ASP without successfully completing the applicable Capstone training, individually entering into an agreement with Capstone relating to such training, and maintaining his or her certification in accordance with requirements determined by Capstone. Purchaser will make reasonable efforts to enter into Capstone's Service Agreement for Services performed on the Products.
 - 4.2.1 **Application Engineering Services.** Purchaser agrees to provide all engineering, design, and planning required for the installation of the Products and for identifying the appropriate application("Application Engineering"). Purchaser may engage a qualified third party to perform Application Engineering on its behalf, but Purchaser must ensure that the Application Engineering complies with Capstone's specifications, and Purchaser will bear all responsibility and liability arising from the performance by Purchaser or third party engaged by Purchaser for the Application Engineering. Purchaser

acknowledges and agrees that compliance with Capstone specifications does not guarantee that Products will function in any particular application. In conjunction with the provision of the Application Engineering, Purchaser will ensure that all necessary permits, licenses, and agreements are obtained and/or executed on behalf of End User.

- 4.2.2 **Installation Services.** Purchaser agrees to coordinate and facilitate the services of a Capstone ASP to direct the installation ("Installation") of the Products and to be responsible for all other labor, materials, equipment, supplies and permits associated with such Installation. Purchaser may also perform Installations for its own Products. Purchaser will ensure that all Products are installed in accordance with Capstone's approved practices and procedures, in accordance with all applicable codes and requirements, laws and union regulations, and are operational as a precondition to the applicability of Capstone's warranty.
- 4.2.3 **Commissioning Services.** Purchaser agrees to be responsible for commissioning of the Products, and for all other labor, materials, equipment, supplies and permits associated with such Commissioning. "Commissioning" includes inspection of the existing installation, making or recommending any necessary adjustments to the existing installation, receiving or ensuring the End User receives operator training based on the Capstone Operations Manual, starting up the Product, and completing the then current Capstone commissioning checklist ("Commissioning Checklist"). Purchaser will ensure that all Products are commissioned in accordance with Capstone's approved practices and procedures and Commissioning Checklist as a precondition to the applicability of Capstone's warranty. Purchaser will submit a completed Commissioning Checklist to Capstone within fifteen (15) days of Commissioning.
- 4.2.4 **Warranty Services.** Purchaser will perform warranty service and provide warranty parts ("Warranty Services") consistent with Capstone's Warranties (as defined in Section 6) and Warranty policy and procedures in effect from time to time. Purchaser will make reasonable efforts to determine whether it or the End User has a valid claim under the Warranty and to identify and replace malfunctioning Parts covered by the Warranty promptly and efficiently in accordance with both the Warranties and Capstone's policies, procedures, manuals, technical service instructions and guidelines in effect from time to time. Capstone will retain the discretion to determine whether Purchaser or End User has a valid claim under the Warranty. Purchaser agrees to use only Parts authorized by Capstone, unless Capstone agrees otherwise in writing. Whenever possible, Purchaser agrees to use Parts that are remanufactured by Capstone for repairs covered by the Warranty. Purchaser will not recondition or retrofit any Product or Part and will follow Capstone's then current warranty reimbursement procedure ("Warranty Reimbursement Procedure") with respect to defective Products and Parts. Purchaser will keep all defective Products and Parts in a central location for a reasonable period of time, not to exceed six months from the date of the removal of such Products and Parts, for Capstone's inspection and, upon request from Capstone and at Capstone's expense, will promptly return some or all such defective Products and Parts to Capstone. Any such returned Products and/or Parts will become the property of Capstone. Purchaser will not instruct an End User to return any Product or Part directly to Capstone, and Purchaser will not do so itself. Purchaser will have the right and obligation to provide Warranty Services for all Products that it purchases.
- 4.2.5 **Maintenance and Repair Services.** Purchaser will perform maintenance service, parts support, service after warranty, FPP, and other maintenance or repair operations as may be necessary to ensure proper and efficient operation of the Products ("Maintenance and Repair Services"). Purchaser agrees to perform the Maintenance and Repair Services in compliance with Capstone's policies, procedures and manuals in effect from time to time. The provision of Parts and labor that are not covered by Warranty will be performed on a contract or time and materials basis. Purchaser will use only Parts authorized by Capstone, unless Capstone agrees otherwise in writing. Purchaser will provide Maintenance and Repair Services for all Products that it purchases.
- 4.2.6 **Call Center Services.** Purchaser will provide call center services twenty-four (24) hours per day and seven (7) days per week and dispatch field technicians to the extent required. Purchaser agrees to maintain a record of reported site events, commissioned equipment configurations (including serial numbers of original and replacement Parts) and field modifications installed on contracted systems by Purchaser. Prior to contacting Capstone's technical support engineers, Purchaser agrees to (i) act as the primary interface through direct communication with End Users concerning problems, defects, and failures related to the Products; (ii) search Purchaser's problem database for known problems and provide existing corrections, fixes, and directions for corrective action; and (iii) use reasonable best efforts to accomplish problem determination, isolate any problem to a specific component, and report and document such problems.

4.3 Exchange and Provision of Information.

- 4.3.1 **Warranty Information.** Upon notification to Purchaser that Capstone has received and accepted a completed Commissioning Checklist, the Capstone warranty on the Product will transfer from Purchaser to the End User (if Purchaser is not the End User). Purchaser will inform the End User that in order to maintain warranty coverage, all service and maintenance, including warranty services, parts support, and other maintenance or repair operations conducted on End User's Products must be performed and provided by CFS, Purchaser, or an ASC.
- 4.3.2 **Safety Notices and Operating Instructions.** Purchaser will provide the End User with all safety notices, operating instructions, and service bulletins for the Products issued by Capstone, including any updates, modifications or revisions to the safety notices, operating instructions, and service bulletins.
- 4.3.3 **Remote Monitoring Information.** Purchaser will inform End Users that every MicroTurbine[®] includes software and hardware which allow for the remote monitoring of performance of the Product and collection of information related to the Product.
- 4.3.4 **End User License.** Purchaser agrees to include Capstone's "**End User License**" in each agreement for sale of the Products entered into by Purchaser and End Users. Purchaser shall furnish a copy of such End User License to the End User upon delivery or Commissioning of each Product. Purchaser acknowledges that the delivery to End User of an End User License for each sale, is a material obligation under this Agreement. Capstone's End User License in effect on the Effective Date is attached hereto as Exhibit 4.3.4 to this Agreement.
- 4.3.5 **Information to Purchaser Personnel.** Purchaser agrees to provide all parties it engages with product and service bulletins prepared by Capstone within twenty-four (24) hours of receipt by Purchaser. Purchaser will notify Capstone if any bulletin is unclear or if Purchaser or requires further clarification. Purchaser will ensure that all parties it engages are informed and up to date with respect to Capstone service bulletins. Purchaser will also ensure that any action described or required by a service bulletin is performed on a timely basis by parties it engages on all Products sold by Purchaser.
- 4.3.6 **Information to Capstone.** Purchaser will provide Capstone with: (i) the location and use of each Product that is Commissioned by Purchaser; (ii) field service reports in accordance with Capstone's then current work instructions; and (iii) data collection services in the form of field service reports, Commissioning Checklists, warranty claims, and information collected in accordance with Section 4.2.4 and/or 4.2.6 of this Agreement.

4.4 Business Practices.

- 4.4.1 **Training.** Purchaser agrees to require parties it engages to participate in Capstone training in order to become knowledgeable about the Products, Parts and Services. Purchaser will pay the course fee and all travel, lodging, and related costs for sending personnel to attend such courses. At Purchaser's request, Capstone will send Capstone personnel to present training courses at Purchaser's location for parties engaged by Purchaser, provided that Purchaser will pay all travel, lodging, and related costs, including the course fee.
- 4.4.2 **Adequate Facilities, Staff, Equipment and Parts.** Purchaser will provide and maintain adequate service facilities, vehicles, tools, and a staff of trained service personnel in order to provide Services in a professional and timely manner. Purchaser agrees to purchase and maintain a sufficient inventory of Parts as recommended by Capstone's then current uniform parts inventory stocking guidelines (the "**Stocking Guidelines**") in effect from time to time and based upon Purchaser's field population of Products to be serviced. Capstone will replace any Parts on the Stocking Guidelines that become obsolete, however, if Purchaser decides to stock a Part that is not on the Stocking Guideline or to stock a quantity of Parts in excess of the Stocking Guidelines and such Parts become obsolete, Capstone will have no obligation to replace them.
- 4.4.3 **Professional Standards.** Purchaser agrees to ensure that all parties it engages comply with professional standards of conduct typical of a well run business in order to enhance and support the reputation and goodwill of Capstone and its Products and Parts. If, for any reason, Purchaser is unwilling, unable to or incapable of performing any of its obligations under this Agreement and Capstone has to act in order to ensure performance of its Products, whether or not Capstone terminates this Agreement as a result thereof, Purchaser shall reimburse Capstone for any and all reasonable costs or expenses incurred. Before taking remedial action under this Section 3.5.3, Capstone agrees to provide written notice to Purchaser and to provide Purchaser with an opportunity to cure its failure to perform. Such cure period will not exceed seven (7) days for Products that have been commissioned and are already in service or thirty (30) days for Products not yet commissioned.

