

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from March 1, 2023 to March 31, 2024

Commission file number 001-41959

**Solarmax Technology, Inc.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of  
incorporation or organization)

26-2028786

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

3080 12th Street  
Riverside, California

(Address of Principal Executive Offices)

92507

(Zip Code)

(951) 300-0788

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	SMXT	The Nasdaq Stock Market LLC

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 Act).

Yes ☐ No ☒

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 44,982,797 shares outstanding as of May 15, 2024.

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#### **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this report.

Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings "Forward-Looking Statements," "Item 1A. Risks Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2023, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q and in other reports that we file with the SEC. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

We file reports with the SEC. The SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

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**Part I - Financial Information**

**Item 1. Financial Statements**

**SolarMax Technology, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets  
As of March 31, 2024 and December 31, 2023**

<b>March 31, 2024</b>	<b>December 31, 2023</b>
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	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,929,781	\$ 2,539,312
Accounts receivable, net	3,980,353	4,176,322
Short-term investments	7,000,000	-
Contract assets, net	292,608	549,118
Receivable from SPIC and project companies (Note 2)	3,651,798	3,728,865
Customer loans receivable, current, net	1,395,744	2,212,574
Inventories, net	1,248,447	1,341,397
Other receivables and current assets, net	4,767,673	5,373,997
<b>Total current assets</b>	<b>27,266,404</b>	<b>19,921,585</b>
Property and equipment, net	267,441	291,416
Operating lease right-of-use assets	4,274,921	5,411,820
Goodwill	7,428,019	7,584,779
Investments in unconsolidated solar project companies	9,557,500	9,698,308
Customer loans receivable, noncurrent, net	4,444,262	4,322,942
Deferred tax assets	186,503	189,226
Restricted cash, noncurrent	356,510	354,504
Other assets	910,502	880,621
<b>Total assets</b>	<b>\$ 54,692,062</b>	<b>\$ 48,655,201</b>

See accompanying notes to consolidated financial statements.

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**SolarMax Technology, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**As of March 31, 2024 and December 31, 2023 (Continued)**

	March 31, 2024 (Unaudited)	December 31, 2023
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Accounts payable	\$ 2,042,203	\$ 3,384,195
Operating lease liabilities, current	1,465,296	1,497,555
Unsecured loans, current	2,000,000	2,000,000
Secured loans from related parties, current	9,358,658	11,358,658
Secured convertible notes, current	8,580,000	8,680,000
Accrued expenses and other payables	12,947,272	16,480,896
<b>Total current liabilities</b>	<b>36,393,429</b>	<b>43,401,304</b>
Operating lease liabilities, noncurrent	2,901,516	4,078,569
Secured loans from related parties, noncurrent	7,000,000	7,000,000
Secured convertible notes, noncurrent, net of debt discount and issuance costs	6,363,217	7,269,768
Other liabilities	2,619,138	2,793,388
<b>Total liabilities</b>	<b>55,277,300</b>	<b>64,543,029</b>
<b>Commitments and contingencies (Note 17)</b>		
<b>Stockholders' deficit:</b>		
Preferred stock, par value \$0.001 per share; 15,000,000 shares authorized, none issued and outstanding as of March 31, 2024 and December 31, 2023	-	-
Common stock, par value \$0.001 per share; 297,225,000 shares authorized, 46,231,142 and 40,983,881 shares issued as of March 31, 2024 and December 31, 2023, respectively, and 44,982,797 and 39,735,536 shares outstanding as of March 31, 2024 and December 31, 2023, respectively	46,231	40,984
Additional paid-in capital	90,563,721	55,786,634
Treasury stock, at cost, 1,248,345 shares at March 31, 2024 and December 31, 2023	(1,808,889)	(1,808,889)
Accumulated deficit	(87,895,756)	(68,623,969)
Accumulated other comprehensive loss	(1,490,545)	(1,282,588)
<b>Total stockholders' deficit</b>	<b>(585,238)</b>	<b>(15,887,828)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 54,692,062</b>	<b>\$ 48,655,201</b>

See accompanying notes to consolidated financial statements.

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**SolarMax Technology, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**For the Three Months Ended March 31, 2024 and 2023**

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Revenues	\$ 5,764,074	\$ 12,868,478
Cost of revenues (includes stock-based compensation expense of \$1,264,690)	6,228,481	10,796,141
Gross profit (loss)	(464,407)	2,072,337
Operating expenses:		
General and administrative (includes stock-based compensation expense of \$15,945,597)	18,251,110	1,294,787
Selling and marketing	165,222	250,339
Total operating expense	18,416,332	1,545,126
Operating income (loss)	(18,880,739)	527,211
Other income (expense):		
Interest income	15,792	8,676
Interest expense	(384,363)	(399,136)
Equity in income of solar project companies	60,163	67,902
Gain on debt extinguishment	53,642	13,410
Gain on early termination of lease	77,207	4,212
Other income (expense), net	(208,688)	319,252
Total other income (expense)	(386,247)	14,316
Income (loss) before income taxes	(19,266,986)	541,527
Income tax provision (benefit)	4,801	(201,288)
Net income (loss)	\$ (19,271,787)	\$ 742,815
Net income (loss) per share		
Basic	\$ (0.46)	\$ 0.02
Diluted	\$ (0.46)	\$ 0.02
Weighted average shares used to compute net income (loss) per share		
Basic	41,461,502	39,735,536
Diluted	41,461,502	44,533,059

See accompanying notes to consolidated financial statements.

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**SolarMax Technology, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income (Loss)  
For the Three Months Ended March 31, 2024 and 2023**

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Net income (loss)	\$ (19,271,787)	\$ 742,815
Other comprehensive loss		
Foreign currency translation adjustments	(207,957)	221,007
Total comprehensive income (loss)	<u>\$ (19,479,744)</u>	<u>\$ 963,822</u>

*See accompanying notes to consolidated financial statements.*

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**Condensed Consolidated Statements of Changes in Stockholders' Equity**  
**For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

	Preferred Stock		Common Stock		Additional	Treasury Stock		Accumulated	Accumulated	
	Shares	Amount	Shares	Amount	Paid-In	Shares	Amount	Deficit	Other	Total
					Capital				Comprehensive	
									Loss	
Balance at December 31, 2023	-	\$ -	40,983,881	\$ 40,984	\$55,786,634	(1,248,345)	\$(1,808,889)	\$ (68,623,969)	\$ (1,282,588)	\$(15,887,828)
Stock-based compensation					17,210,288					17,210,288
Shares issued for warrants exercised			207,311	207	(207)					-
Initial public offering			5,039,950	5,040	18,571,997					18,577,037
Public offering costs previously capitalized					(1,004,991)					(1,004,991)
Net income								(19,271,787)		(19,271,787)
Currency translation adjustments									(207,957)	(207,957)
Balance at March 31, 2024 (Unaudited)	-	\$ -	46,231,142	\$ 46,231	\$90,563,721	(1,248,345)	\$(1,808,889)	\$ (87,895,756)	\$ (1,490,545)	\$(585,238)

	Preferred Stock		Common Stock		Additional	Treasury Stock		Accumulated	Accumulated	
	Shares	Amount	Shares	Amount	Paid-In	Shares	Amount	Deficit	Other	Total
					Capital				Comprehensive	
									Loss	
Balance at December 31, 2022	-	\$ -	40,983,881	\$ 40,984	\$55,786,634	(1,248,345)	\$(1,808,889)	\$ (69,058,755)	\$ (1,167,523)	\$(16,207,549)
Net loss	-	-	-	-	-	-	-	742,815	-	742,815
Currency translation adjustments	-	-	-	-	-	-	-	-	221,007	221,007
Balance at March 31, 2023 (Unaudited)	-	\$ -	40,983,881	\$ 40,984	\$55,786,634	(1,248,345)	\$(1,808,889)	\$ (68,315,940)	\$ (946,516)	\$(15,243,727)

See accompanying notes to consolidated financial statements.

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**SolarMax Technology, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2024 and 2023**

	Three Months Ended	
	March 31,	
	2024	2023
<b>Operating activities</b>		
Net income (loss)	\$ (19,271,787)	\$ 742,815
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	23,917	51,045
Amortization of discounts on customer loan receivables	(1,760)	(22,175)
Amortization of convertible note discount and debt issuance costs	47,090	45,078
Amortization of operating lease right-of-use assets	368,659	358,373
Provision for (recovery of) credit losses and loan losses	60,986	142,049
Provision for excess and obsolete inventories	34,883	108,378
Provision for warranty and production guaranty	61,466	152,231
Equity in income of investment in excess of distribution received	(60,163)	(67,902)
Deferred income tax provision	(1,199)	(207,288)
Gain on disposal of property and equipment	(14,472)	(22,174)
Gain on debt extinguishment	(53,641)	(13,410)
Gain on early termination of lease	(77,207)	(4,212)

Stock-based compensation	17,210,288	-
Changes in operating assets and liabilities:		
Accounts receivable	114,796	977,912
Contract assets	256,510	(3,876,422)
Customer loans receivable	635,972	1,065,026
Inventories	58,067	502,834
Other receivables and current assets	(69,131)	(3,224,686)
Other assets	(29,881)	28,205
Accounts payable	(1,341,992)	(515,739)
Operating lease liabilities	(363,865)	(341,012)
Contract liabilities	-	4,314,590
Accrued expenses and other payables	(3,756,336)	2,071,112
Other liabilities	(231,494)	99,343
Net cash provided by (used in) operating activities	<u>\$ (6,400,294)</u>	<u>\$ 2,363,971</u>

See accompanying notes to consolidated financial statements.

