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DELTA REPORT

10-Q

STEM, INC.

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	766
CHANGES	241
DELETIONS	265
ADDITIONS	260

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended June 30, 2023 September 30, 2023

OR

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

For the transition period from ______ to ______

STEM, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-39455**	**85-1972187**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

100 California St., 14th Fl., San Francisco, California 94111

(Address of principal executive offices, including zip code)

1-**877-374-7836**

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.0001	**STEM**	**New York Stock Exchange**

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

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

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

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

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

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

Class	**Outstanding as of July 25, 2023 October 25, 2023**
Common Stock, $0.0001 par value per share	155,802,411 155,895,641

STEM, INC.
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2023 September 30, 2023

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Part I - Financial Information

Item 1. Financial Statements (Unaudited) FINANCIAL STATEMENTS (UNAUDITED)

STEM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share amounts)

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
ASSETS	**ASSETS**			**ASSETS**		
Current assets:	Current assets:			Current assets:		
Cash and cash equivalents	Cash and cash equivalents	$ 75,405	$ 87,903	Cash and cash equivalents	$ 97,064	$ 87,903
Short-term investments	Short-term investments	62,769	162,074	Short-term investments	28,301	162,074
Accounts receivable, net of allowances of $5,349 and $3,879 as of June 30, 2023 and December 31, 2022, respectively		293,853	223,219			

Accounts receivable, net of allowances of $5,328 and $3,879 as of September 30, 2023 and December 31, 2022, respectively				Accounts receivable, net of allowances of $5,328 and $3,879 as of September 30, 2023 and December 31, 2022, respectively	288,674	223,219
Inventory, net	Inventory, net	145,523	8,374	Inventory, net	65,656	8,374
Deferred costs with suppliers	Deferred costs with suppliers	22,119	43,159	Deferred costs with suppliers	20,298	43,159
Other current assets (includes $58 and $74 due from related parties as of June 30, 2023 and December 31, 2022, respectively)		13,139	8,026			
Other current assets (includes $53 and $74 due from related parties as of September 30, 2023 and December 31, 2022, respectively)				Other current assets (includes $53 and $74 due from related parties as of September 30, 2023 and December 31, 2022, respectively)	10,520	8,026
Total current assets	Total current assets	612,808	532,755	Total current assets	510,513	532,755
Energy storage systems, net	Energy storage systems, net	84,627	90,757	Energy storage systems, net	80,709	90,757
Contract origination costs, net	Contract origination costs, net	12,412	11,697	Contract origination costs, net	11,930	11,697
Goodwill	Goodwill	547,204	546,649	Goodwill	547,164	546,649
Intangible assets, net	Intangible assets, net	159,472	162,265	Intangible assets, net	158,321	162,265
Operating lease right-of-use assets	Operating lease right-of-use assets	13,810	12,431	Operating lease right-of-use assets	13,023	12,431
Other noncurrent assets	Other noncurrent assets	73,157	65,339	Other noncurrent assets	77,132	65,339
Total assets	Total assets	$ 1,503,490	$ 1,421,893	Total assets	$ 1,398,792	$ 1,421,893
LIABILITIES AND STOCKHOLDERS' EQUITY	**LIABILITIES AND STOCKHOLDERS' EQUITY**			**LIABILITIES AND STOCKHOLDERS' EQUITY**		
Current liabilities:	Current liabilities:			Current liabilities:		
Accounts payable	Accounts payable	$ 102,980	$ 83,831	Accounts payable	$ 85,444	$ 83,831
Accrued liabilities	Accrued liabilities	55,530	85,258	Accrued liabilities	60,615	85,258
Accrued payroll	Accrued payroll	7,965	12,466	Accrued payroll	10,439	12,466
Financing obligation, current portion	Financing obligation, current portion	18,158	15,720	Financing obligation, current portion	17,381	15,720
Deferred revenue, current portion	Deferred revenue, current portion	115,381	64,311	Deferred revenue, current portion	82,676	64,311
Other current liabilities (includes $34 and $687 due to related parties as of June 30, 2023 and December 31, 2022, respectively)		7,479	5,412			
Other current liabilities (includes $40 and $687 due to related parties as of September 30, 2023 and December 31, 2022, respectively)				Other current liabilities (includes $40 and $687 due to related parties as of September 30, 2023 and December 31, 2022, respectively)	12,689	5,412
Total current liabilities	Total current liabilities	307,493	266,998	Total current liabilities	269,244	266,998
Deferred revenue, noncurrent	Deferred revenue, noncurrent	78,736	73,763	Deferred revenue, noncurrent	83,028	73,763
Asset retirement obligation	Asset retirement obligation	4,079	4,262	Asset retirement obligation	4,085	4,262
Notes payable, noncurrent	Notes payable, noncurrent	—	1,603	Notes payable, noncurrent	—	1,603
Convertible notes, noncurrent	Convertible notes, noncurrent	522,506	447,909	Convertible notes, noncurrent	523,068	447,909

Financing obligation, noncurrent	Financing obligation, noncurrent	58,895	63,867	Financing obligation, noncurrent	54,314	63,867
Lease liabilities, noncurrent	Lease liabilities, noncurrent	11,874	10,962	Lease liabilities, noncurrent	11,145	10,962
Other liabilities	Other liabilities	563	362	Other liabilities	565	362
Total liabilities	Total liabilities	984,146	869,726	Total liabilities	945,449	869,726
Commitments and contingencies (Note 15)	Commitments and contingencies (Note 15)			Commitments and contingencies (Note 15)		
Stockholders' equity:	Stockholders' equity:			Stockholders' equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized as of June 30, 2023 and December 31, 2022; zero shares issued and outstanding as of June 30, 2023 and December 31, 2022		—	—			
Common stock, $0.0001 par value; 500,000,000 shares authorized as of June 30, 2023 and December 31, 2022; 155,796,411 and 154,540,197 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively		16	15			
Preferred stock, $0.0001 par value; 1,000,000 shares authorized as of September 30, 2023 and December 31, 2022; zero shares issued and outstanding as of September 30, 2023 and December 31, 2022				Preferred stock, $0.0001 par value; 1,000,000 shares authorized as of September 30, 2023 and December 31, 2022; zero shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value; 500,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 155,883,088 and 154,540,197 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively				Common stock, $0.0001 par value; 500,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 155,883,088 and 154,540,197 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	16	15
Additional paid-in capital	Additional paid-in capital	1,176,678	1,185,364	Additional paid-in capital	1,187,628	1,185,364
Accumulated other comprehensive loss		(88)	(1,672)			
Accumulated other comprehensive income (loss)				Accumulated other comprehensive income (loss)	23	(1,672)
Accumulated deficit	Accumulated deficit	(657,737)	(632,081)	Accumulated deficit	(734,809)	(632,081)
Total Stem's stockholders' equity	Total Stem's stockholders' equity	518,869	551,626	Total Stem's stockholders' equity	452,858	551,626
Non-controlling interests	Non-controlling interests	475	541	Non-controlling interests	485	541
Total stockholders' equity	Total stockholders' equity	519,344	552,167	Total stockholders' equity	453,343	552,167
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	$ 1,503,490	$ 1,421,893	Total liabilities and stockholders' equity	$ 1,398,792	$ 1,421,893

The accompanying notes are an integral part of these condensed consolidated financial statements.

STEM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except share and per share amounts)

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Revenue	Revenue					Revenue				
Services and other revenue	Services and other revenue	$ 16,360	$ 12,521	$ 31,033	$ 22,486	Services and other revenue	$ 16,597	$ 13,692	$ 47,630	$ 36,178
Hardware revenue	Hardware revenue	76,586	54,426	129,318	85,549	Hardware revenue	117,143	85,809	246,461	171,358
Total revenue	Total revenue	92,946	66,947	160,351	108,035	Total revenue	133,740	99,501	294,091	207,536
Cost of Revenue	Cost of Revenue					Cost of Revenue				
Cost of services and other revenue	Cost of services and other revenue	11,756	10,141	23,260	18,774	Cost of services and other revenue	13,684	11,445	36,944	30,219
Cost of hardware revenue	Cost of hardware revenue	69,319	49,018	124,226	77,829	Cost of hardware revenue	140,347	78,929	264,573	156,758
Total cost of revenue	Total cost of revenue	81,075	59,159	147,486	96,603	Total cost of revenue	154,031	90,374	301,517	186,977
Gross profit		11,871	7,788	12,865	11,432					
Gross (loss) profit						Gross (loss) profit	(20,291)	9,127	(7,426)	20,559
Operating expenses:	Operating expenses:					Operating expenses:				
Sales and marketing	Sales and marketing	13,680	12,955	26,086	22,097	Sales and marketing	11,605	13,187	37,691	35,284
Research and development	Research and development	14,156	8,963	27,600	17,906	Research and development	14,420	10,526	42,020	28,432
General and administrative	General and administrative	18,904	15,693	36,701	36,205	General and administrative	21,955	18,013	58,656	54,218
Total operating expenses	Total operating expenses	46,740	37,611	90,387	76,208	Total operating expenses	47,980	41,726	138,367	117,934
Loss from operations	Loss from operations	(34,869)	(29,823)	(77,522)	(64,776)	Loss from operations	(68,271)	(32,599)	(145,793)	(97,375)
Other income (expense), net:										
Other (expense) income, net:						Other (expense) income, net:				
Interest expense, net	Interest expense, net	(3,903)	(2,691)	(5,680)	(5,909)	Interest expense, net	(4,405)	(2,520)	(10,085)	(8,429)
Gain on extinguishment of debt, net	Gain on extinguishment of debt, net	59,121	—	59,121	—	Gain on extinguishment of debt, net	—	—	59,121	—
Change in fair value of derivative liability						Change in fair value of derivative liability	(5,155)	—	(7,731)	—

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Other income, net					Other income, net	713	863	2,114	1,822
Total other (expense) income, net					Total other (expense) income, net	(8,847)	(1,657)	43,419	(6,607)
Loss before benefit from (provision for) income taxes					Loss before benefit from (provision for) income taxes	(77,118)	(34,256)	(102,374)	(103,982)
Benefit from (provision for) income taxes					Benefit from (provision for) income taxes	46	(19)	(354)	15,201
Net loss					Net loss	(77,072)	(34,275)	(102,728)	(88,781)
Net income attributed to non-controlling interests					Net income attributed to non-controlling interests	—	4	—	—
Net loss attributable to Stem					Net loss attributable to Stem	$ (77,072)	$ (34,279)	$ (102,728)	$ (88,781)
Other (expense) income, net	(736)	484	(1,175)	959					
Total other income (expense), net	54,482	(2,207)	52,266	(4,950)					
Income (loss) before (provision for) benefit from income taxes	19,613	(32,030)	(25,256)	(69,726)					
(Provision for) benefit from income taxes	(491)	7	(400)	15,220					
Net income (loss)	19,122	(32,023)	(25,656)	(54,506)					
Net loss attributed to non-controlling interests	—	(4)	—	(4)					
Net income (loss) attributable to Stem	$ 19,122	$ (32,019)	$ (25,656)	$ (54,502)					
Net loss per share attributable to common stockholders, basic and diluted					Net loss per share attributable to common stockholders, basic and diluted	$ (0.49)	$ (0.22)	$ (0.66)	$ (0.58)
Net income (loss) per share attributable to common stockholders, basic	$ 0.12	$ (0.21)	$ (0.17)	$ (0.36)					
Net loss per share attributable to common stockholders, diluted	$ (0.26)	$ (0.21)	$ (0.17)	$ (0.36)					
Numerator used to compute net income (loss) per share:									
Net income (loss) attributable to Stem common stockholders, basic	$ 19,122	$ (32,019)	$ (25,656)	$ (54,502)					
Net loss attributable to Stem common stockholders, diluted (Note 13)	$ (40,011)	$ (32,019)	$ (25,656)	$ (54,502)					
Weighted-average shares used in computing net income (loss) per share to common stockholders, basic	155,619,179	154,125,061	155,294,475	152,318,090					
Weighted-average shares used in computing net loss per share to common stockholders, diluted	155,804,953	154,125,061	155,294,475	152,318,090					

Weighted-average shares used in computing net loss per share to common stockholders, basic and diluted	Weighted-average shares used in computing net loss per share to common stockholders, basic and diluted	155,829,348	154,392,573	155,474,725	153,043,010

The accompanying notes are an integral part of these condensed consolidated financial statements.

STEM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) LOSS

(UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ 19,122	$ (32,023)	$ (25,656)	$ (54,506)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities	47	(399)	1,590	(1,010)
Foreign currency translation adjustment	(133)	(118)	(6)	(146)
Total other comprehensive income (loss)	19,036	(32,540)	(24,072)	(55,662)
Less: Comprehensive loss attributable to non-controlling interests	—	(4)	—	(4)
Total comprehensive income (loss) attributable to Stem	$ 19,036	$ (32,536)	$ (24,072)	$ (55,658)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	$ (77,072)	$ (34,275)	$ (102,728)	$ (88,781)
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale securities	60	(845)	1,650	(1,855)
Foreign currency translation adjustment	51	(141)	45	(287)
Total other comprehensive loss	(76,961)	(35,261)	(101,033)	(90,923)
Less: Comprehensive income attributable to non-controlling interests	—	4	—	—
Total comprehensive loss attributable to Stem	$ (76,961)	$ (35,265)	$ (101,033)	$ (90,923)

The accompanying notes are an integral part of these condensed consolidated financial statements.

STEM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(in thousands, except share amounts)

Common Stock	Additional Paid-In Capital	Accumulated Other	Accumulated Deficit	Non-controlling Interests	Total Stockholders' Equity	Common Stock	Additional Paid-In Capital	Accumulated Other	Accumulated Deficit	Non-controlling Interests	Total Stockholders' Equity

		Shares	Amount		Comprehensive Loss		Shares		Amount				Comprehensive (Loss) Income			
Balance as of January 1, 2023	Balance as of January 1, 2023	154,540,197	$ 15	$1,185,364	$ (1,672)	$ (632,081)	$ 541	$ 552,167	Balance as of January 1, 2023	154,540,197	$15	$1,185,364	$ (1,672)	$ (632,081)	$ 541	$ 552,167
Stock option exercises, net of statutory tax withholdings	Stock option exercises, net of statutory tax withholdings	65,045	—	149	—	—	—	149	Stock option exercises, net of statutory tax withholdings	65,045	—	149	—	—	—	149
Issuance of common stock upon release of restricted stock units	Issuance of common stock upon release of restricted stock units	903,061	1	—	—	—	—	1	Issuance of common stock upon release of restricted stock units	903,061	1	—	—	—	—	1
Stock-based compensation	Stock-based compensation	—	—	8,108	—	—	—	8,108	Stock-based compensation	—	—	8,108	—	—	—	8,108
Unrealized gain on available-for-sale securities	Unrealized gain on available-for-sale securities	—	—	—	1,543	—	—	1,543	Unrealized gain on available-for-sale securities	—	—	—	1,543	—	—	1,543
Foreign currency translation adjustments	Foreign currency translation adjustments	—	—	—	127	—	—	127	Foreign currency translation adjustments	—	—	—	127	—	—	127
Redemption of non-controlling interests, net	Redemption of non-controlling interests, net	—	—	—	—	—	(72)	(72)	Redemption of non-controlling interests, net	—	—	—	—	—	(72)	(72)
Net loss	Net loss	—	—	—	—	(44,778)	—	(44,778)	Net loss	—	—	—	—	(44,778)	—	(44,778)
Balance as of March 31, 2023	Balance as of March 31, 2023	155,508,303	16	1,193,621	(2)	(676,859)	469	517,245	Balance as of March 31, 2023	155,508,303	16	1,193,621	(2)	(676,859)	469	517,245
Stock option exercises, net of statutory tax withholdings	Stock option exercises, net of statutory tax withholdings	39,528	—	80	—	—	—	80	Stock option exercises, net of statutory tax withholdings	39,528	—	80	—	—	—	80
Issuance of common stock upon release of restricted stock units	Issuance of common stock upon release of restricted stock units	248,580	—	—	—	—	—	—	Issuance of common stock upon release of restricted stock units	248,580	—	—	—	—	—	—
Stock-based compensation	Stock-based compensation	—	—	10,817	—	—	—	10,817	Stock-based compensation	—	—	10,817	—	—	—	10,817
Purchase of capped call options (Note 10)	Purchase of capped call options (Note 10)	—	—	(27,840)	—	—	—	(27,840)	Purchase of capped call options (Note 10)	—	—	(27,840)	—	—	—	(27,840)
Unrealized loss on available-for-sale securities	Unrealized loss on available-for-sale securities	—	—	—	47	—	—	47	Unrealized loss on available-for-sale securities	—	—	—	47	—	—	47
Foreign currency translation adjustments	Foreign currency translation adjustments	—	—	—	(133)	—	—	(133)	Foreign currency translation adjustments	—	—	—	(133)	—	—	(133)

		Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interests	Total Stockholders' Equity		Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interests	Total Stockholders' Equity
Contributions from non-controlling interests	Contributions from non-controlling interests	—	—	—	—	—	6	6	Contributions from non-controlling interests	—	—	—	—	—	6	6
Net income	Net income	—	—	—	—	19,122	—	19,122	Net income	—	—	—	—	19,122	—	19,122
Balance as of June 30, 2023	Balance as of June 30, 2023	155,796,411	$ 16	$1,176,678	$ (88)	$ (657,737)	$ 475	$ 519,344	Balance as of June 30, 2023	155,796,411	16	1,176,678	(88)	(657,737)	475	519,344
Stock option exercises, net of statutory tax withholdings									Stock option exercises, net of statutory tax withholdings	12,144	—	28	—	—	—	28
Issuance of common stock upon release of restricted stock units									Issuance of common stock upon release of restricted stock units	74,533	—	—	—	—	—	—
Stock-based compensation									Stock-based compensation	—	—	10,922	—	—	—	10,922
Unrealized gain on available-for-sale securities									Unrealized gain on available-for-sale securities	—	—	—	60	—	—	60
Foreign currency translation adjustments									Foreign currency translation adjustments	—	—	—	51	—	—	51
Contributions from non-controlling interests									Contributions from non-controlling interests	—	—	—	—	—	10	10
Net loss									Net loss	—	—	—	—	(77,072)	—	(77,072)
Balance as of September 30, 2023									Balance as of September 30, 2023	155,883,088	$16	$1,187,628	$ 23	$ (734,809)	$ 485	$ 453,343

The accompanying notes are an integral part of the condensed consolidated financial statements.

		Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling IShterests	Total Stockholders' Equity	Amount	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interests	Total Stockholders' Equity
Balance as of January 1, 2022	Balance as of January 1, 2022	144,671,624	$ 14	$1,176,845	$ 20	$ (509,052)	$ —	$ 667,827	Balance as of January 1, 2022	144,671,624	$14	$1,176,845	$ 20	$ (509,052)	$ —	$ 667,827
Cumulative-effect adjustment upon adoption of ASU 2020-06 (Note 10)	Cumulative-effect adjustment upon adoption of ASU 2020-06 (Note 10)	—	—	(130,979)	—	1,598	—	(129,381)	Cumulative-effect adjustment upon adoption of ASU 2020-06 (Note 10)	—	—	(130,979)	—	1,598	—	(129,381)

Cumulative-effect adjustment upon adoption of ASU 2016-13	Cumulative-effect adjustment upon adoption of ASU 2016-13	—	—	—	—	(573)	—	(573)	Cumulative-effect adjustment upon adoption of ASU 2016-13	—	—	—	—	(573)	—	(573)
Common stock issued upon business combination (Note 6)	Common stock issued upon business combination (Note 6)	8,621,006	1	108,882	—	—	—	108,883	Common stock issued upon business combination (Note 6)	8,621,006	1	108,882	—	—	—	108,883
Stock option exercises, net of statutory tax withholdings	Stock option exercises, net of statutory tax withholdings	425,167	—	(426)	—	—	—	(426)	Stock option exercises, net of statutory tax withholdings	425,167	—	(426)	—	—	—	(426)
Stock-based compensation	Stock-based compensation	—	—	6,787	—	—	—	6,787	Stock-based compensation	—	—	6,787	—	—	—	6,787
Unrealized loss on available-for-sale securities	Unrealized loss on available-for-sale securities	—	—	—	(611)	—	—	(611)	Unrealized loss on available-for-sale securities	—	—	—	(611)	—	—	(611)
Foreign currency translation adjustments	Foreign currency translation adjustments	—	—	—	(28)	—	—	(28)	Foreign currency translation adjustments	—	—	—	(28)	—	—	(28)
Contributions from non-controlling interests	Contributions from non-controlling interests	—	—	—	—	—	141	141	Contributions from non-controlling interests	—	—	—	—	—	141	141
Net loss	Net loss	—	—	—	—	(22,483)	—	(22,483)	Net loss	—	—	—	—	(22,483)	—	(22,483)
Balance as of March 31, 2022	Balance as of March 31, 2022	153,717,797	15	1,161,109	(619)	(530,510)	141	630,136	Balance as of March 31, 2022	153,717,797	15	1,161,109	(619)	(530,510)	141	630,136
Stock option exercises, net of statutory tax withholdings	Stock option exercises, net of statutory tax withholdings	355,712	—	(1,415)	—	—	—	(1,415)	Stock option exercises, net of statutory tax withholdings	355,712	—	(1,415)	—	—	—	(1,415)
Issuance of common stock upon release of restricted stock units	Issuance of common stock upon release of restricted stock units	131,665	—	—	—	—	—	—	Issuance of common stock upon release of restricted stock units	131,665	—	—	—	—	—	—
Shares issued for exercise of warrants	Shares issued for exercise of warrants	21,101	—	150	—	—	—	150	Shares issued for exercise of warrants	21,101	—	150	—	—	—	150
Stock-based compensation	Stock-based compensation	—	—	7,021	—	—	—	7,021	Stock-based compensation	—	—	7,021	—	—	—	7,021
Unrealized loss on available-for-sale securities	Unrealized loss on available-for-sale securities	—	—	—	(399)	—	—	(399)	Unrealized loss on available-for-sale securities	—	—	—	(399)	—	—	(399)
Foreign currency translation adjustments	Foreign currency translation adjustments	—	—	—	(118)	—	—	(118)	Foreign currency translation adjustments	—	—	—	(118)	—	—	(118)
Contributions from non-controlling interests	Contributions from non-controlling interests	—	—	—	—	—	75	75	Contributions from non-controlling interests	—	—	—	—	—	75	75

Net loss	Net loss	—	—	—	—	(32,019)	(4)	(32,023)	Net loss	—	—	—	—	(32,019)	(4)	(32,023)
Balance as of June 30, 2022	Balance as of June 30, 2022	154,226,275	$ 15	$1,166,865	$ (1,136)	$ (562,529)	$ 212	$ 603,427	Balance as of June 30, 2022	154,226,275	15	1,166,865	(1,136)	(562,529)	212	603,427
Stock option exercises, net of statutory tax withholdings									Stock option exercises, net of statutory tax withholdings	201,496	—	584	—	—	—	584
Issuance of common stock upon release of restricted stock units									Issuance of common stock upon release of restricted stock units	60,007	—	—	—	—	—	—
Stock-based compensation									Stock-based compensation	—	—	8,284	—	—	—	8,284
Unrealized loss on available-for-sale securities									Unrealized loss on available-for-sale securities	—	—	—	(845)	—	—	(845)
Foreign currency translation adjustments									Foreign currency translation adjustments	—	—	—	(141)	—	—	(141)
Contributions from non-controlling interests									Contributions from non-controlling interests	—	—	—	—	—	191	191
Net (loss) income									Net (loss) income	—	—	—	—	(34,279)	4	(34,275)
Balance as of September 30, 2022									Balance as of September 30, 2022	154,487,778	$15	$1,175,733	$ (2,122)	$ (596,808)	$ 407	$ 577,225

The accompanying notes are an integral part of these condensed consolidated financial statements.

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STEM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

		Six Months Ended June 30,			Nine Months Ended September 30,	
		2023	2022		2023	2022
OPERATING ACTIVITIES	**OPERATING ACTIVITIES**			**OPERATING ACTIVITIES**		
Net loss	Net loss	$ (25,656)	$ (54,506)	Net loss	$ (102,728)	$ (88,781)
Adjustments to reconcile net loss to net cash used in operating activities:	Adjustments to reconcile net loss to net cash used in operating activities:			Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	Depreciation and amortization expense	22,376	20,887	Depreciation and amortization expense	33,593	32,060
Non-cash interest expense, including interest expenses associated with debt issuance costs	Non-cash interest expense, including interest expenses associated with debt issuance costs	1,586	902	Non-cash interest expense, including interest expenses associated with debt issuance costs	1,969	1,479

Stock-based compensation	Stock-based compensation	17,122	12,732	Stock-based compensation	28,320	20,410
Change in fair value of derivative liability	Change in fair value of derivative liability	2,576	—	Change in fair value of derivative liability	7,731	—
Non-cash lease expense	Non-cash lease expense	1,406	1,131	Non-cash lease expense	2,162	1,722
Accretion of asset retirement obligations	Accretion of asset retirement obligations	120	122	Accretion of asset retirement obligations	178	183
Impairment loss of energy storage systems	Impairment loss of energy storage systems	2,069	919	Impairment loss of energy storage systems	2,347	1,293
Impairment loss of project assets	Impairment loss of project assets	122	—	Impairment loss of project assets	158	—
Net (accretion of discount) amortization of premium on investments	Net (accretion of discount) amortization of premium on investments	(1,300)	410	Net (accretion of discount) amortization of premium on investments	(1,672)	301
Income tax benefit from release of valuation allowance	Income tax benefit from release of valuation allowance	(335)	(15,100)	Income tax benefit from release of valuation allowance	(335)	(15,100)
Provision for accounts receivable allowance	Provision for accounts receivable allowance	1,734	1,010	Provision for accounts receivable allowance	1,754	1,874
Net loss on investments	Net loss on investments	1,561	—	Net loss on investments	1,561	—
Gain on sale of project assets				Gain on sale of project assets	—	(592)
Gain on extinguishment of debt, net	Gain on extinguishment of debt, net	(59,121)	—	Gain on extinguishment of debt, net	(59,121)	—
Other	Other	(680)	(34)	Other	(831)	(39)
Changes in operating assets and liabilities:	Changes in operating assets and liabilities:			Changes in operating assets and liabilities:		
Accounts receivable	Accounts receivable	(72,187)	(26,123)	Accounts receivable	(67,029)	(75,390)
Inventory	Inventory	(137,149)	(36,634)	Inventory	(57,282)	(2,237)
Deferred costs with suppliers	Deferred costs with suppliers	28,759	(23,430)	Deferred costs with suppliers	30,579	(47,836)
Other assets	Other assets	(17,816)	(28,704)	Other assets	(17,947)	(25,242)
Contract origination costs, net	Contract origination costs, net	(2,256)	(3,625)	Contract origination costs, net	(4,184)	(4,842)
Project assets	Project assets	(2,834)	—	Project assets	(2,827)	—
Accounts payable	Accounts payable	19,049	82,405	Accounts payable	1,771	63,207
Accrued expenses and other liabilities	Accrued expenses and other liabilities	(35,087)	7,006	Accrued expenses and other liabilities	(28,910)	38,329
Deferred revenue	Deferred revenue	56,043	28,471	Deferred revenue	27,630	31,620
Lease liabilities	Lease liabilities	(1,341)	(469)	Lease liabilities	(2,135)	(1,053)
Net cash used in operating activities	Net cash used in operating activities	(201,239)	(32,630)	Net cash used in operating activities	(205,248)	(68,634)
INVESTING ACTIVITIES	**INVESTING ACTIVITIES**			**INVESTING ACTIVITIES**		
Acquisitions, net of cash acquired	Acquisitions, net of cash acquired	(1,847)	(533,009)	Acquisitions, net of cash acquired	(1,847)	(533,009)

Purchase of available-for-sale investments	Purchase of available-for-sale investments	(58,034)	(98,922)	Purchase of available-for-sale investments	(58,034)	(181,541)
Proceeds from maturities of available-for-sale investments	Proceeds from maturities of available-for-sale investments	84,750	86,623	Proceeds from maturities of available-for-sale investments	119,650	148,064
Proceeds from sales of available-for-sale investments	Proceeds from sales of available-for-sale investments	73,917	—	Proceeds from sales of available-for-sale investments	73,917	10,930
Purchase of energy storage systems	Purchase of energy storage systems	(2,640)	(232)	Purchase of energy storage systems	(2,912)	(469)
Capital expenditures on internally-developed software	Capital expenditures on internally-developed software	(7,388)	(8,085)	Capital expenditures on internally-developed software	(10,123)	(12,652)
Net proceeds from sale of project assets				Net proceeds from sale of project assets	—	1,251
Capital expenditures on project assets				Capital expenditures on project assets	—	(3,009)
Purchase of property and equipment	Purchase of property and equipment	(289)	(2,405)	Purchase of property and equipment	(395)	(1,490)
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	88,469	(556,030)	Net cash provided by (used in) investing activities	120,256	(571,925)
FINANCING ACTIVITIES	**FINANCING ACTIVITIES**			**FINANCING ACTIVITIES**		
Proceeds from exercise of stock options and warrants	Proceeds from exercise of stock options and warrants	229	611	Proceeds from exercise of stock options and warrants	257	1,194
Payments for taxes related to net share settlement of stock options	Payments for taxes related to net share settlement of stock options	—	(2,302)	Payments for taxes related to net share settlement of stock options	—	(2,302)
Proceeds from financing obligations	Proceeds from financing obligations	—	311	Proceeds from financing obligations	—	1,519
Repayment of financing obligations	Repayment of financing obligations	(2,587)	(6,817)	Repayment of financing obligations	(7,766)	(7,637)
Proceeds from issuance of convertible notes, net of issuance costs of $7,601 and $0 for the six months ended June 30, 2023 and 2022, respectively		232,399	—			
Proceeds from issuance of convertible notes, net of issuance costs of $7,601 and $0 for the nine months ended September 30, 2023 and 2022, respectively				Proceeds from issuance of convertible notes, net of issuance costs of $7,601 and $0 for the nine months ended September 30, 2023 and 2022, respectively	232,399	—
Repayment of convertible notes	Repayment of convertible notes	(99,754)	—	Repayment of convertible notes	(99,754)	—
Purchase of capped call options	Purchase of capped call options	(27,840)	—	Purchase of capped call options	(27,840)	—
(Redemption of) investment from non-controlling interests, net	(Redemption of) investment from non-controlling interests, net	(67)	216	(Redemption of) investment from non-controlling interests, net	(56)	407
Repayment of notes payable	Repayment of notes payable	(2,101)	—	Repayment of notes payable	(2,101)	—
Net cash provided by (used in) financing activities		100,279	(7,981)			

Effect of exchange rate changes on cash and cash equivalents	(7)	(136)
Net decrease in cash and cash equivalents	(12,498)	(596,777)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Cash and cash equivalents, beginning of year	87,903	747,780
Cash and cash equivalents, end of period	$ 75,405	$ 151,003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 2,588	$ 3,407
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Change in asset retirement costs and asset retirement obligation	$ 302	$ 40
Purchases of energy storage systems in accounts payable	$ 388	$ —
Right-of-use asset obtained in exchange for lease liability	$ 2,782	$ —
Stock-based compensation capitalized to internal-use software	$ 1,803	$ 522

Net cash provided by (used in) financing activities	95,139	(6,819)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	114	(304)
Net increase (decrease) in cash, cash equivalents and restricted cash	10,261	(647,682)
Cash, cash equivalents and restricted cash, beginning of year	87,903	747,780
Cash, cash equivalents and restricted cash, end of period	$ 98,164	$ 100,098
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 4,070	$ 4,910
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Change in asset retirement costs and asset retirement obligation	$ 354	$ 56
Purchases of energy storage systems in accounts payable	$ 78	$ —
Right-of-use asset obtained in exchange for lease liability	$ 2,782	$ —
Stock-based compensation capitalized to internal-use software	$ 3,033	$ 1,680
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH WITHIN THE CONDENSED CONSOLIDATED BALANCE SHEETS TO THE AMOUNTS SHOWN IN THE STATEMENTS OF CASH FLOWS ABOVE:		
Cash and cash equivalents	$ 97,064	$ 100,098
Restricted cash included in other noncurrent assets	1,100	—
Total cash, cash equivalents, and restricted cash	$ 98,164	$ 100,098

The accompanying notes are an integral part of these condensed consolidated financial statements.

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BUSINESS

Description of the Business

Stem, Inc., together with its consolidated subsidiaries ("Stem," the "Company," "we," "us," or "our"), is a global leader in artificial intelligence ("AI") -driven clean energy solutions and services. The Company maintains one of the world's largest digitally connected, intelligent renewable energy networks, providing customers (i) with an energy storage system, sourced from leading, global battery original equipment manufacturers ("OEMs"), that the Company delivers through its partners, including developers, distributors and engineering, procurement and construction ("EPC") firms, (ii) edge hardware to aid in the collection of site data and the real-time operation and control of the site plus other optional equipment, (iii) ongoing software platform and professional services to operate standalone energy storage, and integrated solar plus storage systems, and solar asset performance monitoring and control through its Athena® artificial intelligence ("AI") clean energy optimization platform ("Athena"), and (iv) solar asset performance monitoring and control, through Athena's PowerTrack application. In addition, in all the markets where the Company helps manage its customers' clean energy storage assets, the Company has agreements to use the Athena platform to participate in such markets and to share the revenue from such market participation.

The Company delivers its battery hardware and software-enabled services to its customers through its Athena platform. The Company's hardware and recurring software-enabled services mitigate customer energy costs through services such as time-of-use and demand charge management optimization and by aggregating the dispatch of energy through a network of virtual power plants. The resulting network created by the Company's growing customer base increases grid resilience and reliability through the real-time processing of market-based demand signals, energy prices and other factors in connection with the deployment of renewable energy resources to such customers. Additionally, the Company's clean energy storage solutions support renewable energy generation by alleviating grid intermittency issues, thereby reducing customer dependence on traditional, fossil fuel resources.

The Company's Athena PowerTrack application provides a vertically integrated solution that incorporates on-site power monitoring equipment that aggregates and communicates data to enable remote control of solar generation assets. PowerTrack provides direct access to individual site performance to measure and benchmark expected energy production, maximizing asset value for our customers.

From time to time, the Company, through an indirect wholly-owned development subsidiary ("DevCo") will enter into strategic joint ventures (each a "DevCo JV") with qualified third parties for the development of select renewable energy projects ("DevCo Projects"). In this structure, DevCo forms a new DevCo JV entity as the majority owner, with the developer as the minority owner. The purpose of the DevCo JV is to develop and sell DevCo Projects and secure Company hardware and software services for those projects. In DevCo Projects, the Company makes development capital contributions to fund project development, and recovers those capital contributions plus a fee when the developer takes ownership of the project. Given long times to secure hardware, the Company will in some cases elect to make cash advances to hardware suppliers to accelerate project construction timelines given long lead times to secure hardware. This business model is intended to allow the Company to advance development capital to key partners in strategic markets and secure hardware upfront, in order to generate higher-margin software and services and other revenue via exclusive long-term services contracts under the DevCo Projects.

On February 1, 2022, the Company acquired all of the issued and outstanding capital stock of Also Energy Holdings, Inc. ("AlsoEnergy"), which has been consolidated since the date of acquisition. Through AlsoEnergy, the Company provides end-to-end turnkey solutions that monitor and manage renewable energy systems through its PowerTrack software. PowerTrack includes data acquisitions and monitoring, performance modeling, agency reporting, internal reports, work order tickets, and supervisory control and data acquisition ("SCADA") controls. AlsoEnergy has deployed systems at various international locations, but its largest concentration of customers is in the United States, Germany and Canada. See Note 6 — *Business Combinations*.

The Company operated as Rollins Road Acquisition Company (f/k/a Stem, Inc.) ("Legacy Stem") prior to the Merger with Star Peak Transition Corp. ("STPK"), an entity that was then listed on the New York Stock Exchange under the trade symbol "STPK," and STPK Merger Sub Corp., a Delaware corporation and wholly-owned subsidiary of STPK ("Merger Sub"), providing for, among other things, and subject to the conditions therein, the combination of the Company and STPK pursuant to the merger of Merger Sub with and into the Company, with the Company continuing as the surviving entity (the "Merger"). Stem, Inc. was incorporated on March 16, 2009 in the State of Delaware and is headquartered in San Francisco, California.

Liquidity

As of June 30, 2023 September 30, 2023, the Company had cash and cash equivalents of $75.4 million $97.1 million, short-term investments of $62.8 million $28.3 million, an accumulated deficit of $657.7 million $734.8 million and net working capital of $305.3 million $241.3 million. During the six nine months ended June 30, 2023 September 30, 2023, the Company incurred a net loss of $25.7 million $102.7 million and had negative cash flows from operating activities of $201.2 million $205.2 million. Further, the Company received net proceeds of $232.4 million from the issuance of the Company's 4.25% Green Convertible Senior Notes due 2030 (the "2030 Convertible Notes") (as described in Note 10 — *Convertible Notes*) of which $99.8 million was paid to reduce the principal balance by $163.0 million of the Company's 0.5% Green Convertible Senior Notes due 2028 (the "2028 Convertible Notes. Notes"). The Company believes that its cash position is sufficient to meet capital and liquidity requirements for at least the next 12 months after the date that the financial statements are available to be issued.

The Company's business prospects are subject to risks, expenses, and uncertainties frequently encountered by companies in the early stages of commercial operations. The attainment of profitable operations is dependent upon future events, including securing new customers and maintaining current ones, securing and maintaining adequate supplier relationships, building the Company's customer base, successfully executing its business and marketing strategy, obtaining adequate financing to complete the Company's development activities, and hiring and retaining appropriate personnel. Failure to generate sufficient revenues, achieve planned gross margins and operating profitability, control operating costs, or secure additional funding may require the Company to modify, delay or abandon some of its planned future expansion or development, to seek additional equity or debt financing, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on the Company's business, operating results and financial condition.

Supply Chain Constraints and Risk

The Company's industry continues to face Company has in the past faced shortages and shipping delays affecting the supply of inverters, enclosures, battery modules and associated component parts for inverters and battery energy storage systems available for purchase. These shortages and delays can be attributed were due in part to the evolving macroeconomic, geopolitical and business environment, including the effects of increased global inflationary pressures and interest rates, general economic slowdown or a recession, changes in monetary policy, instability in financial institutions, the prospect of a shutdown of the U.S. federal government, potential import tariffs, geopolitical pressures, including the Russia-Ukraine armed conflict, rising tensions between China and Taiwan the United States and unknown effects of current and future trade regulations. If these shortages and delays persist through the second half of 2023, they could adversely affect the timing of when battery energy storage systems can be delivered and installed, and when (or if) the Company can begin to generate revenue from those systems. The Company cannot predict the full effects the macroeconomic, geopolitical and business environment will continue to have on our business, cash flows, liquidity, financial condition and results of operations. In addition, the COVID-19 pandemic caused, and any new outbreaks or resurgence of COVID-19 and its variants, or outbreaks of other infectious diseases, could again cause, a significant reduction in global economic activity, significantly weakening demand for our products and services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X, assuming the Company will continue as a going concern. Accordingly, the condensed consolidated balance sheet at December 31, 2022 has been derived from the audited financial statements at that date, but certain notes or other information that are normally required by GAAP have been omitted if they substantially duplicate the disclosures contained in the Company's annual audited consolidated financial statements. In the opinion of Stem management, all normal and recurring adjustments considered necessary for a fair statement of the results for the interim period presented have been included in the accompanying unaudited condensed consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2022. Operating results for the three and six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any other future interim period or year.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and consolidated variable interest entities ("VIEs"). The Company presents non-controlling interests within the equity section of its condensed consolidated balance sheets, and the amount of consolidated net income (loss) loss that is attributable to Stem and the non-controlling interest in its condensed consolidated statements of operations. All intercompany balances and transactions have been eliminated in consolidation.