- 4.4.4 **Insurance.** Purchaser will secure and maintain commercial general liability insurance, covering Purchaser and Purchaser's employees, with an admitted carrier (licensed to do business in the state in which Purchaser maintains its principal place of business) and with a carrier having at least an "A" BEST rating (a "**Permitted Carrier**"). Subject to increases that may be necessary due to End User requirements and usual and customary business practices, which may impact the following, such policies will include: (1) commercial general liability; (2) auto liability; (3) umbrella liability; (4) property; (5) professional liability; and (6) workers' compensation insurance (which is an actual workers' compensation policy) each with a Permitted Carrier and at limits no less than those described in Exhibit 4.4.4 to this Agreement. No coverage of any kind will include exclusions with respect to microturbines and associated parts and accessories. Such coverage will be primary and non-contributory. The Commercial General Liability policy will include Capstone as an additional insured. All policies will afford a thirty (30) calendar day prior written notice of cancellation, reduction of coverage, change of terms and conditions and/or renewals and all policies will include a waiver of subrogation by the carrier in favor of Capstone. Periods for such coverage will be concurrent with all underlying coverage. Coverage will be afforded using the same policy form as all underlying liability coverage. Purchaser will annually provide Capstone a certificate of insurance evidencing such coverage. All coverage will be on either an occurrence basis or a claims made basis. If the coverage is on a claims made basis, Purchaser hereby agrees that prior to the effective date of termination of Purchaser's current insurance coverage, Purchaser will either procure a replacement policy having a retroactive date no later than the Effective Date of this Agreement or purchase unlimited tail coverage in the amounts required in this Exhibit 4.4.4 for all claims arising out of incidents occurring prior to termination of Purchaser's current coverage or prior to termination of this Agreement and provide Capstone a certificate of insurance evidencing such coverage. The total premium costs for such tail coverage will be borne by Purchaser.
- 4.4.5 **Operations and Expenses.** Unless otherwise expressly set forth in this Agreement, Purchaser is responsible for all of its own expenses and parties it engages in performance of its obligations under this Agreement. Purchaser will provide such office space and facilities, and hire and train such personnel, as may be required to carry out its obligations under this Agreement. Purchaser agrees that it will incur no expense chargeable to Capstone, except as may be specifically authorized in advance in writing in each case by Capstone.

5.0 Orders, Pricing, Payment

- 5.1 **Customer Relations Management and Communications Tool; Annual Forecasts.** Beginning 30 (30) days from the Effective Date, Purchaser will utilize Capstone's Customer Relations Management ("CRM") system through Salesforce.com. On an annual basis at the beginning of each of Capstone's fiscal years, Purchaser shall provide good faith projections of the sale of Products for the following twelve months. Purchaser's non-binding forecasts will reflect Purchaser's good faith expectations of total End User demand, and Purchaser will act in a commercially reasonable manner in developing its forecasts to avoid creating production capacity problems for Capstone.
- 5.2 **Application Information.** Purchaser will provide Capstone with the location where the Products will be installed and the proposed application for the Products. Purchaser agrees to provide this information using Capstone's Application Information Form which shall be provided to Purchaser upon request. Purchaser understands and agrees (and will advise End Users) that the implementation and final design of the application is solely the responsibility of Purchaser and End User and Capstone in no way guarantees or warrants any aspect of the design or application or ensures performance.
- 5.3 **Pricing.** Capstone will price Products and Parts according to its price lists which may be modified from time to time, with thirty (30) days advance written notice of the effective date of such change. Purchaser will receive a Twenty Five percent (25%) discount on all new Products purchased by Purchaser and a Twenty percent (20%) discount on all Parts and FPP's (collective the "**Discount**") purchased by Purchaser. Purchaser will pay Capstone the prices derived by applying the Discount to the list prices in effect at the time an Order is acknowledged. All pricing and payments will be made in U.S. dollars. Purchaser will pay all taxes, duties, tariffs, freight, freight packaging, and insurance for the Products, accessories and Parts.
- 5.4 **Ordering Requests.** To order Products and/or Parts (an "**Order**"), Purchaser will deliver to Capstone an ordering request ("**Ordering Request**") through its CRM, Salesforce.com, which identifies the model number, configuration, quantity, proposed delivery date, and price for each Product and/or Part ("**Order Price**") ordered under this Agreement, along with bill-to and shipping addresses and a non-refundable deposit of twenty percent (20%) of the Order Price ("**Deposit**"). Such Ordering Request shall not contain, and Capstone shall not be bound by, any terms or conditions in addition to or different from those described in this Agreement. All Orders are subject to acceptance by Capstone and Capstone reserves the right to refuse an Order on any basis. If Capstone

accepts an Order from Purchaser, Capstone will issue to Purchaser an acknowledgement of such order ("**Order Acknowledgement**").

- 5.5 **Payment Terms.** The purchase price less the Deposit, plus any other amounts payable by Purchaser must be paid to Capstone via one of the following methods: (i) an irrevocable Letter of Credit (defined below) for the full value of the Order delivered to Capstone no less than one week prior to the Target Shipment Date (defined below); or (ii) cash payment via bank wire to Capstone's designated account with wire acceptance by Capstone's bank no less than one week prior to the Target Shipment Date (defined below). All prices are in US dollars.
- 5.6 **Order Cancellation.** Capstone's fixed manufacturing window is the time period during which components are allocated against an Order, parts are staged, subassemblies are built, and the Products are assembled. The fixed manufacturing window is six weeks prior to the acknowledged shipment date of an Order ("**Fixed Manufacturing Window**"). Orders cancelled prior to the Fixed Manufacturing Window are subject to a cancellation charge, which will be satisfied by Capstone's retention of any Deposit. If Purchaser cancels an Order within the Fixed Manufacturing Window, Purchaser will forfeit any Deposit, pay Capstone when invoiced an additional cancellation charge of 10% of the total value of the cancelled Order, plus a charge to be determined by Capstone on a case-by-case basis for restocking of parts and expenditure of labor, which charge will not exceed a maximum of 50% of the total value of the cancelled Order.
- 5.7 **Order Changes.** Purchaser may change the specifications of an Order ("**Order Change**"), and such Order Change will be considered subject to material availability and manufacturing capacity. Order Changes may affect the shipping date, will be subject to re-pricing, and may be subject to a change fee which will be determined by Capstone on a case-by-case basis for any costs incurred by Capstone as a result of the Order Change. Deletions to an Order are subject to the provisions of the order cancellation policy as stated in [Section 5.6](#).
- 5.8 **Compensation for Warranty Repairs; Service Parts.** Capstone will compensate Purchaser for services associated with repairs covered by the Warranties upon receipt and approval of a valid warranty claim form per Capstone's Warranty Reimbursement Procedure. In order to qualify for compensation, Purchaser must: (i) be current on all payments owed to Capstone, (ii) provide Capstone with written notice of claims covered by the Warranty within thirty (30) calendar days after the claimed warranty event, and (iii) must provide proof of purchase of the Part for which End User seeks coverage under the Warranty. Capstone will pay Purchaser for its labor based on the "**Warranty Reimbursement Rate**" (attached as [Exhibit 5.7](#)) and based on Capstone's then current Warranty Service Flat Rate Schedule for the removal and replacement of serviceable components for removal and replacement of serviceable components. Capstone will reimburse Purchaser for the price of Parts owned by Purchaser at the time of the failure and used by Purchaser to provide Services covered by the Warranties at the rate of ten percent (10%) below the then current recommend list price. However, in the event that Purchaser did not stock the Part required for a warranty repair, such Part will be provided by Capstone with no compensation to Purchaser for the Part. Capstone reserves the right to verify any claims that a Product requires service under the Warranties. If Capstone determines that any Product or Part is free from material defects or otherwise conforms to Capstone's obligations and Warranties under this Agreement, Purchaser will pay all reasonable costs of such determination, including any labor, travel, transportation and shipping expenses.

6.0 Shipment

- 6.1 **Target Shipment Date.** Upon issuance of the Order Acknowledgement, Capstone will establish a target date or range of dates when the Order will be ready for shipment ("**Target Shipment Date**"). If Capstone and Purchaser agree, Capstone may ship ahead of the Target Shipment Date. Capstone will inform Purchaser of any changes to current lead times or to the acknowledged Target Shipment Date as information becomes available. Notwithstanding the issuance of an Order Acknowledgement, Capstone reserves the right, in its sole discretion, to refuse to ship an Order if Purchaser is in breach of payment terms or any other material provision of this Agreement and such breach has not been cured (if a cure period is contemplated by this Agreement for such a breach).
- 6.2 **Shipment.** All shipments will be made EXW Capstone's facility (as EXW is defined in Incoterms 2010). As a courtesy to Purchaser, Capstone may arrange for shipment of the Order on its preferred carrier, unless a carrier is specified by Purchaser in the Ordering Request. For Orders not picked up within one (1) week of notification that the Orders are ready for shipment, Capstone may, at its sole option, ship the Orders via its preferred carrier to the ship-to address specified in the Ordering Request at Purchaser's expense. All transportation, insurance, freight, shipping and handling costs, fees, duties, or taxes incurred by Capstone will be invoiced to Purchaser either with the delivery/shipment invoice or at the end of each calendar month. Title will pass to Purchaser on shipment. Transportation insurance coverage procured by either Party will, at a minimum, cover one hundred and ten percent (110%) of the total value of the Order.
- 6.3 **Shipment Changes.** Requests to extend the Target Shipment Date will be considered on a case-by-case basis, but the Order Price may be affected if a price increase occurs between the original and the new shipment date.