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SolarMax Technology, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Three Months Ended March 31, 2024 and 2023 (Continued)

Three Months Ended March 31,	
2024	2023
(Unaudited)	

**Investing activities**

Short- term Investments	\$ (7,000,000)	\$ -
Proceeds from disposal of property and equipment	14,473	22,174
Net cash provided by (used in) investing activities	<u>(6,985,527)</u>	<u>22,174</u>

**Financing activities**

Net proceeds from initial public offering	18,577,037	-
Refundable vendor bid deposits paid	-	(7,308)
Principal payment on convertible notes	(3,000,000)	(2,500,000)
Principal payment on borrowings	-	(9,827)
Repayment on equipment capital lease	(4,222)	(4,322)
Payments related to Uonone acquisition contingency (Note 15)	-	(2,309,698)
Proceeds from Uonone acquisition contingency (Note 15)	-	6,869,462
Net cash provided by (used in) financing activities	<u>15,572,815</u>	<u>2,038,307</u>
Effect of exchange rate	205,481	(61,148)
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>2,392,475</u>	<u>4,363,304</u>
Cash, cash equivalents, and restricted cash, beginning of the period	<u>2,893,816</u>	<u>4,168,951</u>
Cash, cash equivalents, and restricted cash, end of the period	<u>\$ 5,286,291</u>	<u>\$ 8,532,255</u>

**Supplemental disclosures of cash flow information:**

Interest paid (received) in cash	\$ 540,248	\$ 349,319
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**Non-cash activities for investing and financing activities:**

Expensing of public offering costs previously capitalized	\$ 658,564	\$ -
Convertible notes issued in satisfaction of related party loans	\$ 2,000,000	\$ -

See accompanying notes to consolidated financial statements.

[Table of Contents](#)**SolarMax Technology, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows  
For the Three Months Ended March 31, 2024 and 2023**

	<b>As of March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
<b>Cash balance at the beginning of the period:</b>		
Cash and cash equivalents	\$ 2,539,312	\$ 3,821,952
Restricted cash, noncurrent	354,504	346,999
	<u>\$ 2,893,816</u>	<u>\$ 4,168,951</u>
<b>Cash balance at the end of the period:</b>		
Cash and cash equivalents	\$ 4,929,781	\$ 7,966,192
Restricted cash, current	-	217,427
Restricted cash, noncurrent	356,510	348,636
	<u>\$ 5,286,291</u>	<u>\$ 8,532,255</u>

See accompanying notes to consolidated financial statements.

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**SolarMax Technology, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

**1. Description of Business**

SolarMax Technology, Inc. and subsidiary companies (the “Company”) is an integrated solar and renewable energy company. A solar energy system retains the direct current (DC) electricity from the sun and converts it to alternating current (AC) electricity that can be used to power residential homes and commercial businesses. The solar business is based on the ability of the users of solar energy systems to save on energy costs and reduce their carbon imprint as compared with power purchased from the local electricity utility company. The Company was founded in 2008 to engage in the solar business in the United States of America (the “U.S.”) and, following the acquisition in 2015 of Chengdu Zhonghong Tianhao Technology Co., Ltd. (“Chengdu ZHTH”), which is a subsidiary of SolarMax Technology (Shanghai) Co. Ltd. (together with its subsidiaries thereunder, “ZHTH”), and Jiangsu Zhonghong Photovoltaic Electric Co., Ltd. (“ZHPV”), commenced operations in the People’s Republic of China (the “PRC” or “China”). The Company’s business in the PRC is primarily conducted through ZHTH and ZHPV, and their subsidiaries.

The Company operates in two segments – the U.S. operations and the China operations. The Company’s U.S. operations primarily consist of (i) the sale and installation of photovoltaic and battery backup systems for residential and commercial customers, (ii) financing the sale of its photovoltaic and battery backup systems, and (iii) sales of LED systems and services to government and commercial users. The Company’s China operations consist

of identifying and procuring solar farm projects for resale to third parties and performing engineering, procurement, and construction (“EPC”) services primarily for solar farm projects. The Company’s operations in China are conducted through its principal Chinese subsidiaries.

### **Initial Public Offering**

On February 27, 2024, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Kingswood, a division of Kingswood Capital Partners, LLC (the “Representative”), as representative of the underwriters. Pursuant to the Underwriting Agreement, the Company agreed to sell to the underwriters on a firm commitment basis 4,500,000 shares of common stock, at a public offering price of \$ 4.00 per share, less a 6% underwriting discount. The gross proceeds of the offering were \$18 million, prior to deducting the underwriting discounts, commissions and offering expenses payable by the Company. In addition, SolarMax granted the underwriters a 45-day option to purchase an additional 675,000 shares of common stock at the initial public offering price, less underwriting discounts and commissions, to cover over-allotments. Pursuant to the Underwriting Agreement, the Company paid the Representative a 1% non-accountable expense allowance and reimbursed the Representative for certain accountable expenses of \$175,000.

On March 5, 2024, the Underwriters purchased 539,950 shares of common stock upon the partial exercise of the over-allotment option at the initial public offering price of \$4.00 per share, less a 6% underwriting discount. Including proceeds from the sale of the additional shares, the aggregate gross proceeds from the offering was approximately \$20 million, prior to deducting the underwriting discounts, commissions and offering expenses payable by the Company. Net proceeds from the Company’s initial public offering reflects the gross proceeds net of underwriting discounts, the non-accountable expense allowance, accountable expenses of the underwriters that were paid by the Company and other expenses that were deducted from gross proceeds at the closing. The net proceeds to the Company were approximately \$18.6 million.

Pursuant to the Underwriting Agreement, the Company issued to the Representative at the initial closing of the offering warrants (the “Representative’s Warrants”) to purchase 360,000 shares of common stock. In connection with the sale of the additional shares of common stock pursuant to the partial exercise of the over-allotment option, the Company issued Representative’s Warrants to purchase 43,196 shares of common stock. The Representative’s Warrants are exercisable at an exercise price of \$4.80 per share at any time and from time to time, in whole or in part, during the period commencing February 29, 2024 and terminating on February 12, 2029. The Representative’s Warrant also provides for certain demand and “piggyback” registration rights for the shares of Common Stock issuable upon exercise of the Representative’s Warrant and contains customary anti-dilution provisions.

On March 13, 2024, the Representative’s Warrants were fully exercised on a cashless basis. Based on the formula for cashless exercise, the Company issued a total of 207,311 shares of common stock, and, as a result of the exercise, no Representative’s Warrants remained outstanding.

**SolarMax Technology, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

**2. Basis of Presentation and Summary of Significant Accounting Policies**

***Basis of Accounting***

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere. The unaudited condensed consolidated financial statements were prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments (all of which were considered of normal recurring nature) considered necessary to present fairly the Company's financial results. The results of the three months ended March 31, 2024 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2024 and for any other interim period or other future year.

***Principles of Consolidation***

Amounts reported in the condensed consolidated financial statements are stated in U.S. dollars, unless stated otherwise. The functional currency of the Company's foreign subsidiaries is the Chinese renminbi ("RMB"). These transactions are translated from the local currency into U.S. dollars at exchange rates during or at the end of the reporting period. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements reflect the accounts and operations of the Company. In accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation, the Company consolidates any variable interest entity ("VIE") of which it is the primary beneficiary. The Company uses a qualitative approach in assessing the consolidation requirement for VIEs. This approach focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and whether the Company has the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. All of these determinations involve significant management judgments and estimates.

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**SolarMax Technology, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

***Reclassification***

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net loss.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Company's condensed consolidated financial statements include the cost-based inputs to estimate revenues on long-term construction contracts, the collectability of accounts receivable and loans receivable, the useful lives and impairment of property and equipment, goodwill, the fair value of stock options granted and stock-based compensation expense, the fair value of assets acquired and liabilities assumed in a business combination, warranty and customer care reserve, the valuation of deferred tax assets, inventories and provisions for income taxes. Actual results could differ materially from those estimates.

***Liquidity and Going Concern***

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern. The Company's history of net losses and negative cash flow from operating activities, including its net loss and negative cash flow for the three months ended March 31, 2024, along with its increased accumulated deficit and stockholders' deficit raise substantial doubt about its ability to continue as a going concern.

At March 31, 2024, the Company reported a working capital deficit of approximately \$ 9.1 million. In addition, the accumulated deficit was approximately \$87.9 million and the stockholders' deficiency was approximately \$ 585,000. In connection with these condensed consolidated financial statements, management evaluated whether there were conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to meet its obligations as they become due within one year from the date of issuance of these financial statements. Management assessed that there were such conditions and events, including a history of recurring operating losses, a history of negative cash flows from operating activities, and significant current debt.

As of March 31, 2024, the Company's principal sources of liquidity consisted of approximately \$ 4.9 million, of cash and cash equivalents, and estimated cash flow from operations. The Company believes its current cash balances coupled with anticipated cash flow from operating activities and the net proceeds of its February 2024 initial public offering are sufficient to meet the Company's working capital requirements for at least one year from the date of the issuance of the accompanying condensed consolidated financial statements, excluding approximately \$8.0 million of debt that is due in the next twelve months for which the Company is seeking to have exchanged for five year convertible notes. Management is focused on expanding the Company's existing business, as well as its customer base, including its continuing efforts to generate revenue from non-related parties for its China operations and to continue to increase its United States revenues. The Company is looking to continue to negotiate an exchange of a large portion of the approximately \$8.0 million of the current portion of long-term related party loans for convertible notes that mature in periods beyond one year. The Company cannot predict whether it will be successful in these efforts.