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Variable Interest Entities

The Company forms special purpose entities ("SPEs"), some of which are VIEs, with its investors in the ordinary course of business to facilitate the funding and monetization of its energy storage systems. A legal entity is considered a VIE if it has either a total equity investment that is insufficient to finance its operations without additional subordinated financial support or whose equity holders lack the characteristics of a controlling financial interest. The Company's variable interests arise from contractual, ownership, or other monetary interests in the entity. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests.

The Company consolidates a VIE if it is deemed to be the primary beneficiary. The Company determines it is the primary beneficiary if it has the power to direct the activities that most significantly impact the VIEs' economic performance and has the obligation to absorb losses or has the right to receive benefits of the VIE that could potentially be significant to the VIE. The Company evaluates its relationships with its VIEs on an ongoing basis to determine whether it is the primary beneficiary.

Beginning in January 2022, the Company formed DevCo JVs with the purpose of originating potential battery storage facility projects in specific locations and conducting early-stage planning and development activities. The Company determined that the DevCo JVs are VIEs, as they lack sufficient equity to finance their activities without additional financial support. The Company determined that it has both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses or receive benefits from the VIE that could potentially be significant. Accordingly, the Company has determined that it is the primary beneficiary of the DevCo JVs, and as a result, the DevCo JVs' operating results, assets and liabilities are consolidated by the Company, with third party minority owners' share presented as noncontrolling interest. The Company applied the hypothetical liquidation at book value method in allocating recorded net income (loss) to each owner based on the change in the reporting period, of the amount of net assets of the entity to which each owner would be entitled to under the governing contracts in a liquidation scenario.

The following table summarizes the carrying values of the assets and liabilities of the DevCo JVs that are consolidated by the Company as of June 30, 2023 September 30, 2023 and December 31, 2022 (in thousands):

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Assets	**Assets**			**Assets**		
Cash and cash equivalents	Cash and cash equivalents	$ 892	$ 6,686	Cash and cash equivalents	$ 2,482	$ 6,686
Other current assets	Other current assets	7	38	Other current assets	5	38
Other noncurrent assets	Other noncurrent assets	5,920	3,208	Other noncurrent assets	5,877	3,208

Total assets	**Total assets**	6,819	9,932	**Total assets**	8,364	9,932
Liabilities	**Liabilities**			**Liabilities**		
Accounts payable	Accounts payable	530	356	Accounts payable	826	356
Other current liabilities	Other current liabilities	163	97	Other current liabilities	137	97
Total liabilities	**Total liabilities**	$ 693	$ 453	**Total liabilities**	$ 963	$ 453

For the six nine months ended June 30, 2023 September 30, 2023 and 2022, the Company contributed approximately $0.1 million and $5.6 million $6.6 million in capital investments for hardware purchases, respectively. The net income from the DevCo JVs was $1.2 million and $1.4 million during the three and nine months ended September 30, 2023, respectively, and immaterial during the three and six nine months ended June 30, 2023 and 2022. September 30, 2022.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. Such reclassifications have no impact on previously reported net income (loss), stockholders' equity, or cash flows. For the six months ended June 30, 2022, a $23.4 million net cash outflow was reclassified from changes in other assets to changes in deferred costs with suppliers, a $7.0 million net cash inflow was reclassified from change in accounts payable to accrued expenses and other liabilities, and a $0.2 million net cash outflow was reclassified from other liabilities to accrued expenses and other liabilities in the condensed consolidated statements of cash flows. This change had no impact to net cash used in operating activities.

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable. Actual results could differ from those estimates and such differences could be material to the financial position and results of operations.

Significant estimates and assumptions reflected in these unaudited condensed consolidated financial statements include, but are not limited to, depreciable life of energy storage systems; estimates of transaction price with variable consideration; the amortization of acquired intangibles; the amortization of financing obligations; deferred commissions and contract fulfillment costs; the valuation of energy storage systems, internally developed software, and asset retirement obligations; and the fair

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

value of equity instruments, equity-based instruments, derivative liability, accruals related to sales tax liabilities and net assets acquired in a business combination.

Segment Information

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the CODM. The CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. As such, management has determined that the Company operates as one operating segment that is focused exclusively on innovative technology services that transform the way energy is distributed and consumed. The operations acquired as part of the acquisition of AlsoEnergy have been included in the Company's operating segment. Net assets outside of the U.S. were less than 10% of total net assets as of June 30, 2023 September 30, 2023 and December 31, 2022.

Concentration of Credit Risk and Other Uncertainties

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and accounts receivable. The Company's cash balances are primarily invested in money market funds or on deposit at high credit quality financial institutions in the U.S. The Company's cash and cash equivalents are held at financial institutions where account balances may at times exceed federally insured limits. Management believes the Company is not exposed to significant credit risk due to the financial strength of the depository institution in which the cash is held. The Company has no financial instruments with off-balance sheet risk of loss.

At times, the Company may be subject to a concentration of credit risk in relation to certain customers due to the purchase of large energy storage systems made by such customers. The Company routinely assesses the creditworthiness of its customers. The Company has not experienced material losses related to receivables from individual customers, or groups of customers during the six nine months ended June 30, 2023 September 30, 2023 and 2022. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for credit losses is believed by management to be probable in the Company's accounts receivable.

Significant Customers

A significant customer represents 10% or more of the Company's total revenue or accounts receivable, net balance at each reporting date. For each significant customer, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable are as follows:

		Accounts Receivable		Revenue		Revenue			Accounts Receivable		Revenue		Revenue	
		June 30,	December 31,	Three Months Ended June 30,		Six Months Ended June 30,			September 30,	December 31,	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022	2023	2022		2023	2022	2023	2022	2023	2022
Customers:	**Customers:**							**Customers:**						
Customer A	Customer A	58 %	54 %	61 %	50 %	35 %	46 %	Customer A	54 %	54 %	*	58 %	18 %	52 %
Customer B	Customer B	12 %	16 %	*	*	*	*	Customer B	10 %	16 %	*	*	*	*
Customer C	Customer C	13 %	11 %	*	*	26 %	*	Customer C	14 %	11 %	*	*	*	*
Customer D	Customer D	*	*	*	15 %	*	*	Customer D	*	*	*	12 %	*	*
Customer E								Customer E	*	*	89 %	*	41 %	*

*Total less than 10% for the period.

There are inherent risks whenever a large percentage of total revenue is concentrated in a limited number of customers. Should a significant customer terminate or fail to renew its contracts with us, in whole or in part, for any reason, or experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations. In general, a customer that makes up a significant portion of revenues in one period, may not make up a significant portion in subsequent periods.

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the unaudited condensed consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities).

Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 — Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 — Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The Company's assessment of the significance of a specific input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

Financial assets and liabilities held by the Company measured at fair value on a recurring basis as of June 30, 2023 September 30, 2023 and December 31, 2022 include cash and cash equivalents, short-term investments, derivative liability, and convertible notes.

3. REVENUE

Disaggregation of Revenue

The following table provides information on the disaggregation of revenue as recorded in the condensed consolidated statements of operations (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,

	2023	2022	2023	2022
Hardware revenue	$ 76,586	$ 54,426	$ 129,318	$ 85,549
Services and other revenue	16,360	12,521	31,033	22,486
Total revenue	$ 92,946	$ 66,947	$ 160,351	$ 108,035

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Hardware revenue	$ 117,143	$ 85,809	$ 246,461	$ 171,358
Services and other revenue	16,597	13,692	47,630	36,178
Total revenue	$ 133,740	$ 99,501	$ 294,091	$ 207,536

The following table summarizes reportable revenue by geographic regions determined based on the location of the customers (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
United States	$ 89,636	$ 64,202	$ 150,208	$ 103,660	$ 129,800	$ 97,815	$ 280,010	$ 201,475
Rest of the world	3,310	2,745	10,143	4,375	3,940	1,686	14,081	6,061
Total revenue	$ 92,946	$ 66,947	$ 160,351	$ 108,035	$ 133,740	$ 99,501	$ 294,091	$ 207,536

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Remaining Performance Obligations

Remaining performance obligations represent contracted revenue that has not been recognized, which include contract liabilities (deferred revenue) and amounts that will be billed and recognized as revenue in future periods. As of June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, the Company had $767.0 million $545.3 million and $363.8 million $365.8 million of remaining performance obligations, respectively, and the approximate percentages expected to be recognized as revenue in the future are as follows (in thousands, except percentages):

	June 30, 2023				September 30, 2023			
		Percent Expected to be Recognized as Revenue				Percent Expected to be Recognized as Revenue		
	Total Remaining Performance Obligations	Less Than One Year	Two to Five Years	Greater Than Five Years	Total Remaining Performance Obligations	Less Than One Year	Two to Five Years	Greater Than Five Years
Services and other revenue	$ 407,026	12 %	44 %	44 %	$ 331,520	14 %	48 %	38 %
Hardware revenue	360,003	100 %	— %	— %	213,813	100 %	— %	— %
Total revenue	$ 767,029				$ 545,333			

	June 30, 2022		September 30, 2022	
	Total Remaining Performance Obligations	Percent Expected to be Recognized as Revenue	Total Remaining Performance Obligations	Percent Expected to be Recognized as Revenue

			Less Than One Year	Two to Five Years	Greater Than Five Years			Less Than One Year	Two to Five Years	Greater Than Five Years
Services and other revenue	Services and other revenue	$ 258,080	18 %	51 %	31 %	Services and other revenue	$ 264,195	17 %	51 %	32 %
Hardware revenue	Hardware revenue	105,680	100 %	— %	— %	Hardware revenue	101,603	98 %	2 %	— %
Total revenue	Total revenue	$ 363,760				Total revenue	$ 365,798			

Contract Balances

Deferred revenue primarily includes cash received in advance of revenue recognition related to energy optimization services and incentives. The following table presents the changes in the deferred revenue balance during the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 (in thousands):

		Six Months Ended June 30,			Nine Months Ended September 30,	
		2023	2022		2023	2022
Beginning balance	Beginning balance	$ 138,074	$ 37,443	Beginning balance	$ 138,074	$ 37,443
Deferred revenue acquired upon business combination	Deferred revenue acquired upon business combination	—	49,626	Deferred revenue acquired upon business combination	—	49,626
Upfront payments received from customers	Upfront payments received from customers	117,356	85,598	Upfront payments received from customers	217,360	113,101
Upfront or annual incentive payments received	Upfront or annual incentive payments received	1,614	3,868	Upfront or annual incentive payments received	2,805	4,592
Revenue recognized related to amounts that were included in beginning balance of deferred revenue	Revenue recognized related to amounts that were included in beginning balance of deferred revenue	(18,820)	(4,488)	Revenue recognized related to amounts that were included in beginning balance of deferred revenue	(26,538)	(16,122)
Revenue recognized related to amounts that were included in acquired balance of deferred revenue	Revenue recognized related to amounts that were included in acquired balance of deferred revenue	—	(7,983)	Revenue recognized related to amounts that were included in acquired balance of deferred revenue	—	(3,338)
Revenue recognized related to deferred revenue generated during the period	Revenue recognized related to deferred revenue generated during the period	(44,107)	(48,523)	Revenue recognized related to deferred revenue generated during the period	(165,997)	(66,612)
Ending balance	Ending balance	$ 194,117	$ 115,541	Ending balance	$ 165,704	$ 118,690

Parent Company Guarantees

In certain customer contracts, the Company previously agreed to provide a guarantee that the value of purchased hardware will not decline for a certain period of time. Under this guarantee, if these customers were unable to install or designate the hardware to a specified project within such period of time, the Company would be required to assist the customer in re-marketing the hardware for resale by the customer. The guarantee provided that, in such cases, if the customer resold the hardware for less than the amount initially sold to the customer, the Company would be required to compensate the customer for any shortfall in fair value for the hardware from the initial contract price. The Company accounts for such contractual terms and guarantees as variable consideration at each measurement date. The Company updates its estimate of variable consideration, including changes in estimates related to such guarantees, each quarter for facts or circumstances that have changed from the time of the initial estimate. As a result, the Company recorded a revenue reduction during the third quarter of fiscal year 2023 of $32.7 million in hardware revenue relating to hardware deliveries prior to third quarter 2023. During the

three months ended September 30, 2023, variable consideration relating to current quarter hardware deliveries was constrained by $4.7 million.

4. SHORT-TERM INVESTMENTS

The following tables summarize the estimated fair value of the Company's short-term investments and the gross unrealized holding gains and losses as of June 30, 2023 September 30, 2023 and December 31, 2022 (in thousands):

		As of June 30, 2023					As of September 30, 2023			
		Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value		Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Corporate debt securities	Corporate debt securities	$ 5,036	$ —	$ (18)	$ 5,018	Corporate debt securities	$ 5,052	$ —	$ (10)	$ 5,042
Commercial paper		8,945	—	—	8,945					
U.S. government bonds	U.S. government bonds	21,357	—	(47)	21,310	U.S. government bonds	9,985	—	(12)	9,973
Certificate of deposits	Certificate of deposits	4,697	—	—	4,697	Certificate of deposits	3,000	—	—	3,000
Treasury bills	Treasury bills	14,644	—	(19)	14,625	Treasury bills	6,793	—	—	6,793
Agency bonds	Agency bonds	8,182	1	(9)	8,174	Agency bonds	3,503	—	(10)	3,493
Total short-term investments	Total short-term investments	$ 62,861	$ 1	$ (93)	$ 62,769	Total short-term investments	$ 28,333	$ —	$ (32)	$ 28,301

	As of December 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Corporate debt securities	$ 17,056	$ —	$ (164)	$ 16,892
Commercial paper	18,922	—	—	18,922
U.S. government bonds	106,774	—	(1,515)	105,259
Certificate of deposits	9,986	—	—	9,986
Treasury bills	9,518	3	(5)	9,516
Agency bonds	1,500	—	(1)	1,499
Total short-term investments	$ 163,756	$ 3	$ (1,685)	$ 162,074

The following table presents the contractual maturities of the Company's short-term investments as of June September 30, 2023 (in thousands):

		As of June 30, 2023			As of September 30, 2023	
		Amortized cost	Estimated Fair Value		Amortized cost	Estimated Fair Value
Due within one year	Due within one year	$ 62,861	$ 62,769	Due within one year	$ 28,333	$ 28,301
Total	Total	$ 62,861	$ 62,769	Total	$ 28,333	$ 28,301

The Company periodically reviews the individual securities that have unrealized losses on a regular basis to evaluate whether or not any security has experienced, or is expected to experience, credit losses resulting in the decline in fair value. The Company evaluates, among other factors, whether the Company intends to sell any of these marketable securities and whether it is more likely than not that the Company will be required to sell any of them before recovery of the amortized cost basis. During the six nine months ended June 30, 2023 September 30, 2023, the Company did not record an allowance for credit losses, as management believes any such losses would be immaterial based on the investment-grade credit rating for each of the short-term investments as of the end of each period.

5. FAIR VALUE MEASUREMENTS

Fair value accounting is applied for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. At June 30, 2023 September 30, 2023 and December 31, 2022, the carrying amount of accounts receivable, other current assets, accounts payable, and accrued and other current liabilities approximated their estimated fair value due to their relatively short maturities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table provides the financial instruments measured at fair value (in thousands):

		June 30, 2023					September 30, 2023			
		Level 1	Level 2	Level 3	Fair Value		Level 1	Level 2	Level 3	Fair Value
Assets:	Assets:					Assets:				
Cash equivalents:	Cash equivalents:					Cash equivalents:				
Money market fund	Money market fund	$ 48,392	$ —	$ —	$ 48,392	Money market fund	$ 30,293	$ —	$ —	$ 30,293
Commercial paper	Commercial paper	—	6,492	—	6,492	Commercial paper	—	—	—	—
Debt securities:	Debt securities:					Debt securities:				
Corporate debt securities	Corporate debt securities	—	5,018	—	5,018	Corporate debt securities	—	5,042	—	5,042
Commercial paper		—	8,945	—	8,945					
U.S. government bonds	U.S. government bonds	—	21,310	—	21,310	U.S. government bonds	—	9,973	—	9,973
Certificate of deposits	Certificate of deposits	—	4,697	—	4,697	Certificate of deposits	—	3,000	—	3,000
Treasury bills	Treasury bills	—	14,625	—	14,625	Treasury bills	—	6,793	—	6,793
Agency bonds	Agency bonds	—	8,174	—	8,174	Agency bonds	—	3,493	—	3,493
Total financial assets	Total financial assets	$ 48,392	$ 69,261	$ —	$ 117,653	Total financial assets	$ 30,293	$ 28,301	$ —	$ 58,594
Liabilities:	Liabilities:					Liabilities:				
Derivative liability	Derivative liability	$ —	$ —	$ 2,576	$ 2,576	Derivative liability	$ —	$ —	$ 7,731	$ 7,731

	December 31, 2022			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market fund	$ 10,618	$ —	$ —	$ 10,618
Commercial paper	—	2,988	—	2,988
Debt securities:				
Corporate debt securities	—	16,892	—	16,892
Commercial paper	—	18,922	—	18,922

U.S. government bonds	—	105,259	—	105,259
Certificate of deposits	—	9,986	—	9,986
Treasury bills	—	9,516	—	9,516
Other	—	1,499	—	1,499
Total financial assets	$ 10,618	$ 165,062	$ —	$ 175,680

The Company's money market funds are classified as Level 1 because they are valued using quoted market prices. The Company's short-term investments consist of available-for-sale securities and are classified as Level 2 because their value is based on valuations using significant inputs derived from or corroborated by observable market data. The Company's other current liabilities includes a derivative liability that is attributable to a derivative feature within a revenue contract, whereby final settlement is indexed to the price per ton of lithium carbonate. The balance will be valued using a third party forecast for lithium carbonate. As the revenue contracts are derivative instrument is not traded on an exchange they are classified within Level 3 of the fair value hierarchy.

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Fair Value of Convertible Promissory Notes

The convertible notes are recorded at face value less unamortized debt issuance costs (see Note 10 — *Convertible Notes* for additional details) on the condensed consolidated balance sheets as of June 30, 2023 September 30, 2023. As of June 30, 2023 September 30, 2023 and December 31, 2022, the estimated fair value of the convertible notes 2028 Convertible Notes was $412.0 177.9 million and $293.1 million, respectively, based on Level 2 quoted bid prices of the convertible notes in an over-the-counter market on the last trading date of the reporting period. As of September 30, 2023, the estimated fair value of the 2030 Convertible Notes was $192.1 million, based on Level 2 quoted bid prices of the convertible notes in an over-the-counter market on the last trading date of the reporting period.