Additionally, Capstone may charge a fee of 1% per week for requested extensions of the shipment date, up to a maximum of 60% of the Order Price. Capstone will have the right to set off any claim Capstone may have as a result of an extension in the shipment schedule. Requests for shipment dates earlier than the Target Shipment Date will be considered on a case-by-case basis subject to manufacturing capacity and material availability, and may be subject to an increase in Order Price.

7.0 Representations and Warranties; End User License.

7.1 Purchaser represents, warrants, and covenants that: (i) it is qualified to do business in every jurisdiction in which such qualification is necessary and has the right, power, and authority to enter into this Agreement and to perform fully its obligations hereunder; (ii) the entering into of this Agreement by it does not violate any agreement existing between it and any other person or entity; (iii) it has obtained or will obtain all licenses and permits necessary for it to perform its obligations under this Agreement; and (iv) all information provided by Purchaser to Capstone concerning the intended use of the Products and Parts and its ability to pay for the Products and parts is complete and accurate. Purchaser acknowledges that compliance with this Section 7.1 is a material obligation under this Agreement.

7.2 **End User License.** Purchaser acknowledges and agrees that the Products are sold subject to the “End User License” as set forth in Exhibit 7.2 of this Agreement. Purchaser agrees to be bound by the terms as set forth in the End User License. Purchaser acknowledges and agrees that every Capstone microturbine includes software and hardware which allow for the remote monitoring of performance of the Product and collection of information related to the Product and that Capstone will regularly utilize the remote monitoring software and hardware to access and obtain information related to the Product and/or its use. Purchaser will not impeded or deny remote monitoring by Capstone under any circumstances. Purchaser acknowledges that compliance with this Section 7.2 is a material obligation under this Agreement.

8. Capstone’s Warranties. Capstone’s warranties in effect on the Effective Date are attached as Exhibit 8 to this Agreement (“Warranties”).

8.1 **Transfer of Warranties.** Capstone provides the Warranties to Purchaser. Upon notification to Purchaser that both Capstone and End User (if applicable) have received and accepted a completed Commissioning Checklist, the then unexpired portion of the Warranties will transfer from Purchaser to End User (if applicable). With the exception of this permitted transfer, the Warranties may not be sold or transferred to any other party. The Warranties will not apply until an authorized party has completed Installation and Commissioning of the Product, completed Capstone’s Commissioning Checklist, and Purchaser has received notification that both Capstone and End User (if applicable) have received and accepted a completed Commissioning Checklist.

8.2 **Condition to Effectiveness of Warranties.** Among other conditions that may be specified in the Warranties, the Warranties shall only apply to a Product if: (a) the Installation was properly performed by an ASP; and (b) both Capstone and Purchaser and End User (if applicable) have accepted Capstone’s Commissioning Checklist completed by a party authorized by Capstone. No Warranty will apply unless all service and maintenance, including warranty services, parts support, and other maintenance or repair operations conducted on any Products is performed and provided by Purchaser, an ASP, or CFS. No warranty shall apply if Purchaser repackages, or changes in any manner, the “as-shipped” configuration of any Product or Part without express written consent by Capstone.

8.3 **Additional Warranties.** Capstone shall have no obligation with regard to any warranties given by third parties which are beyond the obligations provided in the Warranty for the applicable Product, Parts or Services.

8.4 **Changes to Terms of Warranties.** Capstone may modify, change or revise the Warranties at any time upon notice to Purchaser, with such modifications, changes or revisions applicable for any Products or Parts that are ordered after the date of any such modification, change or revision. In such event, the modified warranties will apply only to orders not yet placed by the Purchaser.

8.5 **Refurbishment of New Unused Products.** In the event that Installation and Commissioning are delayed and the applicable Warranties expire on any Products in Purchaser’s possession, Purchaser may have the Products refurbished by Capstone at Purchaser’s expense. Once refurbishment is complete, the refurbished Products shall be covered by the Capstone Turbine Corporation New System Limited Warranty or the Capstone Turbine Corporation Signature Series New System Limited Warranty, as applicable, as if such refurbished Products were newly manufactured.

8.6 **Exclusive Remedy.** Purchaser’s and End User’s exclusive remedy shall be correction of nonconformities in the manner and for the time provided in the Warranties. Performance by Capstone in the manner specified shall constitute fulfillment of all liabilities of Capstone (including any liability for direct, indirect, special, incidental or consequential damage) whether in warranty, contract, negligence, tort, strict liability, or otherwise with respect to any non-conformance of or non-conformity or deficiency in the Product supplied.

8.7 Conflicting Provisions. The foregoing limitations of Capstone's warranty obligations and Purchaser's and End User remedies, as provided for in this Section 8, shall prevail over any conflicting or inconsistent provisions contained in any Ordering Request that may be issued pursuant thereto.

9. Trademarks and Branding. Capstone confirms and Purchaser acknowledges that Capstone is the owner of all right, title, and interest in and to the Capstone trademarks. Purchaser shall have no ownership, right, title, or interest in and to the Capstone trademarks. Purchaser will have the right, for so long as this Agreement remains in effect, to use the Capstone trademarks solely in marketing and renting Products and Parts under the terms and conditions of this Agreement and in accordance with Capstone's specifications as to style, color, and typeface for the Capstone trademarks as specified in the Policy Manual. Purchaser shall have no right to register any Capstone trademark and all good will in the Capstone trademarks shall inure to the sole benefit of Capstone. Upon the termination of this Agreement, Purchaser shall take all action necessary to transfer and assign to Capstone or Capstone's nominee any right, title, or interest in or to any Capstone trademarks that Purchaser may have acquired in any manner as a result of the marketing or renting, of any Product or Part, and Purchaser shall cease using any Capstone trademarks.

10. Financial Records. Upon request, Purchaser may provide a statement evidencing its financial condition. If Purchaser is:

10.1 Publicly held, its Annual Report will satisfy this requirement.

10.2 Privately held, it will prepare/provide a consolidated financial statement (certified as true and correct by an authorized party of Purchaser) to Capstone's Chief Financial Officer ("CFO").

11. Term and Termination.

11.1 Term. This Agreement may be renewed by mutual written agreement of the Parties. Renewal of this Agreement may be initiated by either Party. Each Party will endeavor to provide the other Party with written notice of its intention to renew this Agreement no later than sixty (60) calendar days prior to the end of the then current term. If the Parties agree to a renewal of this Agreement, then this Agreement will continue for such term and on such terms and provisions as the Parties mutually agree. If the Parties do not reach agreement, this Agreement will expire at the end of the then current term.

11.2 Termination for Cause. Either Party may terminate this Agreement immediately by delivering to the other Party written notice of such termination in the event of any of the following:

11.2.1 Breach of any material term or condition of this Agreement;

11.2.2 Breach of any non-material term or condition of this Agreement that continues uncured for thirty (90) calendar days following written notice thereof;

11.2.3 Breach of the confidentiality or nondisclosure provisions contained in this Agreement, or the breach of any NDA (as defined below) by either Party or by the parties engaged by either Party;

11.2.4 Any attempted or actual transfer or assignment of this Agreement or any right or obligation hereunder, whether by operation of law, change of control or otherwise, without the prior written approval of the other Party;

11.2.5 Failure to pay when due any amount owed to the other Party that goes uncured more than 90 days;

11.2.6 Execution of an assignment for the benefit of creditors, or the commencement by or against a Party of voluntary or involuntary proceedings (which are not dismissed within sixty (60) calendar days) under any bankruptcy, reorganization, or similar laws of any jurisdiction, or if any order shall be made or any resolution passed for the winding up, liquidation or dissolution of the Party, if a receiver is appointed for it for all or substantially all of its assets, or if a substantial portion of its goods or properties shall be taken in execution;

11.2.7 The Party ceases to do business or otherwise terminates its business operations relevant to this Agreement;

11.2.8 Control of Purchaser is obtained directly by any competitor of Capstone who is engaged in the marketing, sale or service of products competing with Capstone Products;

11.2.9 The Party merges into any entity, or the Sale of a Controlling Stock Interest (as defined below) in the Party occurs, in each case other than in a transaction in which the person or persons controlling the surviving, continuing or acquiring person after the transaction is or are substantially identical to the person or persons controlling the Party before the transaction. For purposes hereof, "Sale of a Controlling Stock Interest" means the acquisition by any "person" or "group" as such terms are defined under the Securities Exchange Act of 1934, of 50% or more of the voting securities of the Party; or