As a result of the above, there is substantial doubt regarding the Company's ability to continue as a going concern within one year from the date of issuance of these financial statements. The Company cannot give assurance that it can increase its cash balances or limit its cash consumption, or obtain the exchange of any of its current debt for secured convertible debt and thus maintain sufficient cash balances for its planned operations. Future business demands may lead to cash utilization at levels greater than recently experienced. Revenue and cash flow from the Company's China segment is irregular because of the timing of solar projects and the Company requires significant funds for its operations, particularly during periods when there is little or no revenue or cash flow from projects, and as of March 31, 2024, the Company did not have any agreements for its China segment. The Company may need to raise additional capital in the future. However, the Company cannot assure that it will be able to raise additional capital on acceptable terms, or at all.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of deposit accounts and highly liquid investments purchased with an original maturity of six months or less. The standard insurance coverage for non-interest bearing transaction accounts in the U.S. is \$250,000 per depositor under the general deposit insurance rules of the Federal Deposit Insurance Corporation. The standard insurance coverage for non-interest bearing transaction accounts in the PRC is RMB 500,000 (approximately \$73,000) per depositor per bank under the applicable Chinese general deposit insurance rules.

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## **SolarMax Technology, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

#### **Restricted Cash**

Restricted cash includes cash held to collateralize ACH transactions and outstanding credit card borrowing facilities.

Restricted cash at March 31, 2024 and December 31, 2023 consisted of:

	<b>March 31, 2024 (Unaudited)</b>	<b>December 31, 2023</b>
Deposit held by a US financial institution as collateral for ACH transactions and business credit cards – US Segment	\$ 356,510	\$ 354,504
Less: current portion	-	-
Noncurrent portion	<u>\$ 356,510</u>	<u>\$ 354,504</u>

#### **Accounts Receivable**

Accounts receivable are reported at the outstanding principal balance due from customers. In the U.S., accounts receivable substantially include customer billings for the sales of LED products and services. In the PRC segment, accounts receivable represents the amounts billed under the contracts but uncollected on completed construction contracts. Accounts receivable are recorded at net realizable value.

The Company maintains allowances for the applicable portion of receivables, including accounts receivable, government rebate receivables and other receivables, represents the Company's estimate of the current expected loss inherent in accounts receivable as of the balance sheet date. The adequacy of the allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. Once a receivable is deemed to be uncollectible, it is written off against the allowance. The expense related to rebates receivable is recorded as a reduction to revenues.

#### **Contract Assets**

The contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date, primarily for the solar energy system sales in the U.S.. The contract assets are transferred to receivables when the rights become unconditional (i.e., when the permission to operate is issued). The contract liabilities primarily relate to the advance consideration received from customers related to the solar energy system sales in the U.S., for which the transfer of ownership has not occurred.

Applying the practical expedient in ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), paragraph 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts (i.e., commission fees) in cost of revenue when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in cost of revenues.

#### **Customer Loans Receivable**

In the U.S. segment, the Company offered its customers who meet the Company's credit eligibility standards the option to finance the purchase of solar energy systems through installment loans underwritten through SolarMax Financial. All loans are secured by the solar energy systems or other projects being financed. The outstanding customer loan receivable balance is presented net of an allowance for loan losses. Provisions for loan losses are charged to operations in amounts sufficient to maintain the allowance for loan losses at levels considered adequate to cover expected credit losses on the customer loans. In determining expected credit losses, the Company considers its historical level of credit losses, current economic trends, and reasonable and supportable forecasts that affect the collectability of the future cash flows. Loans offered at the promotional interest rate below the market interest rate are accounted for as loan discounts and are amortized on an effective interest method to interest income over the terms of the loans. The Company has not entered into any new loan agreements since early 2020, and its revenues are from financing related to its existing loan portfolio.

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**SolarMax Technology, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

**Inventories**

Inventories consist of (a) work in progress on solar systems on housing developments and projects not yet sold; and (b) components principally consisting of photovoltaic modules, inverters, construction and other materials, and LED products, all of which are stated at the lower of cost or net realizable value under the first-in first-out method. The Company reviews its inventories periodically for possible excess and obsolescence to determine if any reserves are necessary.

The estimate for excess and obsolete inventories is based on historical sales and usage experience together with a review of the current status of existing inventories.

**Property and Equipment**

Property and equipment are initially stated at cost less accumulated depreciation and amortization. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Leasehold improvements and solar systems leased to customers are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

The estimated useful lives of the major classification of property and equipment are as follows:

Automobiles	4-5 years
Furniture and equipment	3-10 years
Leasehold improvements	Shorter of the asset's useful life or lease term
Solar systems leased to customers	Lease term, 10-20 years

**Goodwill**

Goodwill represents the excess of the purchase price in a business combination over the fair value of assets acquired and liabilities assumed. The Company's goodwill was derived from the acquisitions of businesses in China in April 2015.

The Company reviews goodwill for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. The Company generally performs its annual impairment test of goodwill in the fourth quarter each year or whenever events or circumstances change or occur that would indicate that goodwill might be impaired. When assessing goodwill for impairment, the Company follows ASC Topic 350, Intangibles-Goodwill and Other. In determining the reporting unit's fair value, the Company considers the underlying enterprise value and if necessary, the reporting unit's discounted cash flow, which involves assumptions and estimates, including the reporting unit's future financial performance, weighted-average cost of capital and interpretation of currently enacted tax laws. Circumstances that could indicate impairment and require the Company to perform a quantitative impairment test include a significant decline in the reporting unit's financial results, a significant decline in the reporting unit's enterprise value relative to its net book value, an unanticipated change in competition or market share and a significant change in the reporting unit's strategic plans. For the Company's goodwill annual testing, management determined that its reporting units are the same as its operating segments. Accordingly, the reporting unit for the goodwill annual testing is the PRC segment.

There was no impairment loss for the three months ended March 31, 2024 and 2023.



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**SolarMax Technology, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

***Impairment of Long-Lived Assets***

The Company's long-lived assets include property and equipment which include solar energy systems leased to customers.

In accordance with ASC Topic 360, Property, Plant, and Equipment, the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of a long-lived asset, or group of assets, as appropriate, may not be recoverable. If the aggregate undiscounted future net cash flows expected to result from the use and the eventual disposition of a long-lived asset is less than its carrying value, then the Company would recognize an impairment loss based on the excess of the carrying value over the fair value.

There was no impairment loss on such systems for the three months ended March 31, 2024 and 2023.

***Investments in Unconsolidated Joint Ventures and Solar Project Companies***

The Company's unconsolidated investments in the U.S. are held directly by the Company as well as through its subsidiary, SMX Capital, and consist of investments in U.S.-based solar limited liability companies: Alliance Solar Capital 1, LLC ("A#1"), Alliance Solar Capital 2, LLC ("A#2"), and Alliance Solar Capital 3, LLC ("A#3"). The Company's U.S. segment also has an investment in a PRC-based panel manufacturer, Changzhou Hongyi New Energy Technology Co., Ltd ("Changzhou").

At March 31, 2024 and December 31, 2023, the Company has unconsolidated investments in the PRC related to its 30% non-controlling interests in three project companies for which it transferred a 70% interest in 2021.

For these investments, the Company does not have the controlling interests but it has the ability to exercise significant influence over the operations and the financial decisions of the investees under the respective operating agreements. In each of the investments, the investee also maintains a separate capital account for each of its investors and accordingly, the Company has a separate capital account at each of the investees. Since the Company has the ability to exercise significant influence over the investees, the Company accounts for each of these investments using the equity method of accounting, under which the Company records its proportionate share of the investee's profit or loss based on the specified profit and loss percentage. Distributions received from equity method investees are accounted for as returns on investment and classified as cash inflows from operating activities, unless the Company's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the Company. When such an excess occurs, the current year distribution up to this excess would be considered a return of investment and classified as cash inflows from investing activities.

Because the Company's investments include privately-held companies where quoted market prices are not available and as a result, the cost method, combined with other intrinsic information, is used to assess the fair value of the investment. If the carrying value is above the fair value of an investment at the end of any reporting period, the investment is reviewed to determine if the impairment is other than temporary. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. The Company monitors its investments in unconsolidated entities periodically for impairment. No impairment indicators were identified and no impairment losses were recorded during the three months ended March 31, 2024 and 2023.

***Warranties***

***Workmanship Warranty***

For the sale of solar and battery systems in the U.S., the Company provides a workmanship warranty for 25 years to cover the quality of the Company's installation. The warranty is designed to cover installation defects and damages to customer properties caused by the Company's installation of the solar energy systems and battery storage systems which generally are uncovered within 2-3 years after the installation. The 25-year warranty is consistent with the term provided by competitors and is provided by the Company to remain market competitive. The workmanship warranty does not include the product warranties (panels and inverters) which are covered directly by the manufacturers, generally for 25 years on panels and inverters, and 10 years for energy storage systems. The Company determined that its 25-year workmanship warranty for solar energy systems constitutes an assurance-type warranty and should continue to be accounted for under ASC Topic 460, Guarantees, instead of a service-type warranty which would be accounted for under Topic 606 as accost of revenues as a cost revenues.

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**SolarMax Technology, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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Quality Warranty for EPC Services

For the PRC segment, the Company provides construction quality warranty on Engineering, Procurement and Construction ("EPC") services generally for one year after completion. The customer typically retains 3-5% of the contract price which will not be paid to the Company until the expiration of the warranty period which is accounted by the Company as retainage receivable. The Company currently provides a reserve for such potential liabilities based on a nominal percentage of project revenues for the PRC segment in the approximate amount of \$243,000 and \$255,000 as of March 31, 2024 and December 31, 2023, respectively, which is included in accrued expenses and other liabilities. To date the Company has not incurred significant claims on the quality warranty. The liability is reversed when the warranty period expires.

Production Guaranty

For solar systems sold in the U.S., the Company also warrants that modules installed in accordance with agreed-upon specifications will produce at least 98% of their labeled power output rating during the first year, with the warranty coverage reducing by 0.5% every year thereafter throughout the approximate 10-year production guaranty period. In resolving claims under the production guaranty, the Company typically makes cash payments to customers who claim for the production shortfall in power output on an annual basis. The Company currently provides a reserve for the production guaranty at 0.2% of the total solar revenue.