6. BUSINESS COMBINATIONS

AlsoEnergy Acquisition

On February 1, 2022, Stem, Inc. acquired 100% of the outstanding shares of AlsoEnergy. AlsoEnergy provides end-to-end turnkey solutions that monitor and manage renewable energy systems. The total consideration to acquire AlsoEnergy was $652.0 million, comprised of $543.1 million in cash, net of a working capital adjustment for an escrow recovery, and $108.9 million in the form of 8,621,006 shares of the Company's common stock. The Company incurred $6.1 million of transaction costs related to the acquisition of AlsoEnergy, which were recorded in general and administrative expense in the six nine months ended June 30, 2022 September 30, 2022.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information summarizes the combined results of operations for the Company and AlsoEnergy, as if the acquisition had occurred on January 1, 2022. The pro forma financial information is as follows (in thousands):

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Total revenue	Total revenue	$ 92,946	$ 66,947	$ 160,351	$ 111,871	Total revenue	$ 133,740	$ 99,501	$ 294,091	$ 211,372
Net income (loss)		$ 19,122	$ (32,023)	$ (25,656)	$ (62,411)					
Net loss						Net loss	$ (77,072)	$ (34,275)	$ (102,728)	$ (96,686)

The pro forma financial information for the periods presented above has been calculated after adjusting the results of AlsoEnergy to reflect the business combination accounting effects resulting from this acquisition, including the elimination of transaction costs incurred by the Company, amortization expense from acquired intangible assets, and settlement of stock option awards. The historical consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are directly attributable to the business combination. The pro forma financial information is for informational purposes only, and is not indicative of either future results of operations, or results that may have been achieved had the acquisition been consummated as of the beginning of 2022.

7. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

Goodwill consists of the following (in thousands):

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Goodwill	Goodwill	$ 547,158	$ 547,556	Goodwill	$ 547,158	$ 547,556

Recovery of escrow from AlsoEnergy acquisition	Recovery of escrow from AlsoEnergy acquisition	—	(915)	Recovery of escrow from AlsoEnergy acquisition	—	(915)
Effect of foreign currency translation	Effect of foreign currency translation	46	8	Effect of foreign currency translation	6	8
Total goodwill	Total goodwill	$ 547,204	$ 546,649	Total goodwill	$ 547,164	$ 546,649

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Intangible Assets, Net

Intangible assets, net, consists of the following (in thousands):

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Developed technology	Developed technology	$ 32,000	$ 30,600	Developed technology	$ 32,000	$ 30,600
Trade name	Trade name	11,300	11,300	Trade name	11,300	11,300
Customer relationships	Customer relationships	106,800	106,800	Customer relationships	106,800	106,800
Backlog	Backlog	3,900	3,900	Backlog	3,900	3,900
Internally developed software	Internally developed software	58,664	49,472	Internally developed software	62,628	49,472
Intangible assets	Intangible assets	212,664	202,072	Intangible assets	216,628	202,072
Less: Accumulated amortization	Less: Accumulated amortization	(53,206)	(39,809)	Less: Accumulated amortization	(58,309)	(39,809)
Add: Currency translation adjustment	Add: Currency translation adjustment	14	2	Add: Currency translation adjustment	2	2
Total intangible assets, net	Total intangible assets, net	$ 159,472	$ 162,265	Total intangible assets, net	$ 158,321	$ 162,265

Amortization expense for intangible assets was $6.8 5.2 million and $6.2 $6.5 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and $13.3 million $18.5 million and $10.4 16.9 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

8. ENERGY STORAGE SYSTEMS, NET

Energy Storage Systems, Net

Energy storage systems, net, consists of the following (in thousands):

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Energy storage systems placed into service	Energy storage systems placed into service	$ 141,450	$ 143,154	Energy storage systems placed into service	$ 141,759	$ 143,154
Less: accumulated depreciation	Less: accumulated depreciation	(62,338)	(58,782)	Less: accumulated depreciation	(65,606)	(58,782)

Energy storage systems not yet placed into service	Energy storage systems not yet placed into service	5,515	6,385	Energy storage systems not yet placed into service	4,556	6,385
Total energy storage systems, net	Total energy storage systems, net	$ 84,627	$ 90,757	Total energy storage systems, net	$ 80,709	$ 90,757

Depreciation expense for energy storage systems was approximately $3.6 million and $3.7 $3.8 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and approximately $7.2 $10.8 million and $7.4 $11.2 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Depreciation expense is recognized in cost of services and other revenue.

Impairment expense for energy storage systems was approximately $0.3 million and $0.4 million for the three months ended September 30, 2023 and 2022, respectively, and approximately $2.3 million and $1.3 million for the nine months ended September 30, 2023 and 2022, respectively. Impairment expense is recognized in cost of services and other revenue.

9. NOTES PAYABLE

2021 Credit Agreement

In January 2021, a wholly-owned Canadian subsidiary of the Company entered into a credit agreement to provide a total of $2.7 million towards the financing of certain energy storage systems. The credit agreement was structured on a non-recourse basis and the systems were operated by the Company. The credit agreement had a stated interest of 5.45% and a maturity date of June 2031. The Company received an advance under the credit agreement of $1.8 million in January 2021. The repayment of advances received under the credit agreement was determined by the lender based on the proceeds generated by the Company through the operation of the underlying energy storage systems.

On April 6, 2023, the Company repaid the remaining outstanding balance under the 2021 Credit Agreement with a portion of the net proceeds from the issuance of the 2030 Convertible Notes (as described in Note 10 — *Convertible Notes*). Upon prepayment of this facility, the Company incurred a $0.3 million loss on extinguishment of debt, which is recorded in the Company's statement of operations. The facility was terminated after the repayment in April 2023.

10. CONVERTIBLE NOTES

2028 Convertible Notes and 2028 Capped Call Options

2028 Convertible Notes

On November 22, 2021, the Company issued $460.0 million aggregate principal amount of its 2028 Convertible Notes in a private placement offering to qualified institutional buyers (the "2021 Initial Purchasers") pursuant to Rule 144A under the Securities Act of 1933, as amended.

The 2028 Convertible Notes are senior, unsecured obligations of the Company and bear interest at a rate of 0.5% per year, payable in cash semi-annually in arrears in June and December of each year, beginning in June 2022. The notes will mature on December 1, 2028, unless earlier repurchased, redeemed or converted in accordance with their terms prior to such date. Upon conversion, the Company may choose to pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock. The Notes are redeemable for cash at the Company's option at any time given certain conditions (as discussed below), at an initial conversion rate of 34.1965 shares of common stock per $1,000 principal amount of 2028 Convertible Notes, which is equivalent to an initial conversion price of approximately $29.24 (the "2028 Conversion Price") per share of the Company's common stock. The conversion rate is subject to customary adjustments for certain events as described in the Indenture.

The Company may redeem for cash all or any portion of the 2028 Convertible Notes, at the Company's option, on or after December 5, 2025 if the last reported sale price of the Company's common stock has been at least 130% of the 2028 Conversion Price then in effect for at least 20 trading days at a redemption price equal to 100% of the principal amount of the 2028 Convertible Notes to be redeemed, plus accrued and unpaid interest.

The Company's net proceeds from this offering were approximately $445.7 million, after deducting the 2021 Initial Purchasers' discounts and debt issuance costs. To minimize the impact of potential dilution to the Company's common stockholders upon conversion of the 2028 Convertible Notes, the Company entered into separate capped call transactions (the "2028 Capped Calls") as described below. In connection with the issuance of the 2030 Convertible Notes during the three months ended June 30, 2023, second quarter of 2023, the Company used approximately $99.8 million of the net proceeds to purchase and surrender for cancellation approximately $163.0 million aggregate principal amount of the Company's 2028 Convertible Notes, which resulted in a $59.4 million gain on debt extinguishment. See *2030 Convertible Notes* below for further details of the 2030 Convertible Notes.

Upon adoption of ASU 2020-06, the Company allocated all of the debt discount to long-term debt. The debt discount is amortized to interest expense using the effective interest method, computed to be 0.9%, over the life of the 2028 Convertible Notes or approximately its seven-year term. The outstanding 2028 Convertible Notes balances as of June 30, 2023 September 30, 2023 and December 31, 2022 are summarized in the following table (in thousands):

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Long Term Debt	Long Term Debt			Long Term Debt		

Outstanding principal	Outstanding principal	$ 297,024	$ 460,000	Outstanding principal	$ 297,024	$ 460,000
Unamortized initial purchaser's debt discount and debt issuance cost	Unamortized initial purchaser's debt discount and debt issuance cost	(7,148)	(12,091)	Unamortized initial purchaser's debt discount and debt issuance cost	(6,825)	(12,091)
Net carrying amount	Net carrying amount	$ 289,876	$ 447,909	Net carrying amount	$ 290,199	$ 447,909

STEM, INC.

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The following table presents total interest expense recognized related to the 2028 Convertible Notes during the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 (in thousands):

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Cash interest expense	Cash interest expense					Cash interest expense				
Contractual interest expense	Contractual interest expense	$ 376	$ 575	$ 951	$ 1,150	Contractual interest expense	$ 371	$ 575	$ 1,322	$ 1,725
Non-cash interest expense	Non-cash interest expense					Non-cash interest expense				
Amortization of debt discount and debt issuance cost	Amortization of debt discount and debt issuance cost	342	496	841	991	Amortization of debt discount and debt issuance cost	323	497	1,163	1,488
Total interest expense	Total interest expense	$ 718	$ 1,071	$ 1,792	$ 2,141	Total interest expense	$ 694	$ 1,072	$ 2,485	$ 3,213

2028 Capped Call Options

On November 17, 2021, in connection with the pricing of the 2028 Convertible Notes, and on November 19, 2021, in connection with the exercise in full by the 2021 Initial Purchasers of their option to purchase additional Notes, the Company entered into the 2028 Capped Calls with certain counterparties. The Company used $66.7 million of the net proceeds to pay the cost of the 2028 Capped Calls.

The 2028 Capped Calls have an initial strike price of $29.2428 per share, which corresponds to the initial conversion price of the 2028 Convertible Notes and is subject to anti-dilution adjustments. The 2028 Capped Calls have a cap price of $49.6575 per share, subject to certain adjustments.

The 2028 Capped Calls are considered separate transactions entered into by and between the Company and the 2028 Capped Calls counterparties, and are not part of the terms of the 2028 Convertible Notes. The Company recorded a reduction to additional paid-in capital of $66.7 million during the year ended December 31, 2021 related to the premium payments for the 2028 Capped Calls. These instruments meet the conditions outlined in FASB ASU 2022-01 Topic 815, *Derivatives and Hedging* ("ASC 815") to be classified in stockholders' equity and are not subsequently remeasured as long as the conditions for equity classification continue to be met.

2030 Convertible Notes and 2030 Capped Call Options

2030 Convertible Notes

On April 3, 2023, the Company issued $240.0 million aggregate principal amount of its 2030 Convertible Notes in a private placement offering to qualified institutional buyers (the "2023 Initial Purchasers") pursuant to Rule 144A under the Securities Act of 1933, as amended.

The 2030 Convertible Notes are senior, unsecured obligations of the Company and bear interest at a rate of 4.25% per year, payable in cash semi-annually in arrears in April and October of each year, beginning on October 1, 2023. The notes will mature on April 1, 2030, unless earlier repurchased, redeemed or converted in accordance with their terms prior to such date. Upon conversion, the Company may choose to pay or deliver cash, shares of common stock or a combination of cash and shares of common stock. The Notes are redeemable for cash at the Company's option at any time given certain conditions (as discussed below), at an initial conversion rate of 140.3066 shares of common stock per $1,000 principal amount of the 2030 Convertible Notes, which is equivalent to an initial conversion price of approximately $7.1272 (the "2030 Conversion Price") per share of the Company's common stock. The conversion rate is subject to customary adjustments for certain events as described in the related Indenture.

The 2030 Convertible Notes will be redeemable, in whole or in part, at the Company's option, on or after April 5, 2027 if the last reported sale price of the Company's common stock has been at least 130% of the 2030 Conversion Price then in effect for at least 20 trading days at a redemption price equal to 100% of the principal amount of the 2030 Convertible Notes to be redeemed, plus accrued and unpaid interest.

The Company's net proceeds from this offering were approximately $232.4 million, net of $7.6 million in debt issuance costs primarily consisting of underwriters, advisory, legal, and accounting fees. The Company used approximately $99.8 million of the net proceeds to purchase and surrender for cancellation approximately $163.0 million aggregate principal amount of the Company's 2028 Convertible Notes. See *2028 Convertible Notes* above for further details on the impacts of the debt extinguishment.

The outstanding 2030 Convertible Notes balances as of June 30, 2023 September 30, 2023 are summarized in the following table (in thousands):

	June September 30, 2023
Long Term Debt	
Outstanding principal	$ 240,000
Unamortized initial purchaser's debt discount and debt issuance cost	(7,370) (7,131)
Net carrying amount	$ 232,630 232,869

The debt discount and debt issuance costs are amortized to interest expense using the effective interest method, computed to be 4.70%, over the life of the 2030 Convertible Notes or its approximately seven-year term.

The following table presents total interest expense recognized related to the 2030 Convertible Notes during the three months ended June 30, 2023 September 30, 2023 (in thousands):

	Three Months Ended June 30, 2023
Cash interest expense	
Contractual interest expense	$ 2,493
Non-cash interest expense	
Amortization of debt discount and debt issuance cost	231
Total interest expense	$ 2,724

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Cash interest expense		
Contractual interest expense	$ 2,550	$ 5,043
Non-cash interest expense		
Amortization of debt discount and debt issuance cost	239	470
Total interest expense	$ 2,789	$ 5,513

2030 Capped Call Options

On March 29, 2023 and March 31, 2023, in connection with the pricing of the 2030 Convertible Notes, and on April 3, 2023, in connection with the exercise in full by the 2023 Initial Purchasers of their option to purchase additional Notes, the Company entered into Capped Calls (the "2030 Capped Calls") with certain counterparties. The Company used $27.8 million of the net proceeds from the 2030 Convertible Notes to pay the cost of the 2030 Capped Calls.

The 2030 Capped Calls have an initial strike price of $7.1272 per share, which corresponds to the initial conversion price of the 2030 Convertible Notes and is subject to anti-dilution adjustments. The 2030 Capped Calls have a cap price of $11.1800 per share, subject to certain adjustments.

The 2030 Capped Calls are considered separate transactions entered into by and between the Company and the 2030 Capped Calls counterparties, and are not part of the terms of the 2030 Convertible Notes. The Company recorded a reduction to additional paid-in capital of $27.8 million during the three months ended June 30, 2023 second quarter of 2023 related to the premium payments for the 2030 Capped Calls. These instruments meet the conditions outlined in ASC 815 to be classified in stockholders' equity and are not subsequently remeasured as long as the conditions for equity classification continue to be met.

11. WARRANTS

Legacy Stem Warrants

Prior to the Merger, the Company had issued warrants to purchase shares of Legacy Stem's preferred stock in conjunction with various debt financings. The Company has also issued warrants to purchase shares of Legacy Stem's common stock. Upon effectiveness of the Merger, the Company had 50,207,439 warrants outstanding, of which substantially all were converted into 2,759,970 shares of common stock of Stem. Upon conversion of the warrants, the existing warrant liabilities were remeasured to fair value resulting in a gain on remeasurement of $100.9 million and a total warrant liability of $60.6 million, which was then reclassified to additional paid-in-capital. At June 30, 2023 September 30, 2023, there were 2,533 Legacy Stem Warrants outstanding. These instruments are exercisable into the Company's common stock and are equity classified.

12. STOCK-BASED COMPENSATION

Equity Incentive Plans

Under both the Stem, Inc. 2009 Equity Incentive Plan (the "2009 Plan") and the Stem, Inc. 2021 Equity Incentive Plan (the "2021 Plan," and together with the 2009 Plan, the "Plans"), the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance stock units ("PSUs"), and other awards that are settled in

STEM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

shares of the Company's common stock. The Company does not intend to grant new awards under the 2009 Plan. All shares that remain available for future grants are under the 2021 Plan.

Stock Options

The following table summarizes the stock option activity for the period ended June 30, 2023 September 30, 2023:

		Number of Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)		Number of Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Balances as of December 31, 2022	Balances as of December 31, 2022	8,243,637	$ 6.88	6.6	$ 35,566	Balances as of December 31, 2022	8,243,637	$ 6.88	6.6	$ 35,566
Options granted	Options granted	1,291,349	10.25			Options granted	1,291,349	10.25		
Options exercised	Options exercised	(104,573)	2.19			Options exercised	(116,717)	2.20		
Options forfeited and expired	Options forfeited and expired	(307,769)	14.30			Options forfeited and expired	(356,188)	15.64		
Balances as of June 30, 2023		9,122,644	$ 7.16	6.5	$ 16,789					
Options vested and exercisable — June 30, 2023		6,030,152	$ 4.58	5.4	$ 16,640					
Balances as of September 30, 2023						Balances as of September 30, 2023	9,062,081	$ 7.08	6.2	$ 10,278
Options vested and exercisable — September 30, 2023						Options vested and exercisable — September 30, 2023	6,091,126	$ 4.88	5.1	$ 10,230

As of June 30, 2023 September 30, 2023, the Company had approximately $20.1 million $17.3 million of remaining unrecognized stock-based compensation expense for stock options, which is expected to be recognized over a weighted average period of 1.6 1.5 years.

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Restricted Stock Units

The following table summarizes the RSU activity for the period ended June 30, 2023 September 30, 2023:

		Number of RSUs Outstanding (1)	Weighted-Average Grant Date Fair Value Per Share		Number of RSUs Outstanding (1)	Weighted-Average Grant Date Fair Value Per Share
Balances as of December 31, 2022	Balances as of December 31, 2022	6,719,490	$ 15.34	Balances as of December 31, 2022	6,719,490	$ 15.34
RSUs granted	RSUs granted	7,257,977	5.57	RSUs granted	7,542,131	5.62
RSUs vested	RSUs vested	(1,151,641)	10.72	RSUs vested	(1,226,174)	10.78
RSUs forfeited	RSUs forfeited	(774,634)	12.10	RSUs forfeited	(1,791,088)	8.65
Balances as of June 30, 2023		12,051,192	$ 10.10			
Balances as of September 30, 2023				Balances as of September 30, 2023	11,244,359	$ 10.56

(1) Includes certain restricted stock units with service and market-based vesting criteria.

As of June 30, 2023 September 30, 2023, the Company had approximately $93.4 million $79.5 million of remaining unrecognized stock-based compensation expense for RSUs, which is expected to be recognized over a weighted average period of 2.2 1.9 years.

Stock-Based Compensation

The following table summarizes stock-based compensation expense recorded in each component of operating expenses in the Company's condensed consolidated statements of operations and comprehensive income (loss) loss (in thousands):

		Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022		Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Sales and marketing	Sales and marketing	$ 1,550	$ 1,106	$ 2,495	$ 1,930	Sales and marketing	$ 1,614	$ 1,172	$ 4,109	$ 3,102
Research and development	Research and development	2,548	562	4,266	1,869	Research and development	2,467	1,589	6,733	3,458
General and administrative	General and administrative	5,822	4,799	10,361	8,933	General and administrative	7,117	4,917	17,478	13,850
Total stock-based compensation expense	Total stock-based compensation expense	$ 9,920	$ 6,467	$ 17,122	$ 12,732	Total stock-based compensation expense	$ 11,198	$ 7,678	$ 28,320	$ 20,410

Research and development expenses of $0.9 million $1.2 million and $0.6 million corresponding to internal-use software, were capitalized during the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Research and development expenses of $1.8 million $3.1 million and $1.1 million $1.7 million, corresponding to internal-use software, were capitalized during the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Awards under our stock bonus program issued through the 2021 Plan are accounted for as liability-classified awards, because the obligations are based predominantly on fixed monetary amount determined at a future date to be settled with a variable number of shares of our common stock. We recognized stock-based compensation expense related to such bonuses in the amount of $1.5 milliononduring the three and nine months ended September 30, 2023.