11.3 Left Intentionally Blank

- 11.4 **Deliveries.** In the event Capstone terminates this Agreement for cause, deliveries for Orders committed to by Capstone prior to either notice of termination or the date of the termination may continue, at Capstone's sole option, if at all, in accordance with the existing delivery schedule, which Purchaser may not reschedule. In the event Purchaser terminates this Agreement for cause or either Party terminates this Agreement for convenience, deliveries will continue in accordance with the existing delivery schedule, which neither Party may reschedule.
- 11.5 **Payment.** Termination of this Agreement for any reason shall not release Purchaser or Capstone from paying any amount that such Party may then owe to the other Party and such amounts shall become immediately due and payable on the date of termination. Termination does not relieve Purchaser of the obligation to pay for Products or Parts ordered prior to either notice of termination of this Agreement or the termination of this Agreement and shipped by Capstone. In the event Capstone does not ship an Order, as permitted by Section 11.4, the Order shall be deemed cancelled and shall be subject to the provisions of the order cancellation policy as stated in Section 5.6.
- 11.6 **Survival After Termination.** All provisions of this Agreement that contemplate performance or observance following its termination or expiration, including, but not limited to, Sections 11.5, 12, 13 and 17 of this Agreement and any NDA (as defined below), shall survive its termination or expiration.
- 11.7 **No Waiver for Failure to Terminate.** The failure by either Party to terminate this Agreement for a default or breach of this Agreement shall not constitute a waiver of the right to terminate this Agreement for any default or breach or any other or subsequent default or breach.
- 11.8 **Effect of Termination Notice.** Upon written notification from either Party of its intent to terminate for cause or for convenience (a "**Termination Notice**"), Purchaser shall not issue new contracts to provide Service, or extend or renew any contracts to provide Service following the date of such Termination Notice.
- 11.9 **Assignment of FPP Contracts Upon Termination.** Upon termination of this Agreement, Capstone will have the right of first refusal to assume some or all of Purchaser's FPP contracts. ("**Assigned FPP Contracts**"). Purchaser agrees to provide to Capstone the complete files and documentation maintained by Purchaser for each Assigned FPP Contract so that Capstone may continue FPP services seamlessly to such End User. Purchaser and Capstone will determine the appropriate amount of compensation due either party for each Assigned FPP Contract on a case-by-case basis. Purchaser will provide all reasonable assistance to Capstone to fulfill the FPP service obligations under the Assigned FPP Service Contracts and/or to secure a qualified replacement for Purchaser.
- 11.10 **No Ongoing Rights.** Following any termination or expiration of this Agreement, Purchaser agrees that Purchaser will have no continuing right to serve the Products and provide Parts and Services (other than Purchaser's existing obligations to provide Services which are not obligations owed pursuant to Assigned Service Contracts) regardless of when and under what circumstances this Agreement is terminated.
- 12. Confidential Information and Intellectual Property.**
- 12.1 **Definitions. "Confidential Information"** means any information disclosed by a Party hereto (the "**Disclosing Party**") to the other Party (the "**Recipient**") or derived or learned as a result of the disclosure of Confidential Information or incident to the relationship governed by this Agreement, either directly or indirectly, in writing, orally or by inspection of tangible objects that relates to:
- 12.1.1 "**Intellectual Property**," which means all ideas, concepts, processes, techniques, inventions, innovations, products, formulas, technologies, know-how, data, discoveries, works of authorship, copyrightable works, patent rights, trade secret rights, copyright rights, trademark rights, service mark rights, or other intellectual property arising out of, embodied in, or related to the Products or Parts or the technology of a Party, and any enhancements, improvements, derivative works, and other derivations thereof, whether now in existence or hereafter developed, invented or otherwise derived; and/or
- 12.1.2 "**Business Information**," which means any and all (i) internal business procedures and business plans, including, but not limited to, distribution, resale, and licensing information and techniques, processes and equipment, technical and engineering data, vendor names and information, ideas for new technology and products; (ii) marketing information and materials, such as marketing and development plans, forecasts and assumptions, financial data, price lists, policies and procedures, and customer and prospect lists and data; (iii) this Agreement and/or any of the terms and provisions of this Agreement, the business relationship of the Parties; and (iv) other such information that relates to the way in which the Disclosing Party conducts its business, in each case whether tangible or intangible, whether in written, oral, chemical, magnetic, photographic, optical or other form, in all stages of research and development, and whether now existing, or developed or created at any time during the term of this Agreement.

- 12.1.3**Exclusions.** Notwithstanding anything to the contrary contained in this Agreement, Confidential Information shall not include any information that a Recipient can establish, by means of its written records or other competent, written evidence: (i) was publicly known and available in the public domain prior to the time of disclosure to the Recipient by the Disclosing Party; (ii) becomes publicly known and available in the public domain after disclosure to the Recipient by Disclosing Party through no action or inaction of Recipient; (iii) is lawfully in the possession of Recipient at the time of disclosure by the Disclosing Party; (iv) is independently developed by Recipient without use of or reference to the Disclosing Party's Confidential Information by individuals who were not exposed to Disclosing Party's Confidential Information; or (v) is received from a third party who is not subject to any duty of confidentiality to the Disclosing Party.
- 12.2 **Confidential Information.** A Recipient shall not disclose or use Confidential Information of the Disclosing Party for any purpose other than expressly allowed under this Agreement and shall take all reasonable and prudent measures necessary to protect the Confidential Information of the Disclosing Party. Each Recipient further acknowledges that, without limiting any other remedies available under this Agreement, any disclosure of the Disclosing Party's Confidential Information in violation of this Agreement constitutes irreparable injury to the Disclosing Party that will entitle the Disclosing Party to injunctive relief. To the extent that the Parties have entered into a nondisclosure agreement ("**NDA**") prior to the execution of this Agreement, the terms of such NDA are incorporated by reference into this Agreement. The terms of this Agreement shall prevail over any conflicting or inconsistent provisions contained in the NDA. The Parties' obligations under the foregoing provisions shall remain in effect and continue to bind the Parties for five (5) years after the expiration or earlier termination (for any reason) of this Agreement; provided, however, Recipient's obligation to maintain the secrecy of Capstone's trade secret information shall continue for so long as such information is entitled to trade secret protection under California law.
- 12.3 **Product Modification and Reverse Engineering.** Purchaser shall not in any manner, directly or through others, modify or disassemble for the purpose of reverse engineering any Products or Parts.
- 12.4 **Ownership of Confidential Information, Intellectual Property Rights.** All Intellectual Property rights and Confidential Information relating to Products, Parts, and Services, and all other information provided by Capstone to Purchaser under this Agreement, shall remain the sole property of Capstone and shall be returned promptly to Capstone upon termination or expiration of this Agreement (alternatively, Purchaser may provide certification that such documents, copies thereof and notes and memoranda containing such Capstone Confidential Information have been destroyed such that no Capstone Confidential Information may be gleaned from them).
- 12.5 **Third Party Obligations for Confidential Information, Intellectual Property Rights.** If Purchaser engages or uses any third party in the execution of any of its obligations under this Agreement, Purchaser shall cause each such third party to be bound by an enforceable written agreement, of which Capstone is expressly made a third party beneficiary, with terms and conditions protecting Capstone's Intellectual Property and Confidential Information, and shielding Capstone from liabilities of all types, that are at least as stringent as those set forth in this Agreement. Purchaser represents and warrants that each such written agreement, which does not include Capstone as a signatory party, shall be enforceable against the third party by Capstone.
- 12.6 **Ownership of Intellectual Property Rights for Development Efforts.** The Parties shall endeavor to establish their respective intellectual property rights prior to undertaking any development efforts. In the absence of such determination of rights, and subject to Section 12.4 above, the Parties shall jointly own any rights to new technology or to improvements to existing technology that result from any development efforts. The Parties shall cooperate to ensure protection of those rights, whether by patent, trade secret, trademark, copyright, or other such protection; provided, however, that in the event of any such rights that are jointly owned, neither Party shall be required to account to the other Party for any exploitation of those jointly owned rights.
- 12.7 **Press Releases.** Press releases and other like publicity, which mentions this Agreement or the other Party by name, shall not be released without the prior written consent of the other Party, which consent will not be unreasonably withheld. No such prior written consent shall be required if the foregoing information is enclosed in disclosure reports and filings which either Party is required to make as a matter of law.
13. **Compliance with Applicable Law.** Purchaser shall ensure that the Services and use of Products and/or Parts, comply with all applicable laws, rules, regulations and standards in jurisdictions in which they are being used. Purchaser shall obtain and maintain, at its sole expense, any and all certifications, licenses, other authorizations, ratings, approvals and interconnection arrangements required or advisable under the applicable laws and in all jurisdictions in connection with installation, commissioning and use of Products and/or Parts. Without limiting the generality of the foregoing, Purchaser shall supply and fit all signs and safety notices to the Products and Parts and

make available all information required to ensure that Installation complies with applicable local laws and regulations. Capstone shall assist Purchaser where possible by all reasonable means in obtaining such approvals.

13.1 **Improper Payments.** Purchase and Capstone represent and warrant that they have not made, or promised to make, any payment to any public official in violation of the United States Foreign Corrupt Practices Act or other applicable laws. Purchaser and Capstone represent and warrant that they are aware of the applicable United States regulations governing bribery, agency, and government purchases and any other relevant regulations and that they shall comply with such rules and regulations. Each Party agrees to indemnify and hold the other harmless from and against the consequences of a violation by it of this provision.

13.2 **Export Regulations.** Purchase represents and warrants that it has and will comply in all material respects with all provisions of United States export regulations and laws. Purchaser acknowledges that it has read and is familiar with these regulations and laws and will, for a period of at least two (2) years after the expiration or earlier termination of this Agreement, fully comply with all provisions of these regulations and shall permit Capstone's representatives and/or representatives of the United States government to inspect all such records as may be required. Purchaser agrees to provide Capstone, upon Capstone's request, with copies of bills of lading and other shipping documentation in order to demonstrate Purchaser's compliance with the foregoing. Purchaser will obtain written assurance from End Users of the Products that they are not intended to be used for any purpose prohibited by United States export laws and regulations and will provide Capstone with such information and documentation as Capstone reasonably requests in order to verify that Purchaser's export of the Products complies with applicable United States export regulations and laws

14. **DISCLAIMER.** EXCEPT AS SET FORTH IN SECTION 7.2 (PURSUANT TO CAPSTONE'S END USER LICENSE) AND SECTION 8 (FOR THE WARRANTY GIVEN TO PURCHASER) NO OTHER WARRANTIES, EXPRESS, IMPLIED, OR STATUTORY ARE GIVEN IN RESPECT OF PRODUCTS OR PARTS, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND ALL SUCH WARRANTIES HEREBY ARE EXPRESSLY DISCLAIMED.