LED Warranties

The Company's warranty for LED products and services ranges from one year for labor and up to seven years for certain products sold to governmental municipalities. The Company currently provides a warranty reserve for LED sales based on 1.0% of LED revenue.

**Fair Value Measurements**

ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"), defines a framework for determining fair value, establishes a hierarchy

of information used in measuring fair value, and enhances the disclosure information about fair value measurements. ASC 820 provides that the "exit price" should be used to value an asset or liability, which is the price at which an asset could be sold or a liability could be transferred in an orderly process that is not a forced liquidation or distressed sale at the measurement date. ASC 820 also provides that relevant market data, to the extent available and not internally generated or entity specific information, should be used to determine fair value.

ASC 820 requires the Company to estimate and disclose fair values on the following three-level hierarchy that prioritizes market inputs.

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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**SolarMax Technology, Inc. and Subsidiaries**

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The carrying amount of cash and cash equivalents, accounts receivable, inventories, other current assets, accounts payable, deposits, taxes payable, warranty liability and accrued payroll and expenses approximates fair value because of the short maturity of these instruments.

The following table presents the fair value and carrying value of the Company's cash equivalents, loans receivable and borrowings as of March 31, 2024:

	Fair Value			Carrying Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Cash equivalents	\$ 359,996	\$ -	\$ -	\$ 359,996
Customer loans receivable	-	-	6,237,101	5,840,006
Short- term investments	7,000,000			7,000,000
<b>Liabilities</b>				
Bank and other loans	-	2,000,000	-	2,000,000
Secured loans from related parties	-	-	14,053,042	15,000,000
Secured convertible debt	-	-	12,425,272	14,943,217

The following table presents the fair value and carrying value of the Company's cash equivalents, loans receivable and borrowings as of December 31, 2023:

	Fair Value			Carrying Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Cash equivalents	\$ 358,290	\$ -	\$ -	\$ 358,290
Customer loans receivable	-	-	6,847,185	6,535,516
<b>Liabilities</b>				
Bank and other loans	-	2,000,000	-	2,000,000
Secured loans from related parties	-	-	16,200,860	17,000,000
Secured convertible debt	-	-	13,324,921	15,949,768

Cash equivalents – Cash equivalents consist of money market accounts and are carried at their fair value.

Customer loans receivable – The fair value of customer loans receivable is calculated based on the carrying value and unobservable inputs which include the credit risks of the customers, the market interest rates and the contractual terms. The Company's underwriting policies for the customer loans receivable have not changed significantly since the origination of these loans. The overall credit risk of the portfolio also has not significantly fluctuated as evidenced by the minimal historical write-offs, and lastly the market interest rates have remained relatively consistent since the origination of the loans.

Bank and other loans – The fair value of such loans payable had been determined based on the variable nature of the interest rates and the proximity to the issuance date.

Secured loans from related parties – The related party loans were issued at the fixed annual interest rates of 3.0% in the U.S. Segment, and the fair value of the loans has been estimated by applying the prevailing borrowing annual interest rates for a comparable loan term which the Company estimated to be 9.0% to the estimated cash flows through the maturities of the loans.

Secured convertible debt – The secured convertible debt was issued at the fixed annual interest rates of 4.0% in the U.S. Segment, and the fair value of the loans was determined based on the proximity to the issuance date.

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### SolarMax Technology, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements For the Three Months Ended March 31, 2024 and 2023 (Unaudited)

##### Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, and its various updates ("Topic 606"). Revenue is measured based on the considerations specified in a contract with a customer and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when the Company satisfies a performance obligation by transferring control over a product or service to a customer.

Taxes assessed by government authorities that are imposed on, or concurrent with, a specific revenue-producing transaction are collected by the Company from the customer and excluded from revenue.

The Company's principal activities from which the Company generates its revenue are described below.

##### Revenue from EPC Services

For energy generation assets owned and controlled by the customer, the Company recognizes revenue for sales of EPC services over time as the Company's performance creates or enhances an energy generation asset controlled by the customer. Furthermore, the sale of EPC services represents a single performance obligation for the development and construction of a single generation asset, which is a complete solar energy project. For such sale arrangements, the Company recognizes revenue using cost-based input methods, which recognize revenue and gross profit as work is performed based on the relationship between actual costs incurred compared to the total estimated costs of the contract after consideration of the customer's commitment to perform its obligations under the contract, which is typically measured through the receipt of cash deposits or other forms of financial security issued by creditworthy financial institutions or parent entities.

Payment for EPC services is made by the customer pursuant to the billing schedule stipulated in the EPC contract which is generally based on the progress of the construction. Once the bills are issued to the customer, the customer generally has 30 days to make the payment on the amount billed less a retainage provision which is approximately 3% to 5%, depending on the contract. The retainage amount is withheld by the customer and is

paid at the conclusion of the 12-month warranty period.

In applying cost-based input methods of revenue recognition, the Company uses the actual costs incurred relative to the total estimated costs (including solar module costs) to determine the progress towards contract completion and to calculate the corresponding amount of revenue and gross profit to recognize. Cost based input methods of revenue recognition are considered a faithful depiction of the Company's efforts to satisfy long-term construction contracts and therefore reflect the transfer of goods to a customer under such contracts. Costs incurred that do not contribute to satisfying the Company's performance obligations ("inefficient costs") are excluded from the Company's input methods of revenue recognition as the amounts are not reflective of the Company's transferring control of the solar energy system to the customer. Costs incurred towards contract completion may include costs associated with solar modules, direct materials, labor, subcontractors, and other indirect costs related to contract performance. The Company recognizes solar module and direct material costs as incurred when such items have been installed in a system.

Cost-based input methods of revenue recognition require the Company to make estimates of net contract revenues and costs to complete its projects. In making such estimates, significant judgment is required to evaluate assumptions related to the amount of net contract revenues, including the impact of any performance incentives, liquidated damages, and other payments to customers. Significant judgment is also required to evaluate assumptions related to the costs to complete its projects, including materials, labor, contingencies, and other system costs. If the estimated total costs on any contract, including any inefficient costs, are greater than the net contract revenues, the Company recognizes the entire estimated loss in the period the loss becomes known. The cumulative effect of revisions to estimates related to net contract revenues or costs to complete contracts are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated. The effect of the changes on future periods are recognized as if the revised estimates had been used since revenue was initially recognized under the contract. Such revisions could occur in any reporting period, and the effects may be material depending on the size of the contracts or the changes in estimates.

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**SolarMax Technology, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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The Company's arrangements may contain clauses such as contingent repurchase options, delay liquidated damages, rebates, penalties or early performance bonus, most favorable pricing or other provisions, if applicable, that can either increase or decrease the transaction price. The Company has historically estimated variable considerations that decrease the transaction price (e.g., penalties) and recorded such amounts as an offset to revenue, consistent with requirements under Topic 606. Under Topic 606, the Company estimates and applies a constraint on variable considerations and includes that amount in the transaction price. Because the Company's historical policies on estimating variable considerations that would decrease the transaction price have largely mirrored the requirements under Topic 606, and because variable considerations that would increase the transaction price have historically been immaterial or would likely be constrained under Topic 606, there is no cumulative effect adjustment. The Company estimates variable considerations for amounts to which the Company expects to be entitled and for which it is not probable that a significant reversal of cumulative revenue recognized will occur.

For energy generation assets not owned and controlled by the customer during the construction, as well as contracts with customers that do not require progress payments during construction and whereby the contracts include restrictive acceptance provisions before any progress payments are made by the customers, the Company recognizes revenues at a point in time when the Company determines it has transferred control to the customer.

#### PRC Power Purchase Agreements Revenue

Revenues under certain power purchase agreements are recognized based on the output delivered at an agreed upon rate over the contract term. The Company records the revenue under such power purchase agreements during the period under which it has controlling interest in the project subsidiary. Revenue recognition ceases upon the sale and transfer of controlling interest in the project subsidiary to a third party.

#### Solar Energy and Battery Storage Systems and Components Sales

Revenue recognition associated with sales of solar energy systems, battery storage systems, and other products is recognized over time as the Company's performance creates or enhances the property controlled by the customer (the asset is being constructed on a customer's premises that the customer controls).

The Company's principal performance obligation is to design and install a solar energy system that is interconnected to the local power grid and for which permission to operate has been granted by a utility company to the customer. The Company recognizes revenue over time as control of the solar energy system transfers to the customer which begins at installation and concludes when the utility company has granted the permission to operate.

All costs to obtain and fulfil contracts associated with system sales and other product sales are expensed to cost of revenue when the corresponding revenue is recognized.

For solar energy and battery storage system sales, the Company recognizes revenue using a cost-based input method that recognizes revenue and gross profit as work is performed based on the relationship between actual costs incurred compared to the total estimated cost of the contract. In applying cost-based input methods of revenue recognition, the Company uses the actual costs incurred for installation and obtaining the permission to operate, each relative to the total estimated cost of the solar energy and battery storage system, to determine the Company's progress towards contract completion and to calculate the corresponding amount of revenue and gross profit to recognize. Cost-based input methods of revenue recognition are considered a faithful depiction of our efforts to satisfy solar energy and battery system contracts and therefore reflect the transfer of goods to a customer under such contracts. Costs incurred towards contract completion may include costs associated with solar modules, battery components, direct materials, labor, subcontractors, and other indirect costs related to contract performance.

In the U.S., the Company sells solar energy and battery storage systems to residential and commercial customers and recognizes revenue net of sales taxes. Cash sales include direct payments from the customer (including financing obtained directly by the customer), third-party financing arranged by the Company for the customer, and leasing arranged by the Company for the customer through a third party leasing company.

Direct payments are made by the customer as stipulated in the underlying home improvement or commercial contract which generally includes an upfront down payment at contract signing, payments at delivery of materials and installation ranging from 70% to 85% of the contract price, and the payment of the final balance at the time of the city signoff or when the permission to operate the solar system is granted by a utility company.