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13. NET INCOME (LOSS) LOSS PER SHARE

Net income (loss) per share is computed by dividing net income (loss) by the basic weighted-average number of shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income by the diluted weighted-average number of shares outstanding during the period and, accordingly, reflects the potential dilutive effect of all issuable shares of common stock, including as a result of stock options, restricted stock units, warrants and convertible notes. The diluted weighted-average number of shares used in our diluted net income (loss) per share calculation is determined using the treasury stock method for stock options, restricted stock units, and warrants, and the if-converted method for convertible notes. For periods in which we recognize losses, the calculation of diluted loss per share is the same as the calculation of basic loss per share.

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator - Basic:				
Net income (loss) per share attributable to common stockholders, basic	$ 19,122	$ (32,019)	$ (25,656)	$ (54,502)
Numerator - Diluted:				
Net income (loss) per share attributable to common stockholders, basic	19,122	(32,019)	(25,656)	(54,502)
Less: Gain on extinguishment of debt, net of tax	(59,133)	—	—	—
Net loss attributable to Stem common stockholders, diluted	(40,011)	(32,019)	(25,656)	(54,502)
Denominator:				
Weighted-average number of shares outstanding used to compute net income (loss) per share attributable to common stockholders, basic	155,619,179	154,125,061	155,294,475	152,318,090
Dilutive potential common shares	185,774	—	—	—
Weighted-average number of shares outstanding used to compute net loss per share attributable to common stockholders, diluted	155,804,953	154,125,061	155,294,475	152,318,090
Net income (loss) per share attributable to common stockholders, basic	$ 0.12	$ (0.21)	$ (0.17)	$ (0.36)
Net loss per share attributable to common stockholders, diluted	$ (0.26)	$ (0.21)	$ (0.17)	$ (0.36)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net loss per share attributable to common stockholders, basic and diluted	$ (77,072)	$ (34,279)	$ (102,728)	$ (88,781)
Denominator:				
Weighted-average number of shares outstanding used to compute net loss per share attributable to common stockholders, basic and diluted	155,829,348	154,392,573	155,474,725	153,043,010
Net loss per share attributable to common stockholders, basic and diluted	$ (0.49)	$ (0.22)	$ (0.66)	$ (0.58)

The following table shows total outstanding potentially dilutive shares excluded from the computation of diluted loss per share as their effect would have been anti-dilutive, as of June 30, 2023 September 30, 2023 and 2022:

		June 30, 2023	June 30, 2022		September 30, 2023	September 30, 2022
Outstanding 2028 Convertible Notes	Outstanding 2028 Convertible Notes	10,157,181	15,730,390	Outstanding 2028 Convertible Notes	10,157,181	15,730,390
Outstanding 2030 Convertible Notes	Outstanding 2030 Convertible Notes	33,673,584	—	Outstanding 2030 Convertible Notes	33,673,584	—
Outstanding stock options	Outstanding stock options	9,122,644	8,396,685	Outstanding stock options	9,062,081	8,296,551
Outstanding warrants	Outstanding warrants	2,533	2,533	Outstanding warrants	2,533	2,533
Outstanding RSUs	Outstanding RSUs	12,051,192	6,021,852	Outstanding RSUs	11,244,359	6,557,284
Total	Total	65,007,134	30,151,460	Total	64,139,738	30,586,758

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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14. INCOME TAXES

The following table reflects the Company's (provision for) benefit from income taxes and the effective tax rates for the periods presented below (in thousands, except effective tax rate):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
Income (loss) before (provision for) benefit from income taxes	$	19,613	$	(32,030)	$	(25,256)	$	(69,726)
(Provision for) benefit from income taxes	$	(491)	$	7	$	(400)	$	15,220
Effective tax rate		2.5 %		— %		(1.6)%		21.8 %

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
Loss before benefit from (provision for) income taxes	$	(77,118)	$	(34,256)	$	(102,374)	$	(103,982)
Benefit from (provision for) income taxes	$	46	$	(19)	$	(354)	$	15,201
Effective tax rate		0.1 %		(0.1)%		(0.3)%		14.6 %

For the three months ended June September 30, 2023, the Company recognized a provision for benefit from income taxes of $0.5 million, $46 thousand, representing an effective tax rate of 2.5% 0.1%, which was lower than the statutory federal tax rate because the Company maintains a valuation allowance on its U.S. deferred tax assets. For the six nine months ended June September 30, 2023, the Company recognized a provision for income taxes of $0.4 million, representing an effective tax rate of 1.6% (0.3)%, which was lower than the statutory federal tax rate due to a $0.3 million tax benefit from an acquisition for a partial valuation allowance release on U.S. deferred tax assets due to the deferred tax liability established in purchase accounting on acquired intangibles during the six nine months ended June September 30, 2023. For the six nine months ended June 30, 2022 September 30, 2022, the Company recognized a benefit from income taxes of $15.2 million, representing an effective tax rate of 21.8% 14.6%, which was higher lower than the statutory federal tax rate due to a $15.1 million tax benefit from the acquisition of AlsoEnergy for a partial valuation allowance release on U.S. Deferred tax assets due to the deferred tax liability established in purchase accounting on the acquired intangibles.

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15. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is party to various legal proceedings from time to time. A liability is accrued when a loss is both probable and can be reasonably estimated. Management believes that the probability of a material loss with respect to any currently pending legal proceeding is remote. However, litigation is inherently uncertain and it is not possible to predict the ultimate disposition of any of these proceedings. As of the date of this filing, the Company does not believe that there are any pending legal proceedings or other loss contingencies that will, either individually or in the aggregate, have a material adverse effect on the Company taken as a whole.

Commitments

On March 1, 2023, the Company recognized a $2.8 million operating lease liability and a corresponding operating lease right-of-use ("ROU") asset, which are included in the condensed consolidated balance sheets as of June 30, 2023 September 30, 2023. The operating lease liability and operating lease ROU asset correspond to 41,811 square feet of leased office in Gurugram, India. As of the commencement date of the lease, the remaining lease term was 58 months. The lease agreement contemplates options to extend the non-cancelable lease term, which have been determined not reasonably certain to be exercised. Base rent is approximately $58,500 per month with escalating payments.

Non-Income Related Taxes

The Company is in the process of finalizing its sales tax liability analysis for states in which it has economic nexus. During the third quarter of 2023, the Company determined it was probable the Company would be subject to sales tax liabilities plus applicable interest and has estimated the probable exposure to be $5.6 million and accordingly, the Company accrued this amount with a corresponding charge to earnings as of September 30, 2023.

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

Special Note Regarding Forward-Looking Statements

This second third quarter 2023 Form 10-Q, as well as other statements we make, contains "forward-looking statements" within the meaning of the federal securities laws, which include any statements that are not historical facts. Such statements often contain words such as "expect," "may," "can," "believe," "predict," "plan," "potential," "projected," "projections," "forecast," "estimate," "intend," "anticipate," "ambition," "goal," "target," "think," "should," "could," "would," "will," "hope," "see," "likely," and other similar words.

Forward-looking statements address matters that are, to varying degrees, uncertain, such as statements about financial and performance targets and other forecasts or expectations regarding, or dependent on, our business outlook; the expected benefits of the combined Stem/AlsoEnergy company; our ability to secure sufficient and timely inventory from suppliers; our ability to meet contracted customer demand; our ability to manage supply chain issues and manufacturing or delivery delays; our joint ventures, partnerships and other alliances; forecasts or expectations regarding energy transition and global climate change; reduction of greenhouse gas ("GHG") emissions; the integration and optimization of energy resources; our business strategies and those of our customers; our ability to retain or upgrade current customers, further penetrate existing markets or expand into new markets; our ability to manage our supply chains and distribution channels and the effects of natural disasters and other events beyond our control; the direct or indirect effects on our business of macroeconomic factors and geopolitical instability, such as the ongoing conflict in Ukraine; the expected benefits of the Inflation Reduction Act of 2022 on our business; and future results of operations, including adjusted EBITDA.

Such forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including but not limited to our inability to secure sufficient and timely inventory from our suppliers, and provide us with as well as contracted quantities of equipment; our inability to meet contracted customer demand; supply chain interruptions and manufacturing or delivery delays; disruptions in sales, production, service or other business activities; general economic, geopolitical macroeconomic and business conditions in key regions of the world, including inflationary pressures, general economic slowdown or a recession, increasing rising interest rates, changes in monetary policy, instability in financial institutions, and the prospect of a shutdown of the U.S. federal government; the direct and indirect effects of widespread health emergencies on our workforce, operations, financial results and cash flows; geopolitical instability, such as the ongoing conflict in Ukraine; the results of operations and financial condition of our customers and suppliers; pricing pressures; weather and seasonal factors; our inability to continue to grow and manage our growth effectively; our inability to attract and retain qualified employees and key personnel; our inability to comply with, and the effect on our business of, evolving legal standards and regulations, including concerning data protection and consumer privacy and evolving labor standards; risks relating to the development and performance of our energy storage systems and software-enabled services; our inability to retain or upgrade current customers, further penetrate existing markets or expand into new markets; the risk that our business, financial condition and results of operations may be adversely affected by other political, economic, business and competitive factors; and other risks and uncertainties discussed in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, Part II, Item 1A. "Risk Factors" of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023 and in our other filings with the SEC. If one or more of these or other risks or uncertainties materialize (or the consequences of any such development changes), or should our underlying assumptions prove incorrect, actual results or outcomes, or the timing of these results or outcomes, may vary materially from those reflected in our forward-looking statements. Forward-looking and other statements in this report regarding our environmental, social, and other sustainability plans and goals are not an indication that these statements are necessarily material to investors or required to be disclosed in our filings with the SEC. In addition, historical, current, and forward-looking environmental, social, and sustainability-related statements may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. Forward-looking statements in this report are made as of the date of this report, and we do not assume any obligation to update any forward-looking statements after the date of this report, except as required by law.

You should read the following management's discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and related notes included under Part I, Item 1 of this Quarterly Report on Form 10-Q. This discussion and analysis should also be read together with our audited consolidated financial statements and related notes, as well as the section entitled "Stem's Management's Discussion and Analysis of Financial Condition and Results or Operations" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. You should carefully read the sections entitled "Special Note Regarding Forward-Looking Statements" and "Risk Factors" herein to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Throughout this section, unless otherwise noted "we," "us," "our" and the "Company" refer to Stem and its consolidated subsidiaries.

Overview

Our mission is to maximize the economic, environmental, and resiliency value of renewable energy assets through our leading artificial intelligence ("AI") platform. In order to fulfill our mission, we provide our customers, which include commercial and industrial ("C&I") enterprises as well as independent power producers, renewable project developers, utilities and grid operators, with (i) an energy storage system, sourced from leading, global battery original equipment manufacturers ("OEMs"), that we deliver through our partners, including developers, distributors, and engineering, procurement and construction ("EPC") firms, (ii) edge hardware to aid in the collection of site data and the real-time operation and control of the site plus other optional equipment, (iii) ongoing software platform and professional services to operate integrated energy storage, and solar systems, through our Athena® AI platform clean energy optimization ("Athena"), and (iv) solar asset performance monitoring and control, through Athena's PowerTrack application. applications. In addition, in all the markets where we help manage our customers' clean energy assets, we have agreements to use the Athena platform to participate in such markets and to share the revenue from such market participation.

We operate in two key areas within the energy landscape: Behind-the-Meter ("BTM") and Front-of-the-Meter ("FTM"). An energy system's position in relation to a customer's electric meter determines whether it is designated a BTM or FTM system. BTM systems provide power that can be used on-site without interacting with the electric grid and passing through an electric meter. Our software reduces C&I customer energy bills, increases their energy yield, and helps our customers facilitate the achievement of their corporate environmental, social, and corporate governance ("ESG") and carbon reduction objectives. Through PowerTrack, our software maximizes energy output and minimizes asset downtime.

FTM, grid-connected systems provide power to off-site locations and must pass through an electric meter prior to reaching an end-user. Through Athena, our FTM storage systems decrease risk for project developers, asset owners, independent power producers and investors by adapting to dynamic energy market conditions in connection with the deployment of electricity and improving the value of energy storage assets over the course of their FTM system's lifetime. Through PowerTrack, our software maximizes FTM energy output and minimizes asset downtime.

Through our February 2022 acquisition of AlsoEnergy, we combined our storage optimization capabilities with solar asset performance monitoring and control software.

Since our inception in 2009, we have engaged in developing and marketing software-enabled services, raising capital, and recruiting personnel. We have incurred net operating losses and negative cash flows from operations each year since our inception. We have financed our operations primarily through proceeds received from the merger with Star Peak Transition Corp., the issuance of convertible preferred stock, convertible senior notes, debt financing, and cash flows from customers.

Our total revenue grew from $66.9 $99.5 million for the three months ended June 30, 2022 September 30, 2022 to $92.9 $133.7 million for the three months ended June 30, 2023 September 30, 2023. We generated incurred net income losses of $19.1 $77.1 million for the three months ended June 30, 2023 September 30, 2023 and incurred net losses of $32.0 million $34.3 million for the three months ended June 30, 2022 September 30, 2022. Our total revenue grew from $108.0 $207.5 million for the six nine months ended June 30, 2022 September 30, 2022 to $160.4 $294.1 million for the six nine months ended June 30, 2023 September 30, 2023. For the six nine months ended June 30, 2023 September 30, 2023 and 2022, we incurred net losses of $25.7 $102.7 million and $54.5 $88.8 million, respectively. As of June 30, 2023 September 30, 2023, we had an accumulated deficit of $657.7 $734.8 million.

We expect that our sales and marketing, research and development, regulatory and other expenses will continue to increase as we expand our marketing efforts to increase sales of our solutions, expand existing relationships with our customers, and obtain regulatory clearances or approvals for future product enhancements. In addition, we expect our general and administrative costs and expenses to increase due to the additional costs associated with scaling our business operations as well as being a public company, including legal, accounting, insurance, exchange listing and SEC compliance, investor relations and other costs and expenses.

Acquisition of AlsoEnergy

On February 1, 2022, we acquired 100% of the issued and outstanding capital stock of AlsoEnergy. The transaction combines our storage optimization capabilities with AlsoEnergy's solar asset performance monitoring and control software. Through AlsoEnergy, we provide end-to-end turnkey solutions that monitor and manage renewable energy systems through AlsoEnergy's PowerTrack software. PowerTrack includes data acquisitions and monitoring, performance modelling, agency reporting, internal reports, work order tickets, and supervisory control and data acquisition ("SCADA") controls. AlsoEnergy has deployed systems at various international locations, but its primary customer base is in the United States, Germany and Canada. The total consideration for the AlsoEnergy acquisition was $652.0 million, comprised of $543.1 million paid in cash, net of a working capital adjustment for an escrow recovery, and $108.9 million in the form of 8,621,006 shares of our common stock. We incurred $6.1 million of transaction costs related to the acquisition of AlsoEnergy, which were recorded in general and administrative expense during the six nine months ended June September 30, 2022. See Note 6 — *Business Combinations*, of the Notes to the unaudited condensed consolidated financial statements in this report for additional details regarding this transaction.

Key Factors, Trends and Uncertainties Affecting our Business

We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose risks and challenges, including but not limited to:

Decline in Lithium-Ion Battery Costs

Our revenue growth is directly tied to the continued adoption of energy storage systems by our customers. The cost of lithium-ion energy storage hardware has generally declined over the last decade, notwithstanding increases in recent months. The market for energy storage is rapidly evolving, and while we believe costs will continue to decline over time, there is no guarantee. If costs do not continue to decline, or do not decline as quickly as we anticipate, this could adversely affect our ability to increase our revenue and grow our business. The United States Inflation Reduction Act of 2022 (the "IRA") was signed into law in August 2022 and includes incentives and tax credits aimed at reducing the effects of climate change, such as a tax credit for stand-alone battery storage projects. The implementation of the IRA is expected to further reduce the cost of battery storage systems for certain customers; however, there are numerous restrictions and requirements associated with qualifying for the tax credits and other incentives available under the IRA, and the Company continues to assess how the IRA may affect its business.

Increase in Deployment of Renewables

Deployment of intermittent resources has accelerated over the last decade, and today, wind and solar have become a low cost fuel source. We expect the cost of generating renewable energy to continue to decline and deployments of energy storage systems to increase. As renewable energy sources of energy production are expected to represent a larger proportion of energy generation, grid instability rises due to their intermittency, which can be addressed by energy storage solutions. The IRA is expected to further increase the deployment of renewable energy assets. We are continuing to evaluate the IRA and its requirements, as well as the application to our business and our customers.

Competition

We are a market leader in terms of capacity of energy storage under management. We intend to strengthen our competitive position over time by leveraging the network effect of Athena's AI infrastructure. Existing competitors may expand their product offerings and sales strategies, and new competitors may enter the market. Furthermore, our competitors include other types of software providers and some hardware manufacturers that offer software solutions. If our market share declines due to increased competition, our revenue and ability to generate profits in the future may be adversely affected.

Government Regulation and Compliance

Although we are not regulated as a utility, the market for our product and services is heavily influenced by federal, state, and local government statutes and regulations concerning electricity. These statutes and regulations, like the IRA, affect electricity pricing, net metering, incentives, taxation, competition with utilities, and the interconnection of customer-owned electricity generation. In the United States and internationally, governments continuously modify these statutes and regulations and acting through state utility or public service commissions, regularly change and adopt different rates for commercial customers. These changes can positively or negatively affect our ability to deliver cost savings to customers.

Customer Concentration

We depend on a small number of significant customers for our sales, and a small number of customers have historically accounted for a material portion of our revenue. While we are committed to diversifying our customer base, we may continue to derive a significant portion of our revenue from a small number of customers. Loss of a significant customer, the inability to close a significant contract at any time, or a significant reduction in pricing or order volume from a significant customer, could materially reduce our revenue in a given quarter and have a material adverse effect on our operating results.

Supply Chain Constraints and Risk; COVID-19 Risk

We rely on a very small number of suppliers of energy storage systems and other equipment. If any of our suppliers were unable or unwilling to provide us with contracted quantities in a timely manner at prices, quality levels, and volumes acceptable to us, we will would have very limited alternatives for supply, and we may not be able find suitable replacements for our customers, if at all. Such an event could materially adversely affect our business, prospects, financial condition, and results of operations.

In addition, the global supply chain and our industry have experienced significant disruptions in recent periods. We have seen supply chain challenges and logistics constraints increase, including shortages of inverters, enclosures, battery modules, and associated component parts for inverters and battery energy storage systems available for purchase. In certain cases, this has caused delays in critical equipment and inventory, longer lead times, and has resulted in cost volatility. These shortages and delays can be attributed in part to macroeconomic conditions, such as labor shortages, rising inflation, rising interest rates, and a recessionary environment and geographical instability, including the ongoing conflict between Russia and Ukraine and rising tensions between China and Taiwan, the United States, among other factors, as well as the COVID-19 pandemic and resulting government action. factors. If these shortages and delays persist through the second half remainder of 2023, they could adversely affect the timing of when battery energy storage systems can be delivered and installed, and when (or if) we can begin to generate revenue from those systems. In addition, we have experienced and are experiencing varying levels of volatility in costs of equipment and labor resulting in part from disruptions caused by general global economic macroeconomic conditions, including inflationary pressures and the COVID-19 pandemic. pressures.