15. **Intellectual Property Infringement Protection.**

15.1 Capstone, at its own expense, will defend or at its option settle, any claim, suit or proceeding brought against Purchaser, and pay any liabilities, damages and costs awarded in any such suit or proceeding, if the suit or proceeding is based on a claim that a Product or Part infringes any United States Intellectual Property right of any third party (other than those arising out of conditions described in Section 15.3). Capstone shall have the liability expressed in this paragraph with respect to a claim that a Product or Part infringes any United States Intellectual Property right of any third party, provided that:

15.1.1 Purchaser or its End User, as applicable, notifies Capstone in writing within ten (10) calendar days of the receipt of any such claim;

15.1.2 Capstone has sole control of the defense of such claim and all related settlement negotiations;

15.1.3 Purchaser and its End User makes no admission of any such alleged infringement; and

15.1.4 Purchaser and its End User, as applicable, provides Capstone with assistance, information and authority necessary to perform Capstone's duties under this paragraph. Capstone will reimburse Purchaser for its reasonable and out-of-pocket costs in support of Capstone's request for such assistance or information.

15.2 If a Product or Part is held, or believed by Capstone, to infringe any United States Intellectual Property right of a third party, Capstone shall have the sole option in its sole discretion and at its sole expense to:

15.2.1 modify the Product or Part to cause the same to be non-infringing;

15.2.2 obtain a license to continue using the Product or Part for Purchaser; or

15.2.3 refund the fees paid for the Product or Part upon return of such Product or Part to Capstone at its expense, depreciated over a three (3) year period.

Capstone shall have the right to refuse to supply additional Products or Parts subject to a claim or threatened claim of infringement.

15.3 In no event shall Capstone be liable for any claim of infringement, and Purchaser and End User agree to protect and defend Capstone in the same manner and extent that Capstone has agreed to defend Purchaser as set forth in Section 15.1, when such claim is based on the use of any Product or Part altered in whole or in part by Purchaser and/or its End User or used in connection with any equipment, process, software or technology other than that necessary for use of the Product or Part for the particular application as contemplated by the Capstone Operations Manual and all applicable specifications.

15.4 THE FOREGOING STATES THE EXCLUSIVE LIABILITY OF CAPSTONE FOR INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS UNDER THIS AGREEMENT, AND IS IN LIEU OF ALL WARRANTIES,

EXPRESS, IMPLIED OR STATUTORY IN REGARD TO THOSE ITEMS, INCLUDING, WITHOUT LIMITATION, THE WARRANTY AGAINST INFRINGEMENT SPECIFIED IN THE UNIFORM COMMERCIAL CODE. The limitations contained in Section 16.1 of this Agreement shall also apply.

15.4 Purchaser agrees to provide the End User with the information contained in this Section.

16. Limitation of Liability in General.

16.1 Independent of, severable from, and to be enforced independently of any other enforceable or unenforceable provision of this Agreement, CAPSTONE SHALL NOT BE LIABLE FOR INCIDENTAL, CONSEQUENTIAL, INDIRECT, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES OF ANY KIND; OR FOR: LOST GOODWILL, LOST PROFITS, LOST BUSINESS, COST OF COVER OR OTHER INDIRECT ECONOMIC DAMAGES, AND FURTHER INCLUDING INJURY TO PROPERTY, WHETHER SUCH CLAIM IS BASED ON THEORIES OF CONTRACT, NEGLIGENCE, TORT (INCLUDING STRICT LIABILITY) OR OTHERWISE AS A RESULT OF BREACH OF ANY WARRANTY OR OTHER TERM OF THIS AGREEMENT, REGARDLESS OF WHETHER CAPSTONE WAS ADVISED, HAD OTHER REASON TO KNOW, OR IN FACT KNEW OF THE POSSIBILITY OF SUCH DAMAGES.

16.2 Capstone's aggregate liability to Purchaser with respect to any claims which are permitted pursuant to this Agreement and are not otherwise disclaimed or limited pursuant to the terms of this Agreement shall in no event exceed in the aggregate the sales price to Purchaser of the individual Product or Part giving rise to the claim (as purchased pursuant to this Agreement), and any action related to this Agreement must be commenced within one (1) year after: (i) the date on which the cause of action accrues; or (ii) termination of this Agreement, whichever period shall expire first.

16.3 The above limitations of Capstone's liability and exclusions of indirect, special, incidental or consequential damages, as provided for in Sections 16.1 and 16.2, shall prevail over any conflicting or inconsistent provisions contained in any of the documents comprising this Agreement and any Ordering Request that may be issued by Purchaser pursuant thereto, except to the extent that such provision further limits Capstone's liability.

16.4 The rights, remedies and obligations of the Parties set forth in this Agreement, together with the attached exhibits specifically referenced in this Agreement, are the exclusive rights, remedies and obligations of the Parties hereunder and are in lieu of any other right, remedy, or obligation available at law or in equity.

17. Indemnification. Purchaser shall indemnify and hold Capstone harmless from and against any and all costs, fees (including attorneys' fees), losses, liabilities and expenses arising out of or related to acts or omissions of Purchaser or any party engaged by Purchaser, related to performance of its obligations under Sections 4, 8 and 13 of this Agreement. Purchaser shall indemnify and hold Capstone harmless from and against any and all costs, fees (including attorneys' fees), losses, liabilities and expenses arising out of or related to Purchaser's or End User's improper use or operation of the Products, including, without limitation, those resulting from any products liability claim, to the extent such claim involves improper use or operation of the Products. Capstone shall indemnify and hold Purchaser harmless from and against any and all costs, fees (including attorneys' fees), losses, liabilities and expenses arising out of or related to Capstone's manufacture of the Products and Parts, including, without limitation, those resulting from any products liability claim.

18. Dispute Resolution. All disputes and claims for temporary or permanent redress or relief arising out of or with reference to this Agreement or any agreement or instrument expressly referenced herein or attached hereto as an exhibit and relating to the ownership, licensing, use, sublicensing, violation, infringement or performance hereunder with respect to Intellectual Property rights shall be brought by either Party in, and Capstone may bring an action for payment for Products or Parts sold to Purchaser in, a state or federal court in Los Angeles County, California. The Parties submit to the foregoing jurisdiction of, and agree that the venue is proper in, these courts in any such legal action or proceeding as described above. All other disputes, controversies, claims for temporary or permanent redress or relief arising out of or with reference to this Agreement or any agreement or instrument expressly referenced herein or attached hereto as an exhibit shall be settled by arbitration in Los Angeles, California by a panel of three arbitrators under the commercial arbitration rules of the American Arbitration Association. Such arbitration shall be conducted by three (3) arbitrators, one (1) chosen promptly by Capstone, one (1) chosen promptly by Purchaser and a third, neutral arbitrator, selected promptly by the first two arbitrators. The award of the arbitrators shall be final and binding and the Parties consent to the exclusive jurisdiction of any federal or state court in Los Angeles County for purposes of enforcing any decision of the arbitration panel. Judgment on the arbitrators' award may be entered in any court having jurisdiction, provided that the arbitrators shall be bound by all provisions of this Agreement, including without limitation, Section 16 of this Agreement, and shall have no authority or power to enter an award which is in conflict with any of the provisions of this Agreement. Any award which is in conflict with any of the provisions of this Agreement shall be null and void, and shall be vacated on the grounds that it exceeded the powers of the arbitrators. By this Agreement the Parties do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and enforcement of

the award, including without limitation, injunctive relief for the protection of Intellectual Property rights. The Parties agree that the prevailing Party in either a legal action or proceeding or arbitration proceeding, as the case may be, shall be entitled to recover its reasonable attorneys' fees and expenses such prevailing Party incurred. Each Party hereto agrees to waive its rights to a jury trial of any claim or cause of action based upon or arising out of this Agreement. This waiver is irrevocable and shall apply to any subsequent amendment, renewal, supplement or modification of this Agreement.