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### **SolarMax Technology, Inc. and Subsidiaries**

#### **Notes to Consolidated Financial Statements For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

For third-party financing arranged by the Company for the customer, direct payments are made by the financing company to the Company based on an agreement between the financing company and the Company, with the majority of the payments made by the time of completion of installation but not later than the date on which the permission to operate the solar system is granted by the utility company.

For a lease through the third party leasing partner, direct payments are made by the leasing partner to the Company based on an agreement between the leasing partner and the Company, which is generally 80% upon the completion of installation and 20% upon the permission to operate is granted.

#### LED Product Sales and Service Sales

For product sales, the Company recognizes revenue at a point in time following the transfer of control of the products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. For contracts involving both products and services (i.e., multiple performance obligations), the Company allocates the transaction price to each performance obligation identified in the contract based on relative standalone selling prices, or estimates of such prices, and recognize the related revenue as control of each individual product is transferred to the customer, in satisfaction of the corresponding performance obligations. Revenue from services is recognized when services are completed which is upon acceptance by the customer. The standalone selling price of the warranty is not material and, therefore, the Company has not allocated any portion of the transaction price to any performance obligation associated with the warranty.

Payment of products is generally made upon delivery or with a 30 day term. Extended payment terms are provided on a limited basis not to exceed twelve months. Payment of services is due when the services are completed and accepted by the customer. For certain LED product sales, the



Company provides the customers with a right of return subject to restocking fees. The Company assessed such rights of return as variable consideration and recognizes revenue based on the amount of consideration the Company expects to receive after returns are made. Based on the Company's historical experience, the Company has determined the likelihood and magnitude of a future returns to be immaterial and currently has not provided for a liability for such returns on the LED product sales.

For contracts where the Company agreed to provide the customer with rooftop solar energy systems (including design, materials, and installation of the system) in addition to providing LED products and LED installation, these agreements may contain multiple performance obligations: 1) the combined performance obligation to design and install rooftop solar energy system; 2) the performance obligation to deliver the LED products; and, 3) the performance obligation to install the LED products. Topic 606 permits goods and services that are deemed to be immaterial in the context of a contract to be disregarded when considering performance obligations within an agreement. The Company will compare the standalone selling price of the installations and products to the total contract value to determine whether the value of these installations and products is quantitatively immaterial within the context of the contract. Similarly, these services may be qualitatively immaterial in the eyes of the customer. While the customer ordered these products and has received a separate quote for them, they may not be a material driving factor within the agreement for a solar energy system. Further, a reasonable person may not consider providing and installing LED products to be a material part of the arrangement to design and construct a large solar facility. If these products and services are determined to be immaterial within the context of the contract, they will be combined with the performance obligation to design and install the rooftop solar energy system. If management determines that the products and services are determined to be material to the overall project, they would represent a separate performance obligation.

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**SolarMax Technology, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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*Operating Leases and Power Purchase Agreements (PPAs) in U.S.*

The Company sells energy generated by PV solar power systems under PPAs. For energy sold under PPAs, which may qualify as a lease, the

Company recognizes revenue each period based on the volume of energy delivered to the customer and the price stated in the PPA.

For leases, the Company was considered the lessor of solar energy systems under ASC Topic 840, Leases ("ASC 840"); however, upon the Company's adoption of ASC Topic 842, Leases ("ASC 842"), the Company is no longer considered the lessor because the Company owns the SRECs related to these solar energy systems, and the counterparty does not receive substantially all of the economic benefits for the use of these energy solar systems. Therefore, these arrangements are not considered leases in accordance with ASC 842.

#### Loan Interest Income

In the U.S., in the past, the Company provided installment financing to qualified customers to purchase residential or commercial photovoltaic systems, energy storage systems, as well as LED products and services, and some of these loans remain outstanding. The Company has not entered into new loans since early 2020, and its revenues are from financing related to its existing loan portfolio. Customer loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. Loans held-for-investment are carried at amortized cost and are reduced by an allowance for estimated credit losses as necessary. The Company recognizes interest income on loans, including the amortization of discounts and premiums, using the interest method. The interest method is applied on a loan-by-loan basis when collectability of the future payments is reasonably assured. Interest on loans generally continues to accrue until the loans are charged off. Premiums and discounts are recognized as yield adjustments over the term of the related loans. Loans are transferred from held-for-investment to held-for-sale when management's intent is not to hold the loans for the foreseeable future. Loans held-for-sale are recorded at the lower of cost or fair value. There were no loans held-for-sale at March 31, 2024 and December 31, 2023.

The following table summarizes the Company's revenue by business line by segment for the three months ended March 31, 2024 and 2023:

	Three Months Ended	
	March 31,	
	2024	2023
	(Unaudited)	
Solar energy and battery storage systems		
Sales on non-installment basis	\$ 4,332,490	\$ 12,027,898
Third party leasing arrangements	289,178	-
Operating lease revenues	18,820	22,417
Power purchase agreement revenues	3,958	-
Total solar energy and battery storage systems	4,644,446	12,050,315
LED projects	1,018,010	666,744
Financing related	101,618	151,419
Total revenues	<u>\$ 5,764,074</u>	<u>\$ 12,868,478</u>

#### **Advertising Costs**

The Company charges advertising and marketing costs related to radio, internet and print advertising to operations as incurred. Advertising and marketing costs for the three months ended March 31, 2024 and 2023 were approximately \$165,000 and \$250,000, respectively.

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### **SolarMax Technology, Inc. and Subsidiaries**

#### **Notes to Consolidated Financial Statements**

#### **For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

#### **Income Taxes**

The Company accounts for income taxes pursuant to the FASB ASC Topic 740, Income Taxes ("ASC 740"). The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. The Company accounts for the investment tax credits under the flow-through method which treats the credits as a reduction of federal income taxes of the year in which the credit arises or is utilized. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. The Company has determined it is more likely than not that its deferred tax assets related to its U.S. operations will not be realizable and has recorded a full valuation allowance against its deferred tax assets. In the event the Company is able to realize such deferred income tax assets in the future in excess of the net recorded amount, the Company would make an

adjustment to the valuation allowance, which would reduce the provision for income taxes.

Topic 740-10 clarifies the accounting for uncertainty in income taxes recognized in the Company's condensed consolidated financial statements in accordance with U.S. GAAP. The calculation of the Company's tax provision involves the application of complex tax rules and regulations within multiple jurisdictions. The Company's tax liabilities include estimates for all income-related taxes that the Company believes are probable and that can be reasonably estimated. To the extent that the Company's estimates are understated, additional charges to the provision for income taxes would be recorded in the period in which the Company determines such understatement. If the Company's income tax estimates are overstated, income tax benefits will be recognized when realized.

The Company recognizes interest and penalties related to unrecognized tax positions as income tax expense. For the three months ended March 31, 2024 and 2023, the Company did not incur any related interest and penalties.

The Company does not record U.S. income taxes on the undistributed earnings of its foreign subsidiaries based upon the Company's intention to permanently reinvest undistributed earnings to ensure sufficient working capital and further expansion of existing operations outside the U.S. As of March 31, 2024 and December 31, 2023, the Company's foreign subsidiaries operated at a cumulative deficit for U.S. earnings and profit purposes.

#### ***Comprehensive Income (Loss)***

The Company accounts for comprehensive income loss in accordance with ASC 220, Income Statement – Reporting Comprehensive Income ("ASC 220"). Under ASC 220, the Company is required to report comprehensive income (loss), which includes net income (loss) as well as other comprehensive income (loss). The only significant component of accumulated other comprehensive income (loss) as of March 31, 2024 and December 31, 2023 is the currency translation adjustment.

#### ***Net Income (Loss) Per Share***

The Company calculates net income (loss) per share by dividing income or losses allocated to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted weighted average shares is computed using basic weighted average shares plus any potentially dilutive securities outstanding during the period using the treasury-stock-type method and the if-converted method, except when their effect is anti-dilutive. Potentially dilutive securities are excluded from the computation of diluted earnings per share for the three months ended March 31, 2024 because the effect would be antidilutive.

#### ***Stock-Based Compensation***

The Company accounts for stock-based compensation costs under the provisions of ASC Topic 718, Compensation – Stock Compensation

("ASC 718"), which requires the measurement and recognition of compensation expense related to the fair value of stock-based compensation awards that are ultimately expected to vest for both employees and non-employees. Stock-based compensation expense recognized includes the compensation cost for all share-based payments granted to employees and non-employees, net of estimated forfeitures, over the employee requisite service period or the non-employee performance period based on the grant date fair value estimated in accordance with the provisions of ASC 718. ASC 718 is also applied to awards modified, repurchased, or cancelled during the periods reported.

### **Foreign Currency**

Amounts reported in the condensed consolidated financial statements are stated in U.S. dollars, unless stated otherwise. The Company's subsidiaries in the PRC use the Chinese RMB as their functional currency and all other subsidiaries use the U.S. dollar as their functional currency. For subsidiaries that use the local currency as the functional currency, all assets and liabilities are translated to U.S. dollars using exchange rates in effect at the end of the respective periods and the results of operations have been translated into U.S. dollars at the weighted average rates during the periods in which the transactions were recognized. Resulting translation gains or losses are recognized as a component of other comprehensive income (loss).

In accordance with ASC 830, Foreign Currency Matters ("ASC 830"), the Company translates the assets and liabilities into U.S. dollars using the rate of exchange prevailing at the balance sheet date and the statements of operations and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation from RMB into U.S. dollar are recorded in stockholders' equity as part of accumulated other comprehensive income. Further, foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Losses on those foreign currency transactions of approximately \$207,000 and \$887,000 for the three months ended March 31, 2024 and 2023, respectively, are included in other income (expense), net for the period in which exchange rates change.