As the COVID-19 pandemic reaches endemic stages, the future impact of the COVID-19 pandemic on our business, cash flows, liquidity, financial condition and results of operations remains highly dependent on future developments. Given the dynamic nature of these circumstances on our ongoing business, results of operations and overall financial performance, the future impact of COVID-19 and other macroeconomic factors, including the conflict in Ukraine, cannot be reasonably estimated at this time. In the event we are unable to mitigate the impact of delays or price volatility in energy storage systems, raw materials, and freight, it could materially adversely affect our business, prospects, financial condition, and results of operations.

DevCo Joint Ventures

The Company, through an indirect wholly-owned development subsidiary, has entered into strategic joint ventures with qualified third parties to develop select energy storage generation projects ("DevCo Projects"), as more fully described above under Note 1 — *Business*, of the Notes to the unaudited condensed consolidated financial statements in this report. These projects require significant upfront investment by us and involve a high degree of risk. These projects require significant upfront investment by us and involve a high degree of risk. If a DevCo Project fails to reach completion or is significantly delayed, we could lose all or a portion of our development capital investment. See *"We Face Risks Related to our DevCo Business Model"* in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 for additional information about certain risks related to these DevCo Projects.

Parent Company Guarantees

In certain customer contracts, the Company previously agreed to provide a guarantee that the value of purchased hardware will not decline for a certain period of time, as more fully described above under Note 3 — *Revenue*, of the Notes to the unaudited condensed consolidated financial statements in this report. The Company accounts for such contractual terms and guarantees as variable consideration at each measurement date. The Company updates its estimate of variable consideration, including changes in estimates related to such guarantees, each quarter for facts or circumstances that have changed from the time of the initial estimate. As a result, the Company recorded a revenue reduction of $37.4 million in hardware revenue during the three and nine months ended September 30, 2023. Specifically, $16.9 million of the overall reduction in revenue is related to deliveries that occurred during the fourth quarter of 2022, $15.8 million is related to hardware deliveries that occurred during the second quarter of 2023, and variable consideration relating to current quarter hardware deliveries was constrained by $4.7 million.

The Company does not intend to provide such parent company guarantees in customer contracts going forward. Because these contractual terms and guarantees had not previously resulted in a revenue reduction in prior periods, and because the Company does not intend to provide such parent company guarantees in customer contracts going forward, the Company believes that excluding the impact of the $37.4 million reduction in revenue enhances the comparability to the Company's adjusted EBITDA and non-GAAP gross profit in prior periods.

Non-GAAP Financial Measures

In addition to financial results determined in accordance with U.S. generally accepted accounting principles ("GAAP"), we use adjusted EBITDA and non-GAAP gross profit and margin, which are non-GAAP financial measures, for financial and operational decision making and as a means to evaluate our operating performance and prospects, develop internal budgets and financial goals, and to facilitate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures that may not be indicative of our operating performance, such as stock-based compensation and other non-cash charges, as well as discrete cash charges that are infrequent in nature. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to our historical performance and liquidity as well as comparisons to our competitors' operating results. We believe these non-GAAP financial measures are useful to investors because they both (1) allow for greater transparency with respect to key metrics used

by management in their financial and operational decision making and (2) are used by our institutional investors and the analyst community to help them analyze the health of our business. Adjusted EBITDA and non-GAAP gross profit and margin should be considered in addition to, not as a substitute for, or superior to, other measures of financial performance prepared in accordance with GAAP.

Non-GAAP Gross Profit and Margin

We define non-GAAP gross profit as gross profit excluding both amortization of capitalized software, impairments related to decommissioning of end-of-life systems and reduction in revenue, and including revenue constraint. We define non-GAAP gross margin as non-GAAP gross profit as a percentage of revenue.

The Company generally records the full purchase order value as revenue at the time of hardware delivery; however, for certain non-cancelable purchase orders entered into during the first quarter of 2023, the final settlement amount payable to the Company is variable and indexed to the price per ton of lithium carbonate in the first quarter of 2024 such that the Company may increase or decrease the final prices in such purchase orders based on the price per ton of lithium carbonate at final settlement. Lithium carbonate is a key raw material used in the production of hardware systems that the Company ultimately sells to customers. The total dollar amount of such purchase orders for the indexed contracts is approximately $52 million. However, as a result of the pricing structure in such purchase orders, the Company recorded revenue in the first quarter of 2023

of approximately $42 million, net of a $10 million revenue constraint, using a third party forecast of the lithium carbonate trading value in the first quarter of 2024. Because the Company had not before used indexed pricing in its customer contracts or purchase orders and had not previously constrained revenue related to forecasted inputs of its hardware systems, the Company believes that including the $10 million revenue constraint from the first quarter of 2023 into non-GAAP profit enhances the comparability to the Company's non-GAAP profit in prior periods. Because the purchase orders are variable and depend on the specified price per ton of lithium carbonate at the time of final measurement in the first quarter of 2024, the Company may, pursuant to such purchase orders, ultimately adjust final revenue downward to $34 million, subject to market conditions upon settlement. The Company recorded the full cost of hardware revenue for these indexed contracts in the first quarter of 2023.

The following table provides a reconciliation of gross profit and margin (GAAP) to non-GAAP gross profit and margin (in millions, except percentages):

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Revenue	Revenue	$ 93.0	$ 66.9	$ 160.4	$ 108.0	Revenue	$ 133.7	$ 99.5	$ 294.1	$ 207.5
Cost of revenue	Cost of revenue	(81.1)	(59.2)	(147.5)	(96.6)	Cost of revenue	(154.0)	(90.4)	(301.5)	(187.0)
GAAP gross profit		11.9	7.7	12.9	11.4					
GAAP gross (loss) profit						GAAP gross (loss) profit	(20.3)	9.1	(7.4)	20.5
GAAP gross margin (%)	GAAP gross margin (%)	13 %	12 %	8 %	11 %	GAAP gross margin (%)	(15) %	9 %	(3) %	10 %
Non-GAAP Gross Profit	Non-GAAP Gross Profit					Non-GAAP Gross Profit				
GAAP Revenue	GAAP Revenue	$ 93.0	$ 66.9	$ 160.4	$ 108.0	GAAP Revenue	$ 133.7	$ 99.5	$ 294.1	$ 207.5
Add: Revenue constraint (1)	Add: Revenue constraint (1)	—	—	10.2	—	Add: Revenue constraint (1)	—	—	10.2	—
Add: Revenue reduction (2)						Add: Revenue reduction (2)	37.4	—	37.4	—
Subtotal	Subtotal	93.0	66.9	170.6	108.0	Subtotal	171.1	99.5	341.7	207.5
Less: Cost of revenue	Less: Cost of revenue	(81.1)	(59.2)	(147.5)	(96.6)	Less: Cost of revenue	(154.0)	(90.4)	(301.5)	(187.0)
Add: Amortization of capitalized software & developed technology	Add: Amortization of capitalized software & developed technology	3.3	2.6	6.3	4.7	Add: Amortization of capitalized software & developed technology	3.5	2.9	9.8	7.6
Add: Impairments	Add: Impairments	1.2	1.0	2.1	1.8	Add: Impairments	0.8	0.4	2.9	2.2
Non-GAAP gross profit	Non-GAAP gross profit	$ 16.4	$ 11.3	$ 31.5	$ 17.9	Non-GAAP gross profit	$ 21.4	$ 12.4	$ 52.9	$ 30.3
Non-GAAP gross margin (%)	Non-GAAP gross margin (%)	18 %	17 %	18 %	17 %	Non-GAAP gross margin (%)	12 %	13 %	15 %	15 %

(1) Refer to the discussion of revenue constraint in "— Non-GAAP Gross Profit and Margin" above.
(2) Refer to the definition discussion of non-GAAP gross profit provided reduction in revenue in "— Parent Company Guarantees" above.

Adjusted EBITDA

We calculate adjusted EBITDA as net income (loss) loss attributable to Stem before depreciation and amortization, including amortization of internally developed software, net interest expense, further adjusted to exclude stock-based compensation and other income and expense items, including the net gain on extinguishment of debt, revenue constraint, reduction in revenue, change in fair value of derivative liability, transaction and acquisition-related charges, litigation settlement, restructuring costs and income tax provision or benefit. The expenses and other items that we exclude in our calculation of adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude when calculating adjusted EBITDA.EBITDA.

The following table provides a reconciliation of adjusted EBITDA to net income (loss): loss:

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
		(in thousands)		(in thousands)			(in thousands)		(in thousands)	
Net income (loss) attributable to Stem		$ 19,122	$ (32,019)	$ (25,656)	$ (54,502)					
Net loss attributable to Stem						Net loss attributable to Stem	$ (77,072)	$ (34,279)	$ (102,728)	$ (88,781)
Adjusted to exclude the following:	Adjusted to exclude the following:					Adjusted to exclude the following:				
Depreciation and amortization (1)	Depreciation and amortization (1)	12,609	12,910	24,567	21,806	Depreciation and amortization (1)	11,531	11,547	36,098	33,353
Interest expense, net	Interest expense, net	3,903	2,691	5,680	5,909	Interest expense, net	4,405	2,520	10,085	8,429
Gain on extinguishment of debt, net	Gain on extinguishment of debt, net	(59,121)	—	(59,121)	—	Gain on extinguishment of debt, net	—	—	(59,121)	—
Stock-based compensation	Stock-based compensation	9,920	6,467	17,122	12,732	Stock-based compensation	11,198	7,678	28,320	20,410
Revenue constraint (2)	Revenue constraint (2)	—	—	10,200	—	Revenue constraint (2)	—	—	10,200	—
Revenue reduction (3)						Revenue reduction (3)	37,377	—	37,377	—
Change in fair value of derivative liability	Change in fair value of derivative liability	2,576	—	2,576	—	Change in fair value of derivative liability	5,155	—	7,731	—
Transaction costs in connection with business combination	Transaction costs in connection with business combination	—	—	—	6,068	Transaction costs in connection with business combination	—	—	—	6,068
Litigation settlement	Litigation settlement	—	(1,127)	—	(727)	Litigation settlement	—	—	—	(727)
Provision for (benefit from) income taxes		491	(7)	400	(15,220)					
Other expenses (3)		1,021	—	1,021	—					
(Benefit from) provision for income taxes						(Benefit from) provision for income taxes	(46)	19	354	(15,201)
Other expenses (4)						Other expenses (4)	6,591	—	7,612	—
Adjusted EBITDA	Adjusted EBITDA	$ (9,479)	$ (11,085)	$ (23,211)	$ (23,934)	Adjusted EBITDA	$ (861)	$ (12,515)	$ (24,072)	$ (36,449)

(1) Depreciation and amortization includes depreciation and amortization expense, impairment loss of energy storage systems, and impairment loss of project assets.
(2) Refer to the discussion of revenue constraint in the definition of non-GAAP profit provided "— Non-GAAP Gross Profit and Margin" above.
(3) Refer to the discussion of reduction in revenue in "— Parent Company Guarantees" above.
(4) Adjusted EBITDA for both the three and six nine months ended June 30, 2023 September 30, 2023 reflects other expenses of $1.0 million $6.6 million and $7.6 million, respectively. For the three months ended September 30, 2023, other expenses includes $5.6 million in accruals for sales taxes, $0.5 million for impairments, $0.3 million for expenses related to restructuring costs, and $0.2 million of other non-recurring expenses. For the nine months ended September 30, 2023, other expenses include $5.6 million in accruals for sales taxes, $0.5 million for impairments, $0.3 million of other non-recurring expense, and $1.2 million for expenses related to restructuring costs to pursue greater efficiency and to realign our business and strategic priorities. Restructuring expenses consisted of employee severance and other exit costs.

Financial Results and Key Metrics

The following table presents our financial results and our key metrics (in millions unless otherwise noted):

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Key Financial Metrics	*Key Financial Metrics*					*Key Financial Metrics*				
Revenue	Revenue	$ 93.0	$ 66.9	$ 160.4	$ 108.0	Revenue	$ 133.7	$ 99.5	$ 294.1	$ 207.5
GAAP gross profit		$ 11.9	$ 7.7	$ 12.9	$ 11.4					
GAAP gross (loss) profit						GAAP gross (loss) profit	$ (20.3)	$ 9.1	$ (7.4)	$ 20.5
GAAP gross margin (%)	GAAP gross margin (%)	13 %	12 %	8 %	11 %	GAAP gross margin (%)	(15) %	9 %	(3) %	10 %
Non-GAAP gross profit	Non-GAAP gross profit	$ 16.4	$ 11.3	$ 31.5	$ 17.9	Non-GAAP gross profit	$ 21.4	$ 12.4	$ 52.9	$ 30.3
Non-GAAP gross margin (%)	Non-GAAP gross margin (%)	18 %	17 %	18 %	17 %	Non-GAAP gross margin (%)	12 %	13 %	15 %	15 %
Net income (loss) attributable to Stem		$ 19.1	$ (32.0)	$ (25.7)	$ (54.5)					
Net loss attributable to Stem						Net loss attributable to Stem	$ (77.1)	$ (34.3)	$ (102.7)	$ (88.8)
Adjusted EBITDA	Adjusted EBITDA	$ (9.5)	$ (11.1)	$ (23.2)	$ (23.9)	Adjusted EBITDA	$ (0.9)	$ (12.5)	$ (24.1)	$ (36.4)
Key Operating Metrics	*Key Operating Metrics*					*Key Operating Metrics*				
Bookings (1)	Bookings (1)	$ 236.4	$ 225.7	$ 599.9	$ 376.5	Bookings (1)	$ 676.4	$ 222.9	$ 1,276.3	$ 599.4
Contracted backlog* (2)	Contracted backlog* (2)	$ 1,364.3	$ 726.6	$ 1,364.3	$ 726.6	Contracted backlog* (2)	$ 1,836.6	$ 817.2	$ 1,836.6	$ 817.2
Contracted storage AUM (in GWh)* (3)	Contracted storage AUM (in GWh)* (3)	3.8	2.4	3.8	2.4	Contracted storage AUM (in GWh)* (3)	5.0	2.7	5.0	2.7
Solar monitoring AUM (in GW)* (4)	Solar monitoring AUM (in GW)* (4)	26.0	32.1	26.0	32.1	Solar monitoring AUM (in GW)* (4)	26.3	25.0	26.3	25.0
CARR* (5)	CARR* (5)	$ 74.9	57.6	$ 74.9	57.6	CARR* (5)	$ 87.5	61.4	$ 87.5	61.4
** at period end*	** at period end*					** at period end*				
(1) As described below.	*(1) As described below.*					*(1) As described below.*				

(2) Total value of bookings in dollars, as reflected on a specific date. Backlog increases as new contracts are executed (bookings) and decreases as integrated storage systems are delivered and recognized as revenue.

(3) Total GWh of systems in operation or under contract. Contracted storage AUM as of June 30, 2022 has been adjusted from 2.1 GWh, as previously disclosed, to 2.4 GWh. Revised AUM reflects adjustments to total GWh of energy storage systems to previously executed customer contracts as a result of revisions to the system configuration or changes in hardware specifications due to updates from the original equipment manufacturer.

(3) Total GWh of systems in operation or under contract. Contracted storage AUM as of September 30, 2022 has been adjusted from 2.4 GWh, as previously disclosed, to 2.7 GWh. Revised AUM reflects adjustments to total GWh of energy storage systems to previously executed customer contracts as a result of revisions to the system configuration or changes in hardware specifications due to updates from the original equipment manufacturer.	*(3) Total GWh of systems in operation or under contract. Contracted storage AUM as of September 30, 2022 has been adjusted from 2.4 GWh, as previously disclosed, to 2.7 GWh. Revised AUM reflects adjustments to total GWh of energy storage systems to previously executed customer contracts as a result of revisions to the system configuration or changes in hardware specifications due to updates from the original equipment manufacturer.*
(4) Total GW of systems in operation or under contract.	
(5) Contracted Annual Recurring Revenue (CARR): Annual run rate for all executed software services contracts including contracts signed in the period for systems that are not yet commissioned or operating.	
(5) Contracted Annual Recurring Revenue ("CARR"): Annual run rate for all executed software services contracts including contracts signed in the period for systems that are not yet commissioned or operating.	*(5) Contracted Annual Recurring Revenue ("CARR"): Annual run rate for all executed software services contracts including contracts signed in the period for systems that are not yet commissioned or operating.*

Bookings

Due to the long-term nature of our contracts, bookings are a key metric that allows us to understand and evaluate the growth of our Company and our estimated future revenue related to customer contracts for our energy optimization services and transfer of energy storage systems. Bookings represents the accumulated value at a point in time of contracts that have been executed under both our host customer and partnership sales models.

For host customer sales, bookings represent the expected consideration from energy optimization services contracts, including estimated incentive payments that are earned by the host customer from utility companies in relation to the services provided by us and assigned by the host customer to us. For host customer sales, there are no differences between bookings and remaining performance obligations at any point in time.

For partnership sales, bookings are the sum of the expected consideration to be received from the transfer of hardware and energy optimization services (excluding any potential revenues from market participation). For partnership sales, even though we have secured an executed contract with estimated timing of project delivery and installation from the customer, we do not consider it a contract in accordance with FASB ASU 2014-09 Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), or a remaining performance obligation, until the customer has placed a binding purchase order. A signed customer contract is considered a booking as this indicates the customer has agreed to place a purchase order in the foreseeable future, which typically occurs within three (3) months of contract execution. However, executed customer contracts, without binding purchase orders, are cancellable without penalty by either party.

For partnership sales, once a purchase order has been executed, the booking is considered to be a contract in accordance with ASC 606, and therefore, gives rise to a remaining performance obligation as we have an obligation to transfer hardware and energy optimization services in our partnership agreements. We also have the contractual right to receive consideration for our performance obligations.

The accounting policy and timing of revenue recognition for host customer contracts and partnership arrangements that qualify as contracts with customers under ASC 606, are described within Note 2 — *Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

The following discussion and analysis of our results of operations and our liquidity and capital resources include the results of operations for AlsoEnergy for the period from February 1, 2022. For additional information, including pro forma results of operations for the three and six nine months ended June 30, 2022 September 30, 2022 calculated as if AlsoEnergy had been acquired as of January 1, 2022, see Note 6 — *Business Combinations*, of the Notes to the unaudited condensed consolidated financial statements in this report.

Components of Our Results of Operations

Revenue

We generate services and other revenue and hardware revenue. Services and other revenue is mainly generated through arrangements with host customers to provide energy optimization services using our proprietary software platform coupled with a dedicated energy storage system owned and controlled by us throughout the term of the contract. Fees charged to customers for energy optimization services generally consist of recurring fixed monthly payments throughout the term of the contract and in some arrangements, an installation and/or upfront fee component. We may also receive incentives from utility companies in relation to the sale of our services. Services and other revenue also include the sale of project assets.

We generate hardware revenue through partnership arrangements consisting of promises to sell an energy storage system to solar plus storage project developers. Performance obligations are satisfied when the energy storage system along with all ancillary hardware components are delivered. The milestone payments received before the delivery of hardware are treated as deferred revenue. In certain customer contracts, the Company previously agreed to provide a guarantee that the value of purchased hardware will not decline for a certain period of time, as more fully described above under Note 3 — *Revenue*, of the Notes to the unaudited condensed consolidated financial statements in this report. We separately generate services revenue through partnership arrangements by providing energy optimization services after the developer completes the installation of the project.

Cost of Revenue

Cost of services and other revenue includes depreciation of the cost of energy storage systems we own under long-term customer contracts, which includes capitalized fulfillment costs, such as installation services, permitting and other related costs. Cost of services and other revenue also includes the costs for the development and construction of project assets. Cost of revenue may also include any impairment of inventory and energy storage systems, along with system maintenance costs associated with the ongoing services provided to customers. Costs of revenue are recognized as energy optimization and other supporting services are provided to our customers throughout the term of the contract.