19. Miscellaneous.

- 19.1 **Governing Law.** This Agreement is governed by the laws of the State of California (including the California Uniform Commercial Code, as such laws are applied to contracts made and performed entirely within the State of California), without regard to California's conflicts of laws provisions, and United States federal laws applicable to patents and trademarks.
- 19.2 **Construction.** Throughout this Agreement, as the context requires: (i) the singular tense and number includes the plural, and the plural tense and number includes the singular; (ii) the past tense includes the present, and the present tense includes the past; and (iii) references to parties, sections, schedules, and exhibits mean the Parties, sections, schedules, and exhibits of and to this Agreement.
- 19.3 **Headings.** The section headings in this Agreement are inserted only as a matter of convenience, and in no way define, limit, extend, or interpret the scope of this Agreement or of any particular section.
- 19.4 **Schedules and Exhibits.** If there is any conflict or inconsistency between the provisions set forth in this Agreement and the provisions set forth in any schedule or exhibit to this Agreement, to the extent possible such provisions will be interpreted in a manner so as to make them consistent. If it is not possible to interpret such provisions consistently, the provisions set forth in the body of this Agreement shall prevail.
- 19.5 **Counterparts.** This Agreement may be executed and delivered in one (1) or more counterparts and by facsimile transmission, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
- 19.6 **Amendments.** This Agreement shall not be modified, amended, or in any way altered except by an instrument in writing signed by the Parties hereto with the same formality as this Agreement.
- 19.7 **Assignment.** This Agreement may not be assigned by either Party hereto without the prior written consent of the other Party. The Parties acknowledge that compliance with this [Section 19.7](#) is a material obligation under this Agreement.
- 19.8 **Successors and Assigns.** All covenants, representations and warranties of the Parties contained herein shall be binding upon and inure to the benefit of their respective heirs, successors, and permitted assigns.
- 19.9 **Severability.** If any provision of this Agreement or the terms and conditions set forth herein is declared or found to be illegal, unenforceable, or void, the remaining provisions of this Agreement shall remain in full force and effect, subject to the immediately following provisions. In the event any provision of this Agreement is declared or found to be illegal, unenforceable or void, the Parties agree to negotiate in good faith a substitute provision that is legal and enforceable and is as nearly as possible consistent with the intentions underlying the original provision. If the remainder of the Agreement is not materially affected by such declaration or finding and is capable of substantial performance, then such remainder will be enforced to the extent permitted by law.
- 19.10 **Independent Review and Advice.** Each Party hereto represents and warrants that it has carefully read this Agreement; including the schedules and exhibits hereto that each Party hereby executes this Agreement with full knowledge of the contents of the foregoing, the legal consequences thereof, and any and all rights which each may have with respect to one another; that each Party has had the opportunity to receive independent legal advice with respect to the matters set forth in this Agreement and with respect to the rights and asserted rights arising out of such matters, and that each Party is entering into this Agreement of its own free will. The Parties expressly agree that there are no expectations contrary to the Agreement, and no usage of trade or regular practice in the industry shall be used to modify any of the terms and provisions of the Agreement.
- 19.11 **Entire and Sole Agreement.** This Agreement, together with the agreements incorporated herein by reference and the attached exhibits specifically referenced in this Agreement, constitutes the complete and exclusive statement of the mutual understanding of the Parties with respect to its subject matter. This Agreement (i) is final and binding without right to return Products and/or Parts and (ii) other than any NDA, which is incorporated in this Agreement by reference, supersedes any and all prior or contemporaneous understandings, representations, or other communication between the Parties of any sort, whether written or oral, with respect to its subject matter. The Parties agree that all Products and Parts furnished by Capstone shall be subject to this Agreement which may not be changed or waived except in writing signed by the Parties with the same formality as this Agreement. Any additional, inconsistent, or different terms and conditions

contained in Purchaser's Ordering Requests or other documents supplied by Purchaser or Capstone are hereby expressly null and void and waived. In the event of a discrepancy between or among the various documents comprising this Agreement, the terms and conditions set forth in Sections 1 through 19 shall prevail.

- 19.12 **Force Majeure.** Each Party's performance under this Agreement shall be suspended (other than the obligation to pay monies already due to either Party or becoming due as a result of filling orders placed and accepted) for so long as such performance is hindered or prevented by events or occurrences beyond its reasonable control ("**Force Majeure**"), such as, but not limited to, riots, labor disputes of a general nature, national or civil wars (declared or undeclared), insurrections, rebellions, terrorist acts, embargoes, civil disturbances, earthquakes, dispositions or orders of governmental authority (whether such authority be actual or assumed), acts of civil or military authority, fires, strikes, delays in transportation, inability to obtain necessary labor, manufacturing facilities or materials from usual sources and acts of God. Any delays resulting from any such cause shall extend the time for performance correspondingly. If a failure to perform results from a governmental law, rule, regulation, disposition, or order and the affected Party is unable to perform, after making reasonable efforts to comply with such law, rule, regulation, disposition or order, the matter shall be deemed a Force Majeure. The limitations contained in Section 16.1 of this Agreement shall also apply.
- 19.13 **Relationship of the Parties.** Nothing contained in this Agreement shall be construed as creating a joint venture, partnership, agency, franchisor, franchisee, or employment relationship between the Parties hereto nor shall either Party have the right, power, or authority to create any obligation or duty, express or implied, on behalf of the other Party. The Parties shall not act or represent themselves, either directly or by implication, as an agent for the other Party and shall not attempt to create any obligation, or make any representation, warranty, or covenant that the other Party has not specifically authorized in working on behalf, or in the name, of the other Party.
- 19.14 **No Third Party Beneficiaries.** Unless otherwise expressly provided, none of the provisions or terms of this Agreement are intended to confer to or benefit any person or entity other than the Parties to this Agreement any rights, remedies or other benefits under or by reason of this Agreement.
- 19.15 **Notices.** All notices or other communications under this Agreement, shall be in writing, shall be sent by certified or registered air mail with postage prepaid, return receipt requested, by facsimile, e-mail, reputable overnight or other rapid courier with tracking capabilities, or by hand delivery; provided, however, that if a notice or other communication is sent via facsimile or e-mail, such notice or communication shall also be sent by one of the other means of transmittal (with the exception of facsimile or e-mail, as the case may be). Such communications shall be deemed given and received upon delivery if sent by overnight courier or hand delivered, within three (3) business days of mailing, if sent by certified or registered mail, and within the time period set forth above for such method other than facsimile or e-mail if sent by facsimile or e-mail, and shall be addressed to the Parties at the address set below or such other addresses as the Parties may designate and provide notice of in writing from time to time in accordance with this Section 19.15.

If to Purchaser:

Capstone Engineered Solutions
27812 Pollensa
Mission Viejo, CA 92692
Attn: Corporate Counsel

If to Capstone:

Capstone Turbine Corporation
16640 Stagg St.
Van Nuys, California 91406
Attention: Corporate Counsel

19.16**Waiver.** No waiver by either Party to this Agreement of any provision, condition, covenant, agreement, or representation contained in this Agreement (or waiver of any breach thereof) shall be effective unless it is in writing executed by the party waiving such term, provision, condition, covenant, agreement or representation (or waiver of any breach thereof). No waiver shall be deemed or construed as a further or continuing waiver of any such term, provision, condition, covenant, agreement or representation (or waiver of any breach thereof) on any other occasion or as a waiver of any other term, provision, condition, agreement or representation (or waiver of any breach thereof) contained in this Agreement on the same or any other occasion. The delay or failure of any Party in providing written notice hereunder shall not constitute a waiver by such Party of any default or any further default under the Agreement, except as may be provided for expressly by the terms of this Agreement.

19.17**Remedies.** The election of one or more remedies, which are permitted by this Agreement, by either Party shall not constitute a waiver of the right by such Party to pursue any and all other available remedies.

IN WITNESS WHEREOF, by their signatures below, the Parties hereto acknowledge that they have reviewed carefully what has been expressed in this Agreement, which they understand is a legally binding document, and that the understandings and agreements expressed in this document are binding upon them as of the Effective Date.

CAPSTONE:
CAPSTONE TURBINE CORPORATION

PURCHASER:
Capstone Engineered Solutions

BY: _____

BY: _____

NAME: _____

NAME: _____

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Exhibit 1.2
to National Account Agreement

Purchaser shall purchase the following Products:

All Capstone Green Energy Products, Rentals and Services



END USER LICENSE (INTERNATIONAL)

1. Introduction. This END USER LICENSE ("License") governs certain rights granted by Capstone to the customer ("End User") who has acquired one or more Capstone MicroTurbine[®] systems (which systems, whenever acquired by End User together being referenced herein as the "Products") which include the Licensed Items described below.

2. License Grant. Subject to the payment of amounts due from End User to the party selling the Products to End User, Capstone grants to End User a nonexclusive and nontransferable license to use the operating software and firmware contained within or used with the Products ("Licensed Items") solely in connection with the Products for the purpose of generating electrical power. By installing or otherwise using the Licensed Items, End User agrees to be bound by the terms of this License. Apart from the express license granted in this Section, Capstone does not grant and End User does not receive any other license from Capstone, express or implied, and End User acknowledges that it holds no right, title, or interest in or to the Licensed Items, including, without limitation, all intellectual property rights embodied therein.

3. Term of License; Survival. The License granted to End User herein shall continue perpetually unless: (i) a Product to which this License applies is no longer operable and is not repairable, in which event the License shall terminate as to the applicable Product; (ii) End User breaches any material term or condition of this License or any other agreement with Capstone, in which event the License shall terminate as to all Products. All provisions of this License that contemplate performance or observance following its termination or expiration shall survive its termination or expiration.

4. Restrictions. All Licensed Items are proprietary to Capstone and are entitled to trade secret protection under the terms of this License. End User shall not in any manner, directly or indirectly or through others, attempt to decompile, copy, reverse assemble, reverse engineer, modify, translate or disassemble the Licensed Items in whole or in part. End User shall not grant access to the Licensed Items or the Products to any party other than Capstone, Capstone's authorized service representatives, and End User's employees and agents who have an actual need for such access in the course of their duties.

5. Ownership of Intellectual Property Rights. All copyrights and other intellectual property rights embodied in the Products or the Licensed Items shall remain the sole property of Capstone and neither End User nor any other party will have or acquire any right, title to and/or interest therein under this License. End User agrees that it shall not in any manner represent that it has any rights in or to the trade names, trademarks, trade secrets, trade dress, service marks, confidential information or copyrights of Capstone.