### **Segment Information**

Operating segments are defined as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the executive team, which is comprised of the chief executive officer and the chief financial officer. Based on the financial information presented to and reviewed by the chief operating decision maker in deciding how to allocate the resources and in assessing the performance of the Company, the Company has determined that it has two operating and reporting segments (U.S. and PRC) as of March 31, 2024 and December 31, 2023.

### **Recently Issued Accounting Pronouncements**

As an emerging growth company, the Company has elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Securities and Exchange Act of 1934.

In August 2021, the FASB issued ASU 2021-06, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC Update), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. This ASU simplifies the current accounting under ASC 470-20 for convertible debt with a cash conversion feature and convertible instrument with a beneficial conversion feature. As a result, after adopting the ASU, entities will not separately present in equity an embedded conversion feature in such debt. Instead, they will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account), unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument was issued at a substantial premium. An entity can use either a full or modified retrospective approach to adopt the ASU. This ASU is effective for the Company in fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The ASU may be early adopted for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company has determined the adoption has no impact on the Company's condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805). This ASU requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired contracts using the revenue recognition guidance in Topic 606. At the acquisition date, the acquirer applies the revenue model as if it had originated the acquired contracts. The ASU is effective for annual periods beginning after December 15, 2023, including interim periods within those

fiscal years. Adoption of the ASU should be applied prospectively and early adoption is also permitted, including adoption in an interim period. The Company has determined the adoption effective on January 1, 2024 has no impact on the Company's condensed consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07 that would enhance disclosures for significant segment expenses for all public entities required to report segment information in accordance with ASC 280. ASC 280 requires a public entity to report for each reportable segment a measure of segment profit or loss that its chief operating decision maker (CODM) uses to assess segment performance and to make decisions about resource allocations. The amendments in ASU 2023-07 improve financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities to enable investors to develop more useful financial analyses. Currently, Topic 280 requires that a public entity disclose certain information about its reportable segments. The amendments in ASU 2023-07 do not change or remove those disclosure requirements. The amendments in ASU 2023-07 also do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments in ASU 2023-07 retrospectively to all prior periods presented in the financial statements.

The Company has determined the adoption effective on January 1, 2024 has no impact on the Company's condensed consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Improvements to Income Tax Disclosures (Topic 740). ASU 2023-09 is intended to enhance the transparency and decision usefulness of income tax disclosures. The amendments in ASU 2023-09 address investor requests for enhanced income tax information primarily through changes to the rate reconciliation and income taxes paid information. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, though early adoption is permitted.

The Company is currently evaluating the impact of ASU 2023-09 and does not expect that adoption of this standard will have a material impact on the Company's income tax disclosures.

The Company has reviewed all other recently issued accounting pronouncements and concluded they were either not applicable or not expected to have a material impact on the Company's condensed consolidated financial statements.

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**SolarMax Technology, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

**3. Cash, Cash Equivalents and Restricted Cash**

As of March 31, 2024 and December 31, 2023, insured and uninsured cash including the balance classified as restricted cash were as follows:

	<b>March 31, 2024 (Unaudited)</b>	<b>December 31, 2023</b>
US Segment		
Insured cash	\$ 722,937	\$ 818,534
Uninsured cash	4,214,360	813,199
	<u>4,937,297</u>	<u>1,631,733</u>
China Segment		
Insured cash	241,526	295,503
Uninsured cash	107,467	966,580
	<u>348,993</u>	<u>1,262,083</u>
Total cash and cash equivalents & restricted cash	5,286,291	2,893,816
Less: Cash and cash equivalents	4,929,781	2,539,312
Restricted cash	<u>\$ 356,510</u>	<u>\$ 354,504</u>

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**SolarMax Technology, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**4. Accounts Receivable, net**

The activity of the allowance for credit losses for accounts receivable for the three months ended March 31, 2024 and 2023 is as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Balance – beginning of period	\$ 4,598	\$ 1,185,046
Provision for bad debts	(312)	35,187
Recoveries	-	(1,182,254)
Effect of exchange rate	-	5,106
Balance – end of period	<u>\$ 4,286</u>	<u>\$ 43,085</u>

## 5. Short-term investments

In March 2024, the Company made short-term investments of \$7,000,000 in 8% promissory notes due June 1, 2024 issued by Webao Limited, an unrelated party, based in Hong Kong. The total amortized cost, the fair value and the carrying value of the investments is \$7,000,000 at March 31, 2024. There was no unrecognized holding gains or losses and other-than-temporary investment recognized on this investment at March 31, 2024.

## 6. Customer Loans Receivable

In past years, the Company provided financing to qualified customers to purchase residential or commercial photovoltaic systems, as well as other products the Company offered in the U.S. Depending on the credit rating of customers, the interest rate generally ranges from 0.00% to 10.99% per annum with financing terms ranging from one to fifteen years. At March 31, 2024 and December 31, 2023, the percentage of the Company's loan portfolio with a 0% interest rate is 5% and 14%, respectively.

The customer gives the Company a security interest in the photovoltaic systems and other products financed.

The following tables summarize the Company's customer loan receivables by credit rating, determined at origination, for each vintage of the customer loan receivable portfolio at March 31, 2024:

	Year of Origination						March 31, 2024	
	2024	2023	2022	2021	2020	Prior	Total	%
Prime — FICO score 680 and greater	\$ -	\$ -	\$ -	\$ -	\$141,710	\$5,164,659	\$5,306,369	86 %
Near-prime — FICO score 620 to 679	-	-	18,191	-	11,057	606,219	635,467	10 %
Sub-prime — FICO score less than 620	-	-	-	-	-	155,722	155,722	3 %
Business entity — FICO not available	-	-	-	48,396	22,932	-	71,328	1 %
Total Customer Loan Receivables, gross	\$ -	\$ -	\$ 18,191	\$ 48,396	\$175,699	\$5,926,600	\$6,168,886	100 %

The following tables summarize the Company's customer loan receivables by credit rating, determined at origination, for each vintage of the customer loan receivable portfolio at December 31, 2023:

	Year of Origination						December 31, 2023	
	2023	2022	2021	2020	2019	Prior	Total	%
Prime — FICO score 680 and greater	\$ -	\$ -	\$ -	\$181,315	\$438,676	\$5,234,583	\$5,854,574	87 %
Near-prime — FICO score 620 to 679	-	19,117	-	18,107	42,175	622,398	701,797	10 %
Sub-prime — FICO score less than 620	-	-	-	-	72,489	84,992	157,481	2 %
Business entity — FICO not available	-	-	52,753	28,051	-	-	80,804	1 %
Total Customer Loan Receivables, gross	\$ -	\$ 19,117	\$ 52,753	\$227,473	\$553,340	\$5,941,973	\$6,794,656	100 %

Customer loans receivable consist of the following as of March 31, 2024 and December 31, 2023:

	March 31, 2024 (Unaudited)	December 31, 2023
Customer loans receivable, gross	\$ 6,168,886	\$ 6,794,656
Less: unamortized loan discounts	(572)	(2,332)
Allowance for loan losses	(328,308)	(256,808)
Customer loans receivable, net	5,840,006	6,535,516
Less: Current portion	1,395,744	2,212,574
Non-current portion	<u>\$ 4,444,262</u>	<u>\$ 4,322,942</u>

Principal maturities of the customer loans receivable at March 31, 2024 are summarized as follows:

For the year ending December 31,	Amount
2024 (remainder of)	\$ 1,395,744
2025	1,367,415
2026	1,203,664
2027	990,290
2028	665,563
Thereafter	546,210
Total customer loans receivable	<u>\$ 6,168,886</u>

The Company is exposed to credit risk on the customer loans receivable. Credit risk is the risk of loss arising from the failure of customers to meet the terms of their contracts with the Company or otherwise fail to perform as agreed.

The activity in the allowance for loan losses for customer loans receivable for the three months ended March 31, 2024 and 2023 is as follows:

	Three Months Ended March 31,	
	2024 (Unaudited)	2023
Balance — beginning of period	\$ 256,808	\$ 288,457
Provision for loan losses	61,298	106,862
Chargeoffs and adjustments	10,202	23,308
Balance — end of period	<u>\$ 328,308</u>	<u>\$ 418,627</u>

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**SolarMax Technology, Inc. and Subsidiaries**  
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Total interest income on the customer loans receivable included in revenues was approximately \$ 100,000 and \$150,000 for the three months ended March 31, 2024 and 2023, respectively.

**7. Inventories, net**

The activity in the reserve for excess and obsolete inventories for the three months ended March 31, 2024 and 2023 is as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Balance – beginning of period	\$ 596,367	\$ 485,504
Provision for excess and obsolete inventories	34,883	108,378
Balance – end of period	<u>\$ 631,250</u>	<u>\$ 593,882</u>

Inventories consisted of the following as of March 31, 2024 and December 31, 2023:

	<b>March 31,</b>	<b>December</b>
	<b>2024</b>	<b>31, 2023</b>
	<b>(Unaudited)</b>	
Solar panels, inverters, battery storage and components	\$ 1,276,948	\$ 1,336,066
LED lights	602,749	601,698
Total inventories, gross	1,879,697	1,937,764
Less: reserve for excess and obsolete inventories	(631,250)	(596,367)
Total inventories, net	<u>\$ 1,248,447</u>	<u>\$ 1,341,397</u>



## 8. Other Receivables and Current Assets, Net

Other receivables and current assets, net consisted of the following at March 31, 2024 and December 31, 2023:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
	<b>(Unaudited)</b>	
Receivable from Seller (Uonone Group – Note 15)	\$ 427,631	\$ 436,698
Deferred project costs	1,383,040	1,603,355
Prepaid expenses and other current assets	1,183,574	852,534
Advances to suppliers	1,169,950	1,300,009
Accrued interest on customer loans receivable	603,478	522,837
Capitalized offering costs	-	658,564
Total other receivables and current assets	<u>\$ 4,767,673</u>	<u>\$ 5,373,997</u>

Deferred project costs consist of work in process and subcontractor costs incurred on the solar energy systems and LED projects that are not fully completed at March 31, 2024 and December 31, 2023.