Cost of hardware revenue generally includes the cost of the hardware purchased from a manufacturer, shipping, delivery, and other costs required to fulfill our obligation to deliver the energy storage system to the customer location. Cost of hardware revenue may also include any impairment of energy storage systems held in our inventory for sale to our customer. Cost of hardware revenue related to the sale of energy storage systems is recognized when the delivery of the product is completed.

Gross (Loss) Profit

Our gross (loss) profit fluctuates significantly from quarter to quarter. Gross profit, calculated as revenue less costs of revenue, has been, and will continue to be, affected by various factors, including fluctuations in the amount and mix of revenue and the amount and timing of investments to expand our customer base. Over the long term, we hope to increase both our gross profit in absolute dollars and gross margin as a percentage of revenue through enhanced operational efficiency and economies of scale.

Operating Expenses

Sales and Marketing

Sales and marketing expense consists of payroll and other related personnel costs, including salaries, stock-based compensation, employee benefits, and travel for our sales and marketing personnel. In addition, sales and marketing expense includes trade show costs, amortization of intangibles and other expenses. We expect our selling and marketing expense to increase in future periods to support the overall growth in our business.

Research and Development

Research and development expense consists primarily of payroll and other related personnel costs for engineers and third parties engaged in the design and development of products, third-party software and technologies, including salaries, bonus and stock-based compensation expense, project material costs, services and depreciation. We expect research and development expense to increase in future periods to support our growth, including continuing to invest in optimization, accuracy and reliability of our platform and other technology improvements to support and drive efficiency in our operations. These expenses may vary from period to period as a percentage of revenue, depending primarily upon when we choose to make more significant investments.

General and Administrative Expense

General and administrative expense consists of payroll and other related personnel costs, including salaries, stock-based compensation, employee benefits and expenses for executive management, legal, finance and other costs. In addition, general and administrative expense includes fees for professional services and occupancy costs. We expect our general and administrative expense to increase in future periods as we scale up headcount with the growth of our business, and as a result of operating as a public company, including compliance with the rules and regulations of the SEC, legal, audit, additional insurance expenses, investor relations activities, and other administrative and professional services.

Other (Expense) Income, (Expense), Net

Interest Expense, Net

Interest expense, net consists primarily of interest on our outstanding borrowings under our outstanding notes payable, convertible senior notes, and financing obligations and accretion on our asset retirement obligations.

Gain on Extinguishment of Debt, Net

Gain on extinguishment of debt consists of income recognized in relation to the prepayment of our outstanding borrowings under our outstanding convertible notes and the write-off of any unamortized debt issuance costs associated with such notes.

Change in Fair Value of Derivative Liability

Change in fair value of derivative liability is related to the revaluation of derivative feature within a revenue contract, whereby final settlement is indexed to the price per ton of lithium carbonate.

Other (Expense) Income, Net

Other income, net consists primarily of income from equity investments and foreign exchange gains or losses.

Results of Operations for the Three Months Ended June 30, 2023 September 30, 2023 and 2022

		Three Months Ended June 30,					Three Months Ended September 30,			
		2023	2022	$ Change	% Change		2023	2022	$ Change	% Change
		(in thousands, except percentages)					(in thousands, except percentages)			
Revenue	Revenue					Revenue				
Services and other revenue	Services and other revenue	$ 16,360	$ 12,521	$ 3,839	31%	Services and other revenue	$ 16,597	$ 13,692	$ 2,905	21%
Hardware revenue	Hardware revenue	76,586	54,426	22,160	41%	Hardware revenue	117,143	85,809	31,334	37%
Total revenue	Total revenue	92,946	66,947	25,999	39%	Total revenue	133,740	99,501	34,239	34%
Cost of revenue	Cost of revenue					Cost of revenue				
Cost of services and other revenue	Cost of services and other revenue	11,756	10,141	1,615	16%	Cost of services and other revenue	13,684	11,445	2,239	20%
Cost of hardware revenue	Cost of hardware revenue	69,319	49,018	20,301	41%	Cost of hardware revenue	140,347	78,929	61,418	78%
Total cost of revenue	Total cost of revenue	81,075	59,159	21,916	37%	Total cost of revenue	154,031	90,374	63,657	70%
Gross profit		11,871	7,788	4,083	52%					
Gross (loss) profit						Gross (loss) profit	(20,291)	9,127	(29,418)	(322)%
Operating expenses:	Operating expenses:					Operating expenses:				
Sales and marketing	Sales and marketing	13,680	12,955	725	6%	Sales and marketing	11,605	13,187	(1,582)	(12)%
Research and development	Research and development	14,156	8,963	5,193	58%	Research and development	14,420	10,526	3,894	37%
General and administrative	General and administrative	18,904	15,693	3,211	20%	General and administrative	21,955	18,013	3,942	22%

Total operating expenses	46,740	37,611	9,129	24%	Total operating expenses	47,980	41,726	6,254	15%
Loss from operations	(34,869)	(29,823)	(5,046)	17%	Loss from operations	(68,271)	(32,599)	(35,672)	109%
Other income (expense), net:									
Other expense, net:					Other expense, net:				
Interest expense, net	(3,903)	(2,691)	(1,212)	45%	Interest expense, net	(4,405)	(2,520)	(1,885)	75%
Gain on extinguishment of debt, net	59,121	—	59,121	*					
Other (expense) income, net	(736)	484	(1,220)	(252)%					
Total other income (expense), net	54,482	(2,207)	56,689	*					
Income (loss) before (provision for) benefit from income taxes	19,613	(32,030)	51,643	(161)%					
(Provision for) benefit from income taxes	(491)	7	(498)	*					
Net income (loss)	19,122	(32,023)	51,145	(160)%					
Net loss attributed to non-controlling interests	—	(4)	4	(100)%					
Net income (loss) attributable to Stem	$ 19,122	$ (32,019)	$ 51,141	(160)%					
Change in fair value of derivative liability					Change in fair value of derivative liability	(5,155)	—	(5,155)	*
Other income, net					Other income, net	713	863	(150)	(17)%
Total other expense, net					Total other expense, net	(8,847)	(1,657)	(7,190)	434%
Loss before benefit from (provision for) income taxes					Loss before benefit from (provision for) income taxes	(77,118)	(34,256)	(42,862)	125%
Benefit from (provision for) income taxes					Benefit from (provision for) income taxes	46	(19)	65	*
Net loss					Net loss	(77,072)	(34,275)	(42,797)	125%
Net income attributed to non-controlling interests					Net income attributed to non-controlling interests	—	4	(4)	(100)%
Net loss attributable to Stem					Net loss attributable to Stem	$ (77,072)	$ (34,279)	$ (42,793)	125%

*Percentage is not meaningful

Revenue

Revenue increased by $26.0 million $34.2 million, or 39% 34%, for the three months ended June 30, 2023 September 30, 2023, as compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily driven by a $22.2 million $31.3 million increase in hardware revenue primarily due to an increase in demand for systems related to both FTM and BTM partnership agreements. Services and other revenue also increased by $3.8 million $2.9 million primarily due to an increase in solar services subscriptions from existing and new customers.

Cost of Revenue

Cost of revenue increased by $21.9 million $63.7 million, or 37% 70%, for the three months ended June 30, 2023 September 30, 2023, as compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily driven by an increase in cost of hardware revenue of $20.3 million $61.4 million due to the increase in demand for systems. Cost of services and other revenue also increased $1.6 million by $2.2 million, primarily due to solar cloud service costs and amortization of internally developed software costs.

Operating Expenses

Sales and Marketing

Sales and marketing expense increased decreased by $0.7 million $1.6 million, or 6% 12%, for the three months ended June 30, 2023 September 30, 2023, as compared to the three months ended June 30, 2022 September 30, 2022. The increase decrease was primarily due to an increase a decrease of $2.0 million $0.8 million in personnel related expenses primarily as a result of higher headcount and an increase of $0.2 million in office-related expenses, partially offset by a decrease of $1.4 million $0.8 million in amortization expense related to contract origination costs. professional services and office-related expenses.

Research and Development

Research and development expense increased by $5.2 million $3.9 million, or 58% 37%, for the three months ended June 30, 2023 September 30, 2023, as compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily due to an increase of $4.0 million $2.4 million in personnel related expenses as a result of higher headcount and an increase of $1.2 million $1.5 million in professional services and other expenses.

General and Administrative

General and administrative expense increased by $3.2 million $3.9 million, or 20% 22%, for the three months ended June 30, 2023 September 30, 2023, as compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily driven by an increase of $1.7 million $5.6 million in business taxes related to state sales tax liabilities and an increase of $0.5 million in personnel costs driven by additional headcount and an increase stock-based compensation expense, partially offset by a decrease of $1.5 million $2.2 million in office-related costs.

Other Income (Expense), Net

Interest Expense, Net

Interest expense increased by $1.2 million $1.9 million, or 45% 75%, for the three months ended June 30, 2023 September 30, 2023, as compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily driven by an increase in interest on convertible notes of $2.3 million $2.4 million, partially offset by the accretion of the discount on short-term investments of $0.9 million and $0.2 million, a decrease of $0.2 million in interest on financing obligations. obligations, and a decrease of $0.1 million in other interest expense.

Change in Fair Value of Derivative Liability

Unrealized losses relating to our derivative liability increased by $5.2 million for the three months ended September 30, 2023, as compared to three months ended September 30, 2022 due to the decrease in the price per ton of lithium carbonate.

Other Income, Net

Other income, net decreased by $0.2 million, or 17% for the three months ended September 30, 2023, as compared to three months ended September 30, 2022 primarily due to a decrease of $0.3 million in accrued interest income from investments, partially offset by and a $0.1 million increase in income from equity investments.

Benefit from (Provision for) Income Taxes

During the three months ended September 30, 2023, we recorded a benefit from income taxes of $46 thousand. During the three months ended September 30, 2022, we recorded a $19 thousand provision for income taxes.

Results of Operations for the Nine Months Ended September 30, 2023 and 2022

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
	(in thousands, except percentages)			
Revenue				
Services and other revenue	$ 47,630	$ 36,178	$ 11,452	32%
Hardware revenue	246,461	171,358	75,103	44%
Total revenue	294,091	207,536	86,555	42%
Cost of revenue				
Cost of services and other revenue	36,944	30,219	6,725	22%
Cost of hardware revenue	264,573	156,758	107,815	69%
Total cost of revenue	301,517	186,977	114,540	61%
Gross (loss) profit	(7,426)	20,559	(27,985)	(136)%
Operating expenses:				
Sales and marketing	37,691	35,284	2,407	7%

Research and development	42,020	28,432	13,588	48%
General and administrative	58,656	54,218	4,438	8%
Total operating expenses	138,367	117,934	20,433	17%
Loss from operations	(145,793)	(97,375)	(48,418)	50%
Other income (expense), net:				
Interest expense, net	(10,085)	(8,429)	(1,656)	20%
Gain on extinguishment of debt, net	59,121	—	59,121	*
Change in fair value of derivative liability	(7,731)	—	(7,731)	*
Other income, net	2,114	1,822	292	16%
Total other income (expense), net	43,419	(6,607)	50,026	*
Loss before (provision for) benefit from income taxes	(102,374)	(103,982)	1,608	(2)%
(Provision for) benefit from income taxes	(354)	15,201	(15,555)	(102)%
Net loss	$ (102,728)	$ (88,781)	$ (13,947)	16%

*Percentage is not meaningful

Revenue

Revenue increased by $86.6 million, or 42%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase was primarily driven by a $75.1 million increase in hardware revenue primarily due to an increase in demand for systems related to both FTM and BTM partnership agreements. Services and other revenue also increased by $11.5 million primarily due to an increase in solar subscription services revenue from existing and new customers.

Cost of Revenue

Cost of revenue increased by $114.5 million, or 61%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase was primarily driven by an increase in cost of hardware revenue of $107.8 million due to the increase in demand for storage systems. Cost of services and other revenue also increased by $6.7 million primarily due to an increase in solar cloud service costs and amortization of internally developed software costs.

Operating Expenses

Sales and Marketing

Sales and marketing expense increased by $2.4 million, or 7%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase was primarily due to an increase of $2.8 million in

personnel related expenses as a result of higher headcount, partially offset by a decrease of $0.4 million in professional services and office-related expenses.

Research and Development

Research and development expense increased by $13.6 million, or 48%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase was primarily due to an increase of $9.7 million in personnel related expenses as a result of higher headcount and an increase of $3.9 million in professional services and other expenses.

General and Administrative

General and administrative expense increased by $4.4 million, or 8%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase was primarily driven by an increase of $5.6 million in business taxes related to state sales tax liabilities, an increase of $4.4 million in personnel related expenses as a result of higher headcount, and an increase of $0.6 million in additional office-related expenses, partially offset by a decrease of $6.2 million in professional services and other expenses.

Other Expense, Net

Interest Expense, Net

Interest expense increased by $1.7 million, or 20%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase was primarily driven by an increase of $4.8 million in interest on our convertible notes, partially offset by the accretion of the discount on short-term investments of $2.2 million, a decrease of $0.8 million in interest on financing obligations, and a decrease in other interest expense of $0.1 million.

Gain on Extinguishment of Debt, Net

During the three nine months ended June 30, 2023 September 30, 2023, we recorded a $59.4 million gain on extinguishment of debt driven by a $99.8 million payment to extinguish approximately $163.0 million aggregate principal amount of our 2028 Convertible Notes. The gain was partially offset by a $0.3 million loss on extinguishment of debt from repayment of our 2021 Credit Agreement.

Other (Expense) Income, Net Change in Fair Value of Derivative Liability

Other income, net decreased Unrealized losses relating to our derivative liability increased by $1.2 million, or 252%, $7.7 million for the three nine months ended June 30, 2023 September 30, 2023, as compared to the three nine months ended June 30, 2022, primarily due to $2.6 million in unrealized losses related to customers contracts, partially offset by an increase of $0.8 million in accrued interest income from investments and a $0.6 million increase September 30, 2022 due to the reversal decrease in the price per ton of previously recognized accretion expense on assets.

(Provision for) Benefit from Income Taxes

During the three months ended June 30, 2023, we recorded a provision for income taxes of $0.5 million as a result of income tax expense from the gain on extinguishment of 2028 Convertible Notes during the second quarter of 2023. During the three months ended June 30, 2022, we recorded a $7 thousand benefit from income taxes.

Results of Operations for the Six Months Ended June 30, 2023 and 2022

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	$ Change	% Change
	(in thousands, except percentages)			
Revenue				
Services and other revenue	$ 31,033	$ 22,486	$ 8,547	38%
Hardware revenue	129,318	85,549	43,769	51%
Total revenue	160,351	108,035	52,316	48%
Cost of revenue				
Cost of services and other revenue	23,260	18,774	4,486	24%
Cost of hardware revenue	124,226	77,829	46,397	60%
Total cost of revenue	147,486	96,603	50,883	53%
Gross profit	12,865	11,432	1,433	13%
Operating expenses:				
Sales and marketing	26,086	22,097	3,989	18%
Research and development	27,600	17,906	9,694	54%
General and administrative	36,701	36,205	496	1%
Total operating expenses	90,387	76,208	14,179	19%
Loss from operations	(77,522)	(64,776)	(12,746)	20%
Other income (expense), net:				
Interest expense, net	(5,680)	(5,909)	229	(4)%
Gain on extinguishment of debt, net	59,121	—	59,121	*
Other (expense) income, net	(1,175)	959	(2,134)	(223)%
Total other income (expense), net	52,266	(4,950)	57,216	*
Loss before (provision for) benefit from income taxes	(25,256)	(69,726)	44,470	(64)%
(Provision for) benefit from income taxes	(400)	15,220	(15,620)	(103)%
Net loss	(25,656)	(54,506)	28,850	(53)%
Net loss attributed to non-controlling interests	—	(4)	4	(100)%
Net loss attributable to Stem	$ (25,656)	$ (54,502)	$ 28,846	(53)%

*Percentage is not meaningful

Revenue

Revenue increased by $52.3 million, or 48%, for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The increase was primarily driven by a $43.8 million increase in hardware revenue primarily due to increase in demand for systems related to both FTM and BTM partnership agreements. Services and other revenue also increased by $8.5 million primarily due to an increase in solar subscription services revenue from existing and new customers.

Cost of Revenue

Cost of revenue increased by $50.9 million, or 53%, for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The increase was primarily driven by an increase in cost of hardware revenue of $46.4 million due to the increase in demand for storage systems. Cost of services and other revenue also increased by $4.5 million primarily due to solar cloud service costs and amortization of internally developed software costs.

Operating Expenses

Sales and Marketing

Sales and marketing expense increased by $4.0 million, or 18%, for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The increase was primarily due to an increase of $3.6 million in personnel related expenses as a result of higher headcount, and an increase of $0.4 million in additional office-related expenses.

Research and Development

Research and development expense increased by $9.7 million, or 54%, for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The increase was primarily due to an increase of $7.3 million in personnel related expenses as a result of higher headcount and an increase of $2.4 million in professional services and other expenses.

General and Administrative

General and administrative expense increased by $0.5 million, or 1%, for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The increase was primarily driven by an increase of $3.9 million in personnel related expenses as a result of higher headcount, and an increase of $2.7 million in additional office-related expenses, partially offset by a decrease of $6.1 million in professional services and other expenses. lithium carbonate.

Other Expense, Net

Interest Expense

Interest expense decreased by $0.2 million, or 4%, for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily driven by the accretion of discount on short-term investments of $2.0 million and a decrease of $0.6 million in interest on financing obligations, partially offset by an increase of $2.4 million in interest on our convertible notes.

Gain on Extinguishment of Debt

During the six months ended June 30, 2023, we recorded a $59.4 million gain on extinguishment of debt driven by a $99.8 million payment to extinguish approximately $163.0 million aggregate principal amount of our 2028 Convertible Notes. The gain was partially offset by a $0.3 million loss on extinguishment of debt from repayment of our 2021 Credit Agreement.

Other (Expense) Income, Net

Other income, net decreased increased by $2.1 0.3 million, or 223% 16%, for the six nine months ended June 30, 2023 September 30, 2023, as compared to the six nine months ended June 30, 2022 September 30, 2022 primarily due to a $2.6 million in unrealized losses related to customers contracts, and a $1.6 million realized loss on short-term investments, partially offset by $1.3 1.1 million increase in accrued interest income from short-term investments, a $0.6 million increase due to the reversal of previously recognized accretion expense on assets, and a $0.1 0.2 million increase in income from equity investments,. partially offset by a $1.6 million realized loss on short-term investments.

(Provision for) Benefit from Income Taxes

During the six nine months ended June September 30, 2023, we recorded a provision for income taxes of $0.4 million primarily as a result of state income tax expense from the gain on extinguishment of 2028 Convertible Notes during the second quarter of 2023, which was partially offset by a partial release of our deferred tax asset valuation due to an acquisition during the first quarter of 2023. During the six nine months ended June 30, 2022 September 30, 2022, we recorded a $15.2 million benefit from income taxes as a result of the partial release of our deferred tax asset valuation due to the acquisition of AlsoEnergy.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service, acquisitions, contractual obligations and other commitments. We assess liquidity in terms of our cash flows from operations and their sufficiency to fund our operating and investing activities. To meet our payment service obligations we must have sufficient liquid assets and be able to move funds on a timely basis.