6. Intellectual Property Infringement Protection. Capstone will defend or, at its option, settle, any claim, suit or proceeding brought against End User, and pay any liabilities, damages and costs awarded in any such suit or proceeding, if the suit or proceeding is based on a claim that a Product, part for the Product ("Part") or Licensed Item infringes any United States

intellectual property right of any third party (other than those arising out of conditions described below), provided that: (i) End User notifies Capstone in writing within 10 calendar days of the receipt of any such claim; (ii) Capstone has sole control of the defense of such claim and all related settlement negotiations; (iii) End User makes no admission of any alleged infringement; and (iv) End User provides Capstone with assistance, information and authority necessary to perform Capstone's duties under this paragraph. If a Product, Part or Licensed Item is held to infringe, Capstone shall have the option in its sole discretion to: (i) modify the Product, Part or Licensed Item to cause the same to be non-infringing; (ii) obtain for the authorized End User a license to continue using the Product, Part or Licensed Item; or (iii) refund the fees paid for the Product, Part or Licensed Item upon return of such Product, Part or Licensed Item to Capstone at its expense, depreciated over a three (3) year period. Capstone shall have the right to refuse to supply additional Products, Parts or Licensed Items subject to a claim or threatened claim of infringement. In no event shall Capstone be liable for any claim of infringement, and End User agrees to protect and defend Capstone in the same manner and extent that Capstone has agreed to defend End User as set forth herein, when such claim is based on the use of any Product, Part or Licensed Item altered in whole or in part by End User or used in connection with any equipment, process, software or technology other than that necessary for use of the Product, Part or Licensed Item for the particular application as contemplated by the Capstone Operations Manual and all applicable specifications. THE FOREGOING STATES THE SOLE AND EXCLUSIVE LIABILITY OF CAPSTONE FOR INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS, AND IS IN LIEU OF ALL WARRANTIES, EXPRESS, IMPLIED OR STATUTORY IN REGARD TO THOSE ITEMS, INCLUDING, WITHOUT LIMITATION, THE WARRANTY AGAINST INFRINGEMENT SPECIFIED IN THE UNIFORM COMMERCIAL CODE.

7. Remote Monitoring. As a condition of the License, End User acknowledges and agrees that every Capstone MicroTurbine[™] system includes software and hardware which allow for the remote monitoring of performance of the Products and collection of information related to the Products and that Capstone will regularly utilize the remote monitoring software and hardware to access and obtain information related to the Products and/or their use. End User will not impede or deny remote monitoring by Capstone under any circumstances.

8. Assignment. End User shall not assign or transfer this License or any of its rights or obligations hereunder without the prior written consent of Capstone. This License shall inure to the benefit of and bind the successors and permitted assigns of Capstone and End User. All permitted assignees of End User shall confirm in writing to Capstone its agreement to the terms and conditions of this License within 60 days following the effective date of the permitted assignment. Capstone expressly reserves the right to condition its approval of an assignment by End User upon the payment of a transfer fee in accordance with Capstone's then current fee schedule.

Exhibit 4.4.4
to National Account Agreement

Insurance Coverage Requirements

1. **Commercial General Liability** coverage on an occurrence basis for limits of \$1,000,000 Combined Single Limit per occurrence and \$2,000,000 aggregate. Such policy shall also contain a limit of \$1,000,000 per occurrence for Personal Injury/Advertising Injury, and a separate Products Completed Operations aggregate of \$2,000,000.
2. **Auto Liability** for owned, non-owned and hired autos, for a limit of \$1,000,000 Combined Single Limit.
3. **Umbrella** liability limits of \$10,000,000 per occurrence and annual aggregate with commercial general liability, automobile liability and employers' liability scheduled on the policy.
4. **Property** insurance covering the replacement cost of all property owned, leased or in Purchaser's care, custody and/or control.
5. **Professional Liability** coverage of \$1,000,000 per occurrence or in the aggregate for those who perform Application Engineering Services.
6. **Workers' Compensation** statutory benefits for states in which Purchaser conducts business, including Employer's Liability for limits of \$1,000,000 for each accident, disease for each employee and disease for the policy limit.

The above limits are considered to be minimum coverage and the amount of coverage purchased will be based upon the currency exchange rates in effect at the time the policy is purchased. In the event that local compulsory insurance laws require higher or additional coverage then the local requirements will apply.

Exhibit 5.8
To the National Account Agreement

The Warranty and FPP Reimbursement Rate will be Ninety U.S. Dollars (\$135.00 USD) per hour.

The Warranty and FPP Reimbursement Rate for rental systems will be One Hundred-Fifty U.S. Dollars (\$150.00 USD) per hour for actual time to effect repair.

Exhibit 8
To National Account Agreement



Capstone Turbine Corporation • 16640 Stagg Street • Van Nuys • CA 91406 • USA
Telephone: (818) 734-5300 • Fax: (818) 734-5320 • Web: www.microturbine.com

Capstone Turbine Corporation New System Limited Warranty

A new system covered under this limited warranty is any new or refurbished Capstone MicroTurbine™ purchased from Capstone Turbine Corporation ("Capstone") or any other authorized representatives thereof, and the accessories and parts provided therewith so long as such accessories or parts are included on new system purchase orders at the time the Capstone MicroTurbine™ is shipped from Capstone's facility (together, the "Warranted Items"). Warranty coverage includes replacement parts and labor for component shipment, removal, repair or replacement, and reinstallation. In performing its obligations under this limited warranty, Capstone may, at its sole discretion, use or may cause its authorized representatives to use, either new or Capstone remanufactured parts. Any components, parts or accessories replaced under this limited warranty shall be returned to Capstone at Capstone's sole discretion, and thereafter shall become the property of Capstone. **THIS LIMITED WARRANTY IS SUBJECT TO THE FOLLOWING LIMITATIONS AND EXCLUSIONS:**

1. The period of warranty is: fifteen (15) months from the date of shipment from Capstone (if the destination of the shipment is within the United States, Canada or Mexico) / eighteen (18) months from the date of shipment from Capstone (if the destination is outside of the United States, Canada or Mexico), or twelve (12) months from Completed Commissioning¹, whichever occurs first.
2. Capstone's sole obligation under this limited warranty is to repair or replace (at Capstone's option) the Warranted Items that caused a failure due to defect in materials or workmanship under normal operation.
3. With respect to offshore facilities, this warranty only covers replacement parts. Labor to troubleshoot, remove and/or repair defective parts is not included for offshore facilities.
4. Capstone's obligations under this warranty are subject to Capstone receiving reasonable access to the facility and information requested by Capstone regarding the site and installation that may be needed in order to evaluate the warranty claim and perform the warranty work.
5. Failures caused by the following are excluded from coverage under this limited warranty:
 - a. Damage arising from storage, shipping, vandalism, accidents, misuse, negligence, recklessness, and/or failure to maintain the Warranted Item in accordance with Capstone's recommendations, misapplication, rust, oxidation, corrosion, unauthorized modification or other damage to the Warranted Items. Misuse as used in the prior sentence includes, but is not limited to, continuing attempts to operate or actual operation of the Capstone MicroTurbine™ system after a non-conformity has been observed or identified without Capstone's express approval and authorization to do so.
 - b. Warranted Items that have been damaged by or subjected to abrasion, corrosion, chemicals, gases or other foreign objects present in the physical environment or other conditions in which the Capstone MicroTurbine™ system operates.
 - c. Accessories or parts that are not Warranted Items.
 - d. Acts of God, war, floods, earthquakes, wind, lightning, freezing, fire or salt water.
 - e. Damage caused by power quality disturbances (sags, surges, and harmonics) in grid-connected operation, and operation of the Warranted Items outside the pressure and temperature specifications provided by Capstone.

¹ "Completed Commissioning" is the date on which Capstone and the End User approve in writing the Commissioning Checklist.

- f. Improper battery maintenance.
- 6. The following items shall void this limited warranty:
 - a. Inadequate maintenance.
 - b. Installation, commissioning, maintenance, repair or alteration of the Warranted Items by anyone other than Capstone, or a party authorized by Capstone.
 - c. Operation of the Warranted Items outside of specifications described in the then current applicable Product Specification Sheet at the time of shipment of the Warranted Items, including, without limitation, use of fuels other than what is described therein.
 - d. Improperly designed or improperly implemented interconnect points or connections.
- 7. Specifically, this limited warranty does not provide for:
 - a. Maintenance.
 - b. Any incidental or consequential damages or expenses that the owner or user may incur as a result of a failure covered by this limited warranty.
 - c. Repairs, including parts, and/or failures resulting from components provided by others in the installation of the Warranted Items.
- 8. All disputes arising out of this warranty shall be settled by arbitration in Los Angeles, California by a panel of three arbitrators under the commercial arbitration rules of the American Arbitration Association. The award of the arbitrators shall be final and binding and the parties consent to the exclusive jurisdiction of any federal or state court in Los Angeles County for enforcing any decision of the arbitration panel.
- 9. **THIS LIMITED WARRANTY IS EXPRESSLY IN LIEU OF ANY OTHER WARRANTIES, EXPRESSED, IMPLIED OR STATUTORY, INCLUDING BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND OF ANY NON-CONTRACTUAL LIABILITIES INCLUDING PRODUCT LIABILITIES BASED UPON NEGLIGENCE OR STRICT LIABILITY. AS A CONDITION OF THIS LIMITED WARRANTY IT IS AGREED THAT IN NO EVENT CAN CAPSTONE BE HELD LIABLE FOR INDIRECT, SPECIAL, PUNITIVE, EXEMPLARY, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR INJURIES, INCLUDING BUT NOT LIMITED TO LOSS OF REVENUE OR PROFIT, LOST GOOD WILL, LOST BUSINESS, COST OF COVER OR OTHER INDIRECT ECONOMIC DAMAGES, COMMERCIAL LOSSES, OR DAMAGE TO STRUCTURES OR EQUIPMENT TO WHICH THE SYSTEM IS CONNECTED OR CONTAINED WITHIN. NO PERSON OR ENTITY IS AUTHORIZED TO MAKE ANY REPRESENTATIONS OR PROMISES ON BEHALF OF CAPSTONE OR MODIFY THE TERMS AND LIMITATIONS OF THIS LIMITED WARRANTY.**