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**SolarMax Technology, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

**9. Property and Equipment**

Components of property and equipment, net are as follows:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
	<u>(Unaudited)</u>	
Automobiles	\$ 858,285	\$ 971,384

Furniture and equipment	1,394,025	1,396,936
Solar systems leased to customers	1,663,468	1,663,468
Leasehold improvements	2,339,221	2,343,815
Total property and equipment, gross	6,254,999	6,375,603
Less: accumulated depreciation and amortization	(5,987,558)	(6,084,187)
Total property and equipment, net	<u>\$ 267,441</u>	<u>\$ 291,416</u>

For the three months ended March 31, 2024 and 2023, depreciation expenses were approximately \$ 24,000 and \$51,000, respectively.

## 10. Goodwill

The activity of goodwill is as follows:

	March 31, 2024 (Unaudited)	December 31, 2023
Balance – beginning of period	\$ 7,584,779	\$ 7,774,472
Effect of exchange rate	(156,760)	(189,693)
Balance – end of period	<u>\$ 7,428,019</u>	<u>\$ 7,584,779</u>

## 11. Investments in Unconsolidated Solar Project Companies

The Company has a 30% non-controlling interest in three PRC companies that were project subsidiaries that performed EPC services. Upon completion of the project, a 70% equity interest in the project subsidiary was transferred to the customer, with the customer having a first right of refusal to purchase the 30% interest in the project subsidiary during a specified period. Upon the transfer of the 70% interest in these entities, the entities, which are referred to by the projects for which the Company's China segment performed services, were de-consolidated and the Company's 30% non-controlling interest is treated as an equity investment. Activity in the Company's 30% non-controlling investments in these entities' solar project companies in the China segment for the three months ended March 31, 2024 and March 31, 2023 is reflected in the following tables:

Investee	Investment Balance at December 31, 2023	Share of Investee's Net Income	Effect of Exchange Rate	Investment Balance at March 31, 2024
Yilong #2	\$ 4,213,276	\$ 25,366	\$ (87,302)	\$ 4,151,340
Xingren	2,031,774	9,081	(42,072)	1,998,783
Ancha	3,453,258	25,716	(71,597)	3,407,377
Total	<u>\$ 9,698,308</u>	<u>\$ 60,163</u>	<u>\$ (200,971)</u>	<u>\$ 9,557,500</u>

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### SolarMax Technology, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements For the Three Months Ended March 31, 2024 and 2023 (Unaudited)

Investee	Investment Balance at December 31, 2022	Share of Investee's Net Income	Effect of Exchange Rate	Investment Balance at March 31, 2023
Yilong #2	\$ 3,966,824	\$ 10,385	\$ 17,651	\$ 3,994,860
Xingren	1,953,048	14,050	8,657	1,975,755
Ancha	3,134,887	43,467	13,819	3,192,173
Total	<u>\$ 9,054,759</u>	<u>\$ 67,902</u>	<u>\$ 40,127</u>	<u>\$ 9,162,788</u>

The following tables present the summary of the combined financial statements of the three solar project companies in which the Company has a 30% equity interest as of March 31, 2024 and December 31, 2023, and for the three months ended March 31, 2024 and 2023:

	March 31, 2024 (Unaudited)	December 31, 2023
Current assets	\$25,618,121	\$ 24,984,444
Non-current assets	72,494,610	76,024,387
Total assets	<u>\$98,112,731</u>	<u>\$101,008,831</u>
Current liabilities	\$ 7,486,384	\$ 9,775,803
Noncurrent liabilities	58,483,086	58,680,520
Members' capital	32,143,261	32,552,508
Total liabilities and members' capital	<u>\$98,112,731</u>	<u>\$101,008,831</u>

	March 31, 2024	March 31, 2023
	(Unaudited)	
Revenue	\$ 2,055,078	\$ 2,275,014
Gross profit	736,630	864,846
Net income	\$ 200,545	\$ 226,341

Revenue of these project companies is generated from the power purchase agreements with the PRC utility companies as well as government subsidies.

## 12. Financing Arrangements

As of March 31, 2024 and December 31, 2023, the Company had the following borrowings:

	March 31, 2024	December 31, 2023
	(Unaudited)	
Unsecured loan from unrelated party at 6.0% fixed interest due June 30, 2024	\$ 2,000,000	\$ 2,000,000
Secured convertible notes payable at 4.0% per annum, due various dates through June 2027	15,250,000	16,250,000
EB-5 loans – see details below	15,000,000	17,000,000
Notes payable from SMX Property, a related party, at 8% per annum, due October 10, 2024	1,358,658	1,358,658
Total	33,608,658	36,608,658
Less: debt discount and debt issuance costs	(306,783)	(300,232)
Current portion	(19,938,658)	(22,038,658)
Noncurrent portion	<u>\$ 13,363,217</u>	<u>\$ 14,269,768</u>

### Unsecured Loans

Unsecured loans include a loan of \$2.0 million from an unrelated PRC individual at an interest rate of 6%, interest payable quarterly in arrears, a maturity date of June 30, 2024.

### Related party EB-5 financings

The Company's borrowings under the EB-5 program from related parties consisted of the following as of March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
	(Unaudited)	
\$45.0 million loan from Clean Energy Funding, LP	\$ 6,000,000	\$ 7,000,000
\$13.0 million loan from Clean Energy Funding II, LP	9,000,000	10,000,000
Total	15,000,000	17,000,000
Less: current portion	(8,000,000)	(10,000,000)
Noncurrent portion	<u>\$ 7,000,000</u>	<u>\$ 7,000,000</u>

On January 3, 2012, Clean Energy Fund, LP ("CEF") entered into a secured loan agreement with SREP, a wholly owned subsidiary of the Company. Under the secured loan agreement, CEF agreed to make loans to SREP in an amount not to exceed \$45.0 million, to be used to finance the installment purchases for customers of the solar energy systems. A total of \$45.0 million was lent. The loan accrues interest at 3% per annum, payable quarterly in arrears. Each advanced principal amount is due and payable 48 months from the advance date or the U.S. Immigration Form I-829 approval date if later. The I-829 petition includes evidence that the immigrant investors successfully met all U.S. Citizenship and Immigration Services requirements of the EB-5 program. A UCC filing was filed on behalf of CEF, the secured party, to pledge the collateral for the loan, which is inventory and accounts. As of March 31, 2024 and December 31, 2023, the principal loan balance was \$7.0 million and \$8.0 million, respectively.

On August 26, 2014, Clean Energy Funding II, LP ("CEF II") entered into a secured loan agreement with LED, a wholly-owned subsidiary of the Company, for up to \$13.0 million. A total of \$10.5 million was lent. The proceeds of the loan were used by LED for its operations. The loan accrues interest at fixed interest rate of 3.0% per annum, payable quarterly in arrears. Each advance of principal is due and payable in 48 months or the U.S. Immigration Form I-829 approval date if longer. As of March 31, 2024 and December 31, 2023, the remaining undrawn amount under the loan was \$3.0 million.

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### SolarMax Technology, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements For the Three Months Ended March 31, 2024 and 2023 (Unaudited)

The general partner of CEF and CEF II is Inland Empire Renewable Energy Regional Center ("IERE"). The principal owners and managers of IERE consist of the Company's chief executive officer, its former executive vice president, who is a 5% stockholder, and one of its directors.

### Convertible Notes

The Company has issued 4% secured subordinated convertible notes to former limited partners of CEF, pursuant to exchange agreements with the limited partners. The limited partners accepted the notes in lieu of cash payments of their capital contribution which resulted in a reduction of SREP's notes to CEF in the same amount, reducing the outstanding EB-5 loan balance. Payment of the notes is secured by a security interest in SREP's accounts receivable and inventory. The convertible notes are payable in five equal installments on the first, second, third, fourth and fifth anniversaries of the date of issuance. The convertible notes made prior to, or on or about the date of, the Company's initial public offering are convertible into common stock at a conversion price equal to 80% of the public stock price of the Company's common stock as defined in the convertible note, which is \$3.20 per share. The convertible notes made after the Company's initial public offering are convertible into common stock at a conversion price equal to 80% of the

average closing price of the Company's common stock for the ten trading days preceding the date of the exchange agreement with the limited partner. The convertible notes may be converted into common stock at the first, second, third, fourth and fifth anniversaries of the date of issuance, but not earlier than six months from the date of the Company's initial public offering, as defined in the note, or for convertible notes issued after the initial public offering, six months after the conversion date.

All convertible notes prior to the Company's initial public offering have two separate and distinct embedded features. They are: (1) optional conversion upon a public stock event as defined in the convertible note; and (2) redemption put feature upon fundamental transaction.

Commencing six months from the date the Company first receives proceeds from its public stock event for convertible notes made prior to the Company's initial public offering, and from the date of the convertible note made after the Company's initial public offering, until the convertible notes are no longer outstanding, the convertible notes and all unpaid accrued interest is convertible into shares of common stock, at the option of the holder, during five trading days commencing on the first, second, third, fourth, and fifth anniversaries of the original issuance date. The number of shares of common stock to be issued upon such conversion shall be equal to the quotient obtained by dividing (x) the then entire amount of the convertible notes balance outstanding including all unpaid principal and, with the consent of the Company, accrued interest payable by (y) the conversion price. The Company evaluated the embedded optional conversion feature in accordance with the guidance under ASC Topic No. 815, Derivatives and Hedging ("ASC 815"), and determined it is exempt from derivative accounting as the embedded feature is deemed to be indexed to the Company's own stock and would be classified in stockholder's equity if freestanding. Further, because the conversion price is a fixed discounted percentage per share price of a contingent future public stock event that has not been realized as of both the issuance date and December 31, 2023, the Company shall record the intrinsic value of the beneficial conversion feature calculated as of the issuance date of the convertible notes upon the realization of the contingent initial public offering event.