As of June 30, 2023 September 30, 2023, our principal source of liquidity were cash, cash equivalents, and short-term investments of $138.2 million $125.4 million, which were held for working capital purposes and for investment growth opportunities. Our marketable securities generally consist of high-grade commercial paper, agency bonds, corporate debt securities, U.S. government agency securities, and treasury bills. We believe that our cash position is sufficient to meet our capital and liquidity requirements for at least the next 12 months.

Our business prospects are subject to risks, expenses, and uncertainties frequently encountered by companies in the early stages of commercial operations. The attainment of profitable operations is dependent upon future events, including obtaining adequate financing to complete our development activities, obtaining adequate supplier relationships, building our customer base, successfully executing our business and marketing strategy and hiring appropriate personnel. Failure to generate sufficient revenues, achieve planned gross margins and operating profitability, control operating costs, or secure additional funding may require us to modify, delay, or abandon some of our planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on our business, operating results, and financial condition.

In the future, we may be required to obtain additional equity or debt financing in order to support our continued capital expenditures and operations, which may not be available on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies, this could reduce our ability to compete successfully and harm our business, growth and results of operations.

Our long-term liquidity requirements are linked primarily to the continued extension of the Athena platform and supporting applications, including Athena PowerTrack and the use of our balance sheet to improve the terms and conditions associated with the purchase of energy storage systems from our hardware vendors. While we have plans to potentially expand our geographical footprint beyond our current partnerships and enter into joint ventures, those are not required initiatives to achieve our plans.

Financing Obligations

We have entered into arrangements wherein we finance the cost of energy storage systems via special purpose entities ("SPE" SPEs") we establish with outside investors. These SPEs are not consolidated into our financial statements, but are accounted for as equity method investments. Through the SPEs, the investors provide us upfront payments. Under these arrangements, the payment by the SPE SPEs to us is accounted for as a borrowing by recording the proceeds received as a financing obligation. The financing obligation is repaid with the future customer payments and incentives received. A portion of the amounts paid to the SPE is allocated to interest expense using the effective interest rate method. Furthermore, we continue to account for the revenues from customer arrangements and incentives and all associated costs despite such systems being legally sold to the SPEs due to our significant continuing involvement in the operations of the energy storage systems. The total financing obligation as of June 30, 2023 September 30, 2023 was $77.1 $71.7 million, of which $18.2 $17.4 million was classified as a current liability.

Notes Payable

2021 Credit Agreement

In January 2021, we entered into a non-recourse credit agreement to provide a total of $2.7 million towards the financing of certain energy storage systems that we owned and operated. The credit agreement had a stated interest of 5.45% and a maturity date of June 2031. We received an advance under the credit agreement of $1.8 million in January 2021. The repayment of advances received under the credit agreement was determined by the lender based on the proceeds generated by us through the operation of the underlying energy storage systems. On April 6, 2023, we repaid the remaining outstanding balance under the 2021 Credit Agreement with a portion of the proceeds received from the issuance of the 2030 Convertible Notes. The facility was terminated after the repayment in April 2023. See Note 9 — *Notes Payable* for additional details.

2028 Green Convertible Senior Notes

On November 22, 2021, we sold to Morgan Stanley & Co. LLC, Goldman Sachs & Co. LLC and Barclays Capital Inc, as initial purchasers (the "2021 Initial Purchasers"), and the 2021 Initial Purchasers purchased from us, $460.0 million aggregate principal amount of our 2028 Convertible Notes, pursuant to a purchase agreement dated as of November 17, 2021, by and between us and the 2021 Initial Purchasers. Our net proceeds from this offering were approximately $445.7 million, after deducting the 2021 Initial Purchasers' discounts and commissions and the offering expenses paid by the Company. The 2028 Convertible Notes will accrue interest payable semi-annually in arrears and will mature on December 1, 2028, unless earlier repurchased, redeemed or converted in accordance with their terms prior to such date. Upon conversion, we may choose to pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock. The 2028 Convertible Notes are redeemable for cash at our option at any time given certain conditions. Refer to Note 10 — *Convertible Notes*, of the Notes to the unaudited condensed consolidated financial statements in this report for additional details regarding this transaction.

On April 3, 2023, we used approximately $99.8 million of the net proceeds from the issuance of the 4.25% Green Convertible Senior Notes due 2030 ("2030 Convertible Notes") to purchase and surrender for cancellation approximately $163.0 million aggregate principal amount of the Company's 2028 Convertible Notes. See Note 10 — *Convertible Notes,* of the Notes to the unaudited condensed consolidated financial statements in this report for additional details.

2030 Convertible Notes

On April 3, 2023, the Company issued $240.0 million aggregate principal amount of its 2030 Convertible Notes in a private placement offering to qualified institutional buyers (the "2023 Initial Purchasers") pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2030 Convertible Notes are senior, unsecured obligations of the Company and bear interest at a rate of 4.25% per year, payable in cash semi-annually in arrears in April and October of each year, beginning in October 1, 2023. The notes will mature on April 1, 2030, unless earlier repurchased, redeemed or converted in accordance with their terms prior to such date. Upon conversion, the Company may choose to pay or deliver cash, shares of common stock or a combination of cash and shares of common stock. The Notes are redeemable for cash at the Company's option at any time given certain conditions. See Note 10 — *Convertible Notes*, of the Notes to the unaudited condensed consolidated financial statements in this report, for additional details regarding this transaction.

The Company's net proceeds from this offering were approximately $232.4 million, after deducting for $7.6 million of debt issuance costs primarily consisting of underwriters, advisory, legal, and accounting fees. The Company used approximately $99.8 million of the net proceeds to purchase and surrender for cancellation approximately $163.0 million aggregate principal amount of the Company's 2028 Convertible Notes.

On March 29, 2023 and March 31, 2023, in connection with the pricing of the 2030 Convertible Notes, and on April 3, 2023, in connection with the exercise in full by the 2023 Initial Purchasers of their option to purchase additional Notes, the Company entered into Capped Calls (the "2030 Capped Calls") with certain counterparties. The Company used $27.8 million of the net proceeds from the 2030 Convertible Notes to pay the cost of the 2030 Capped Calls.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

		Six Months Ended June 30,					Nine Months Ended September 30,			
			2023		2022			2023		2022
Net cash used in operating activities	Net cash used in operating activities	$	(201,239)	$	(32,630)	Net cash used in operating activities	$	(205,248)	$	(68,634)

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Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	88,469	(556,030)	Net cash provided by (used in) investing activities	120,256	(571,925)
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	100,279	(7,981)	Net cash provided by (used in) financing activities	95,139	(6,819)
Effect of exchange rate changes on cash and cash equivalents		(7)	(136)			
Net decrease in cash and cash equivalents		$ (12,498)	$ (596,777)			
Effect of exchange rate changes on cash, cash equivalents and restricted cash				Effect of exchange rate changes on cash, cash equivalents and restricted cash	114	(304)
Net increase (decrease) in cash, cash equivalents and restricted cash				Net increase (decrease) in cash, cash equivalents and restricted cash	$ 10,261	$ (647,682)

Operating Activities

During the six nine months ended June 30, 2023 September 30, 2023, net cash used in operating activities was $201.2 $205.2 million, primarily resulting from our net loss of $25.7 $102.7 million, adjusted for non-cash items of $10.8 $17.9 million and net cash outflow of $164.8 $120.3 million from changes in operating assets and liabilities. Non-cash items primarily consisted of depreciation and amortization of $33.6 million, non-cash interest expense of $2.0 million related to debt issuance costs, stock-based compensation expense of $28.3 million, change in fair value of derivative liability of $7.7 million, non-cash lease expense of $2.2 million, impairment of energy storage systems of $2.3 million, provision for accounts receivable allowance of $1.8 million and net recognized loss on investments of $1.6 million, partially offset by a net gain on debt extinguishment, of $59.1 million, net accretion of the discount on investments of $1.3 $1.7 million, and an income tax benefit of $0.3 million, and other non-cash items of $0.4 million, partially offset by depreciation and amortization of $22.4 million, non-cash interest expense of $1.6 million related to debt issuance costs, stock-based compensation expense of $17.1 million, change in fair value of derivative liability of $2.6 million, non-cash lease expense of $1.4 million, impairment of energy storage systems of $2.1 million, provision for accounts receivable allowance of $1.7 million and net recognized loss on investments of $1.6 $0.5 million. The net cash outflow from changes in operating assets and liabilities was primarily driven by an increase in accounts receivable of $72.2 $67.0 million as a result of increases in sales, an increase in inventory of $137.1 $57.3 million to fulfill future deliveries, an increase in other assets of $17.8 $17.9 million, an increase in contract origination costs of $2.3 $4.2 million, an increase in project assets of $2.8 million, a decrease in accrued expenses and other liabilities of $35.1 $28.9 million, and a decrease in lease liabilities of $1.3 $2.1 million, partially offset by a decrease in deferred costs with suppliers of $28.8 $30.6 million, an increase in accounts payable of $19.0 $1.8 million, and an increase in deferred revenue of $56.0 $27.6 million.

During the six nine months ended June 30, 2022 September 30, 2022, net cash used in operating activities was $32.6 million $68.6 million, primarily resulting from our net loss of $54.5 $88.8 million, adjusted by non-cash charges of $23.0 $43.6 million and net cash outflow of $1.1 million $23.5 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of income tax benefit of $15.1 million, depreciation and amortization of $20.9 $32.1 million, non-cash interest expense of $0.9 $1.5 million, related to debt issuance costs, stock-based compensation expense of $12.7 $20.4 million, impairment of energy storage systems of $0.9 $1.3 million, non-cash lease expense of $1.7 million, provision for

$1.1 million, provision for accounts receivable allowance of $1.0 $1.9 million, and net amortization of the premium on investments of $0.4 million. $0.3 million and other non-cash items of $0.1 million, partially offset by an income tax benefit of $15.1 million and gain on sale of project assets of $0.6 million. The net cash outflow from changes in operating assets and liabilities was primarily driven by an increase in accounts receivable of $26.1 million, $75.4 million due to increases in sales, an increase in other assets of $28.7 $25.2 million, an increase in deferred costs with suppliers of $23.4 $47.8 million for future hardware orders, an increase in inventory of $36.6 $2.2 million, an increase in contract origination costs of $3.6 $4.8 million, and a decrease in lease liabilities of $0.5 million $1.1 million, partially offset by an increase in accounts payable of $82.4 million, $63.2 million due to timing of payments, an increase in accrued expenses and other liabilities of $7.0 million $38.3 million, and an increase in deferred revenue of $28.5 $31.6 million.

Investing Activities

During the six nine months ended June 30, 2023 September 30, 2023, net cash provided by investing activities was $88.5 $120.3 million, primarily consisting of $100.6 $135.5 million in proceeds from net sales of available-for-sale investments, partially offset by $1.8 million used for acquisitions, net of cash acquired, $2.6 $2.9 million in purchases of energy storage systems, $7.4 $10.1 million in capital expenditures on internally-developed software, and $0.3 $0.4 million in purchases of property and equipment.

During the six nine months ended June 30, 2022 September 30, 2022, net cash used in investing activities was $556.0 $571.9 million, primarily consisting of $533.0 million used for our acquisition of AlsoEnergy, net of cash acquired, $12.3 $22.5 million in net purchases of available-for-sale investments, $0.2 $0.5 million in purchases of energy systems, $8.1 $12.7 million in capital expenditures on internally-developed software, $3.0 million in capital expenditures on project assets, and $2.4 $1.5 million in purchases of property and equipment. equipment, partially offset by proceeds from the sale of project assets of $1.3 million.

Financing Activities

During the six nine months ended June 30, 2023 September 30, 2023, net cash provided by financing activities was $100.3 $95.1 million, primarily consisting of net proceeds from the issuance of convertible notes of $132.6 million and proceeds from the exercise of stock options of $0.2 $0.3 million, partially offset by the purchase of capped calls of $27.8 million, the repayment of financing obligations of $2.6 $7.8 million, a the repayment of notes payable of $2.1 million, and a redemption of non-controlling interests of $0.1 million.

During the six nine months ended June 30, 2022 September 30, 2022, net cash used in financing activities was $8.0 $6.8 million, primarily consisting of repayment of financing obligations of $6.8 $7.6 million and payments for taxes related to net share settlement of stock options of $2.3 million, partially offset by proceeds from the exercise of stock options of $0.6 $1.2 million, proceeds from financing obligations of $0.3 $1.5 million, and investments from non-controlling interests of $0.2 $0.4 million.

Contractual Obligations and Commitments

As of June 30, 2023 September 30, 2023, except for the 2030 Convertible Notes, there have been no material changes to our contractual obligations described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements, including guarantee contracts, retained or contingent interests, or unconsolidated VIEs that either have, or are reasonably likely to have, a current or future material adverse effect on our unaudited condensed consolidated financial statements.

Critical Accounting Policies and Estimates

A summary of our critical accounting policies and estimates is presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Recent Accounting Pronouncements

As of June September 30, 2023, there have been no material changes to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting Stem, us, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. Our exposure to market risk has not changed materially since December 31, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures ("Disclosure Controls") within the meaning of Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Our Disclosure Controls are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our Disclosure Controls are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Based on management's evaluation (under the supervision and with the participation of our CEO and our CFO) as of June 30, 2023 September 30, 2023, of the effectiveness of the design and operation of our Disclosure Controls, our CEO and CFO have concluded that our Disclosure Controls were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the second third quarter of 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Internal Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will 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. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Furthermore, 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, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies or procedures.

Part II - Other Information

ITEM 1. LEGAL PROCEEDINGS

The information with respect to this Item 1 is set forth under Note 15 — *Commitments and Contingencies*, of the Notes to the unaudited condensed consolidated financial statements in this report.

ITEM 1A. RISK FACTORS

Except as set forth below and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023, there have been no material changes to the risk factors disclosed in Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

The trading price Our estimates of variable consideration related to revenue recognition in connection with guarantees that we have issued under certain customer contracts are difficult to estimate, and if our common stock is volatile. subsequent estimates differ significantly from initial estimates, we will be required to record an adjustment in a subsequent period.

The trading price Our estimates of our common stock has been and will likely continue variable consideration related to revenue recognition in connection with guarantees that we have issued under certain customer contracts are difficult to estimate, as they are based on some assumptions that may prove to be volatile and is subject incorrect. For example, in certain customer contracts, the Company previously agreed to fluctuations provide a guarantee that the value of hardware purchased by a customer will not decline for a certain period of time. Under these guarantees, if such customers were unable to install or designate the hardware to a specified project within such period of time, the Company would be required to assist the customer in response re-marketing the hardware for resell by the customer. Such guarantees provide that, in such cases, if the customer resells the hardware for less than the amount initially sold to various factors, some of which are beyond our control. These fluctuations could cause you the customer, the Company will be required to lose all or part of your investment compensate the customer for any shortfall in our common stock. Factors that could cause fluctuations in fair value for the trading price of our common stock include the following:

- results of operations that vary hardware from the expectations initial contract purchase price. The Company accounts for such guarantees as variable consideration at each measurement date. The Company updates its estimate of securities analysts and investors;
- results of operations that vary from those of our competitors;
- volatility in the trading prices and trading volumes of technology stocks;
- variable consideration, including changes in expectations as estimates related to such guarantees, each quarter for facts or circumstances that have changed from the Company's future financial performance, including financial estimates and investment recommendations by securities analysts and investors;
- declines in time of the market prices of stocks generally;
- strategic actions by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, joint ventures, other strategic relationships or capital commitments;
- any significant change in the Company's senior management;
- changes in general economic or market conditions or trends in the Company's industry or markets, including as initial estimate. As a result of a general economic slowdown or a recession, increasing interest rates and changes in monetary policy, or inflationary pressures;
- changes in business or regulatory conditions, including new laws or regulations or new interpretations of existing laws or regulations applicable to the Company's business;
- future sales of our common stock or other securities or the incurrence of significant debt;
- investor perceptions or the investment opportunity associated with our common stock relative to other investment alternatives;
- the public's response to press releases or other public announcements by us or third parties, including the Company's filings with the SEC;
- litigation involving its estimates, the Company recorded a reduction in revenue of $37.4 million during the Company's industry, or both, or investigations by regulators into three and nine months ended September 30, 2023. If our future estimates of variable consideration differ significantly from initial estimates, we would need to record an adjustment to earnings to reverse the Company's operations or those of the Company's competitors;
- financial and operating guidance, if any, that we provide to the public, and any changes in this guidance or the Company's failure to meet this guidance;
- actions by institutional or activist stockholders;
- changes in accounting standards, policies, guidelines, interpretations or principles; and
- other events or factors, including those resulting from natural disasters, war, acts of terrorism or responses to these events.

These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance.

In addition, in the past, following periods of market volatility, stockholders have instituted securities class action litigation against companies. For example, in May and July 2023, two putative securities class actions were filed against the Company and certain of our current and former officers and directors alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Sections 11 and 15 of the Securities Act of 1933. The lawsuits seek damages, litigation costs and interest. Securities litigation against us could result in substantial costs and divert our management's time and attention from other business concerns, which could have a material adverse effect on our business, regardless of the outcome of such litigation. We may be the target of additional litigation of this type in the future. revenue previously recognized.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Except as previously disclosed in our Current Report on Form 8-K filed on April 3, 2023, we made no unregistered sales of our common stock during the three months ended June 30, 2023. None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(c) *Trading Plans*. During the three months ended September 30, 2023, no Section 16 officer or directorThe following table describes contracts, instructions or written plans for of the sale or purchase of our securities Company adopted or terminated by our Section 16 officers and directors during any contract, instruction or written plan for the second quarter purchase or sale of 2023 and Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c), referred to as Rule 10b5-1 trading plans. No Section 16 officer or director adopted or terminated any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K promulgated under the Exchange Act) during the second quarter of 2023.

Name and Title	Date of Adoption or Termination of Rule 10b5-1 Trading Plan	Duration of Rule 10b5-1 Trading Plan	Aggregate Number of Securities to be Purchased or Sold
David S. Buzby Director	Adopted June 9, 2023	September 7, 2023 through June 1, 2024, or such earlier date when all transactions under the trading plan are completed.	Sale of up to 153,000 shares of common stock.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation, dated April 28, 2021 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on May 4, 2021).
3.2	Amended and Restated Bylaws, dated October 27, 2022 (incorporated by reference to Exhibit 3 to the Current Report on Form 8-K filed on October 31, 2022).
31.1*	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

***Filed herewith**
****Furnished herewith**

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on August 3, 2023 November 2, 2023.

STEM, INC.

By: /s/ William Bush
William Bush
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John Carrington, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three months ended June 30, 2023 September 30, 2023 of Stem, Inc.;

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 my 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 controls over financial reporting.

STEM, INC.

Date: August 3, 2023 November 2, 2023

By: /s/ John Carrington
Name: John Carrington
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, William Bush, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three months ended June 30, 2023 September 30, 2023 of Stem, Inc.;

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 my 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 controls over financial reporting.

STEM, INC.

Date: August 3, 2023 November 2, 2023

By: /s/ William Bush

Name: William Bush

Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE 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 Quarterly Report on Form 10-Q of Stem, Inc. (the "Company") for the three months ended June 30, 2023 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Carrington, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the registrant.

STEM, INC.

Date: August 3, 2023 November 2, 2023

By: /s/ John Carrington
Name: John Carrington
Title: Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Exchange Act.

Exhibit 32.2

CERTIFICATION OF 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 Quarterly Report on Form 10-Q of Stem, Inc. (the "Company") for the three months ended June 30, 2023 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Bush, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the registrant.

STEM, INC.

Date: August 3, 2023 November 2, 2023

By: /s/ William Bush

Name: William Bush

Title: Chief Financial Officer

(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Exchange Act.

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