Capstone Turbine Corporation After-Market Parts Limited Warranty

Capstone Turbine Corporation ("Capstone") warrants that it will replace only those parts (new or remanufactured) which are sold after commissioning and which fail under normal operation (the "Warranted Parts"). **THIS LIMITED WARRANTY, HOWEVER, IS SUBJECT TO THE FOLLOWING LIMITATIONS AND EXCLUSIONS:**

1. The period of this limited warranty is:
 - a. Remanufactured parts – twelve (12) months from the date of commissioning or twenty-four (24) months from the date of shipment from Capstone or, in the case of engines, twelve (12) months from the date of commissioning or twenty-four (24) months from the date of shipment from Capstone, whichever occurs first.
 - b. New parts - twelve (12) months from the date of commissioning or twenty-four (24) months from the date of shipment from Capstone or, in the case of engines, twelve (12) months from the date of commissioning or twenty-four (24) months from the date of shipment from Capstone, whichever occurs first.
2. Capstone's sole obligation under this limited warranty is to repair or replace (at Capstone's option) only the new or remanufactured parts that fail due to defect in materials or workmanship under normal operating conditions. Capstone is not obligated under this limited warranty to provide labor associated with any aspect of the warranty event unless Capstone was specifically paid to install the failed part (refer to Capstone Limited Labor Warranty).
3. Capstone's obligations under this limited warranty are subject to Capstone receiving reasonable access to the facility and information requested by Capstone regarding the site and installation that may be needed in order to evaluate the warranty claim and perform the warranty work.
4. The following are excluded from coverage under this limited warranty:
 - a. Damage to a Capstone MicroTurbine™ system, component, part or accessory thereof resulting from the failure of a Warranted Part ("Collateral Damage"), unless the Collateral Damage is covered by a separate Capstone warranty then in effect.
 - b. Damage arising from storage, shipping, vandalism, accidents, misuse, negligence, recklessness and/or failure to maintain the Warranted Part in accordance with Capstone's recommendations, misapplication, rust, oxidation, corrosion, unauthorized modification or other damage to the Warranted Parts. Misuse as used in the prior sentence includes, but is not limited to, continuing attempts to operate or actual operation of the Capstone MicroTurbine™ system after a non-conformity has been observed or identified without Capstone's express approval and authorization to do so.
 - c. Warranted Parts that have been damaged by or subjected to abrasion, corrosion, chemicals, gases or other foreign objects present in the physical environment or other conditions in which the Capstone MicroTurbine™ system is operating.
 - d. Accessories or parts that are not Warranted Parts.
 - e. Acts of God, war, floods, earthquakes, wind, lightning, freezing, fire or salt water.
 - f. Damage caused by power quality disturbances (sags, surges, and harmonics) in grid connected operation, and operation of the Warranted Parts outside the pressure and temperature specifications provided by Capstone.

5. The following items shall void this limited warranty:
 - a. Inadequate maintenance of the Capstone MicroTurbine™ system in which the Warranted Parts are contained.
 - b. Operation of the Warranted Items outside of specifications described in the then current applicable Product Specification Sheet at the time of shipment of the Warranted Items, including, without limitation, use of fuels other than what is described therein.
 - c. Installation, commissioning, maintenance, repair or alteration to any Capstone MicroTurbine™ system in which the Warranted Parts are included, by anyone other than Capstone, or a party authorized by Capstone to perform such service.
 - d. Improperly designed or improperly implemented interconnect points or connections.
6. Specifically, this limited warranty does not provide for:
 - a. Maintenance.
 - b. Any incidental or consequential damages or expenses that the owner or user may incur as a result of a failure covered by this limited warranty.
 - c. Repairs, including parts, and/or failures resulting from components provided by anyone other than Capstone, or a party authorized by Capstone to provide such components in the installation of the Capstone MicroTurbine™ system.
7. All disputes arising out of this warranty shall be settled by arbitration in Los Angeles, California by a panel of three arbitrators under the commercial arbitration rules of the American Arbitration Association. The award of the arbitrators shall be final and binding and the parties consent to the exclusive jurisdiction of any federal or state court in Los Angeles County for enforcing any decision of the arbitration panel.
8. **THIS LIMITED WARRANTY IS EXPRESSLY IN LIEU OF ANY OTHER WARRANTIES, EXPRESSED, IMPLIED OR STATUTORY, INCLUDING BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND OF ANY NON-CONTRACTUAL LIABILITIES INCLUDING PRODUCT LIABILITIES BASED UPON NEGLIGENCE OR STRICT LIABILITY. AS A CONDITION OF THIS LIMITED WARRANTY IT IS AGREED THAT IN NO EVENT CAN CAPSTONE BE HELD LIABLE FOR INDIRECT, SPECIAL, PUNITIVE, EXEMPLARY, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR INJURIES, INCLUDING BUT NOT LIMITED TO LOSS OF REVENUE OR PROFIT, LOST GOOD WILL, LOST BUSINESS, COST OF COVER OR OTHER INDIRECT ECONOMIC DAMAGES, COMMERCIAL LOSSES, OR DAMAGE TO STRUCTURES OR EQUIPMENT TO WHICH THE SYSTEM IS CONNECTED OR CONTAINED WITHIN. NO PERSON OR ENTITY IS AUTHORIZED TO MAKE ANY REPRESENTATIONS OR PROMISES ON BEHALF OF CAPSTONE OR MODIFY THE TERMS AND LIMITATIONS OF THIS LIMITED WARRANTY.**

Capstone Engineered Solutions Corporation

27812 Pollensa
 Mission Viejo, CA 92692 US
 jdcrouse@m.e.com

Estimate

ADDRESS
 Capstone Green Energy Corporation
 16640 Stagg St
 Van Nuys, CA 91406

ESTIMATE 1002
 DATE 04/26/2022
 EXPIRATION DATE 05/15/2022

DATE	SERVICE	DESCRIPTION	QTY	RATE	AMOUNT
04/26/2022	Rental System Installation	Travel and Per Diem	1	5,500.00	5,500.00
04/27/2022	Rental System Installation	Receive and set units in place, install air inlet hoods and shipped loose hardware	3	2,500.00	7,500.00
04/29/2022	Rental System Installation	Supply and install HDPE gas piping and shutoff valves for each C1000 and blind flange for expansion	1	62,500.00	62,500.00
04/29/2022	Rental System Installation	Install CGE supplied power cables and cable tray to each C1000 and mining box. Installation hardware supplied by CESC	1	49,530.00	49,530.00
05/03/2022	Rental System Installation	Install CGE supplied gas filter and regulator skid	1	5,275.00	5,275.00
05/03/2022	Rental System Installation	Supply and install control cable conduits to each C1000	1	16,800.00	16,800.00
05/04/2022	Rental System Installation	Install CGE supplied PC for remote communications	1	3,450.00	3,450.00
05/05/2022	Rental System Installation	Modify C1000 for flatpac control scheme, program unit Unit #1 C1K control for master operation	1	5,420.00	5,420.00
05/06/2022	Rental System Installation	Commission units for 3MW standalone operation	1	4,500.00	4,500.00
				TOTAL	\$160,475.00

\$20,000.00 Deposit to start
 Balance due at completion

Accepted By

Accepted Date



SUBSIDIARY LIST

Capstone Turbine International, Inc., a Delaware corporation

Capstone Turbine Financial Services, LLC, a Delaware limited liability company

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statements of Capstone Green Energy Corporation on Form S-3 (File Nos. 333-232867 and 333-254547) and Form S-8 (File Nos. 333-234578, 333-223126, 333-221695, 333-184033, and 333-259569) of our report dated July 13, 2022, with respect to our audits of the consolidated financial statements of Capstone Green Energy Corporation as of March 31, 2022 and 2021 and for each of the two years in the period ended March 31, 2022, which report is included in this Annual Report on Form 10-K of Capstone Green Energy Corporation for the year ended March 31, 2022.

/s/ Marcum LLP

Marcum LLP
Los Angeles, CA
July 13, 2022

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER UNDER SECTION 302

I, Darren R. Jamison, certify that:

1. I have reviewed this annual report on Form 10-K of Capstone Green Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 13, 2022

By: _____
/s/ DARREN R. JAMISON
Darren R. Jamison
President and Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER

**PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Capstone Green Energy Corporation (the "Company") on Form 10-K for the fiscal year ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Darren R. Jamison, as Chief Executive Officer of the Company, and Frederick S. Hencken, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: _____
 /s/ DARREN R. JAMISON
 Darren R. Jamison
 *President and Chief Executive Officer (Principal Executive
 Officer)*

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

Date: July 13, 2022