All convertible notes issued contained redemption put features that allow the holders of the convertible notes the right to receive, for each conversion share that would have been issuable upon conversion immediately prior to the occurrence of an effective change in control event defined as a fundamental transaction, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration receivable as a result of such fundamental transaction by a holder of the number of shares of common stock for which these convertible notes are convertible immediately prior to such fundamental transaction. The Company evaluated the redemption put feature contained in the convertible notes under the guidance of ASC 815 and concluded that the requirements for contingent exercise provisions as well as the settlement provision for scope exception in ASC 815-10-15-74 has been met. Accordingly, the redemption put features contained in the convertible notes were not bifurcated and accounted for as freestanding derivative instruments.

There were no redemptions for new convertible notes during the three months ended March 31, 2024 and 2023. During the three months ended March 31, 2024 and 2023, the Company recognized a gain on debt extinguishment in the amount of approximately \$54,000 and \$13,000, respectively related to limited partner interest in CEF who exchanged their limited partner interest for convertible notes.

8% promissory notes due October 10, 2024, with interest payable quarterly.

The \$944,077 loan was used to pay the security deposit and lease obligations for one month owed to the new owner of the Company's headquarters building under the new lease agreement.

The \$414,581 note was issued in payment of lease obligations owing to SMXP by the Company for rent on the Company's headquarters from June 1, 2022 to October 12, 2022.

### Interest Expense

For the three months ended March 31, 2024 and 2023, interest expense incurred on the above long-term EB-5 related party loans was approximately \$122,000 and \$133,000, respectively.

Total interest expense incurred (including interest on long-term related party loans) was approximately \$ 384,000 and \$399,000 for the three months ended March 31, 2024 and 2023, respectively. The weighted average interest rate on loans outstanding was 3.9% as of March 31, 2024 and December 31, 2023.

Principal maturities for the financing arrangements as of March 31, 2024 are as follows:

For the year ending December 31,	Bank and Other Unsecured Loans	EB-5 Loans – Related Party	Notes Payable – Related Party	Convertible Notes	Total
2024 (remainder of)	\$ 2,000,000	\$ 8,000,000	\$ 1,358,658	\$ 5,580,000	\$16,938,658
2025	-	3,000,000	-	5,390,000	8,390,000
2026	-	4,000,000	-	2,390,000	6,390,000
2027	-	-	-	990,000	990,000
2028	-	-	-	500,000	500,000
Thereafter	-	-	-	400,000	400,000
Total	<u>\$ 2,000,000</u>	<u>\$15,000,000</u>	<u>\$ 1,358,658</u>	<u>\$15,250,000</u>	<u>\$33,608,658</u>

### 13. Accrued Expenses and Other Payables

Accrued expenses and other payables consisted of the following as of March 31, 2024 and December 31, 2023:

	March 31, 2024 (Unaudited)	December 31, 2023
Customer deposits	\$ 269,169	\$ 384,232
Accrued operating and project payables	4,804,783	7,460,887
Payable to Uonone (See Note 15)	2,498,726	2,551,458
Accrued compensation expenses	1,700,291	2,387,574
Retainage payable to vendors	826,292	802,886
Preacquisition liability	1,486,273	1,517,639
Accrued settlement	276,428	276,428
Accrued warranty expense	243,372	248,508
VAT taxes payable	818,063	697,480
Income taxes payable	10,023	139,659
Refundable vendor bid deposits	13,852	14,145
Total accrued expenses and other payables	<u>\$12,947,272</u>	<u>\$16,480,896</u>

At December 31, 2023 and March 31, 2024, accrued compensation includes \$ 675,000 of compensation to the Company's chief executive officer in connection with the cancellation in March 2019 of restricted stock grants and \$1.8 million of accrued but unpaid compensation to the chief executive officer pursuant to his employment agreement. Accrued compensation at December 31, 2023 includes \$600,000 due to the former executive vice president, who is also a 5% stockholder, and one other employee in connection with the cancellation in March 2019 of restricted stock grants and \$338,095 of deferred compensation to its former executive vice president, all of which was paid during the three months ended March 31, 2024. The remaining balance relates to accrued unpaid commissions and accrued paid time off.

#### **Customer Deposits**

Customer deposits represent customer down payments and progress payments received prior to the completion of the Company's earnings process. The amounts paid by customers are refundable during the period which, under applicable state and federal law, the customer's order may be cancelled and the deposit refunded. Once the cancellation period has expired, the customer still may cancel the project but the Company is entitled to retain the deposit payments for work that was completed and materials that were delivered.

#### **Accrued Warranty**

The activity of the warranty liability (included in other liabilities) for the three months ended March 31, 2024 and 2023 is as follows:

	Three Months Ended March 31,	
	2024	2023
	(Unaudited)	
Balance – beginning of period	\$ 2,174,488	\$ 2,411,637
Provision for warranty liability	61,466	152,231
Expenditures and adjustments	(143,120)	(29,006)
Effect of exchange rate	(5,136)	8,752
Balance – end of period	2,087,698	2,543,614
Less: current portion (accrued expenses and other payables)	(243,372)	(255,859)
Non-current portion (other liabilities)	<u>\$ 1,844,326</u>	<u>\$ 2,287,755</u>

#### **Preacquisition Liability**

As part of the April 2015 acquisition of ZHPV, the Company assumed a liability associated with the Ningxia project consisting of reimbursement of project expenses to an unrelated third-party including reimbursement of certain land rental expenses and land use taxes estimated at a total of approximately RMB 10.7 million (\$1.6 million at March 31, 2024). The Company expects to negotiate to offset the entire liability with the unpaid contract receivables and reimbursements from the third party. All the receivables and reimbursements were previously fully reserved by the Company.

### **14. Third-party Leasing Arrangement and Concentrations**

#### **Third-party Leasing Arrangement**

The Company sells solar energy and battery storage systems to residential and commercial customers in the U.S. and these customers may pay for these sales in cash or by financing with the Company. Cash sales include direct payments from the customer (including financing obtained directly by the customer), third-party financing arranged by the Company for the customer, and leasing arranged by the Company for the customer through Sunrun.

#### **Concentration Risks**

##### Major Customers

For the three months ended March 31, 2024 and 2023, there were no customers that accounted for 10% or more of the Company's revenues .

##### Major Suppliers

During the three months ended March 31, 2024, one supplier in the U.S. segment accounted for purchases of \$ 2,066,948, or 16%, of purchases, and during the three months ended March 31, 2023, a different supplier in the U.S. segment accounted for purchases of \$1,555,338, or 13%, of purchases. No other supplier accounted for 10% or more of the Company's purchases in either period.

### **15. Acquisition Contingencies and Other Payable to Uonone Group**

Effective on May 12, 2016, in conjunction with the execution of the amendment to the April 2015 share exchange agreement to acquire ZHPV, ZHPV entered into a debt settlement agreement (the "Debt Settlement Agreement") with one of the former owners of ZHPV, Uonone Group Co., Ltd., ("Uonone Group"), pursuant to which ZHPV and Uonone Group agreed to settle a list of pending business transactions from December 31, 2012 to December 31, 2015, pursuant to which Uonone Group agreed and had paid ZHPV a total amount of RMB 8,009,716 . An additional contingent liability related to estimated costs of a project known as Ningxia project completed by ZHPV prior to the Company's acquisition of ZHPV of approximately RMB 3.0 million (or approximately \$437,000) was also included as a receivable from Uonone Group (see Note 7 – Other Receivables and Current Assets, Net) with the corresponding liability recognized by the Company on the date of acquisition.



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As of December 31, 2021, Uonone Group had repaid all the amounts agreed to under the debt settlement agreement except for the RMB 3.0 million contingent receivable from Uonone Group discussed above. Uonone Group's obligation on the contingent receivable does not arise until and unless the Company becomes obligated under the contingent liability. At December 31, 2023, the Company had no payment obligations with respect to the assumed contingent liability and accordingly, Uonone Group had no obligation to the Company with respect to the contingent receivable.

Under the debt settlement agreement, any legal settlement proceeds, less fees and expenses, received by ZHPV related to the projects completed prior to the April 2015 business combination would be repaid to the Uonone Group. During the three months ended March 31, 2024 the Company did not receive any additional legal settlement proceeds, nor did the Company make any payments to Uonone.

At March 31, 2024 and December 31, 2023, the amount payable to Uonone, which includes both the Weifang legal settlement as well as the bond payable related to the Zhonglianda project, was approximately RMB 18.0 million (\$2.5 million) and approximately RMB 19.4 million (\$ 2.8 million), respectively.

**16. Related Party Transactions**

*See Note 12 for related party lease transactions and Note 17 for the termination of related party lease.*

**17. Commitments and Contingencies**

***Operating Leases***

The Company has entered into various non-cancellable operating lease agreements for certain of its offices, warehouse facilities and office equipment, vehicles, and solar energy systems, both in the U.S. and in the PRC. The Company determines if an arrangement is a lease, or contains a lease, at inception and records the leases in the condensed consolidated financial statements upon lease commencement, which is the date when the underlying asset is made available for use by the lessor.

**Related Party Lease Agreements**

Effective March 31, 2024, the Company terminated its lease with Fallow Field, LLC, a related party, for office space in Diamond Bar, California. In conjunction with the early lease termination, the Company reported a gain on the lease termination of approximately \$77,000.

The Company recognized a gain of approximately \$ 4,200 for the early termination and amendment of the leases and de recognized an ROU asset of approximately \$478,000 and a lease liability of approximately \$ 520,000 on the consolidated balance sheet. Also for the amendment of one of the leases, the Company recognized an additional \$221,000 for an ROU asset, in relation to the extended lease term, and a corresponding lease liability of approximately \$254,000 on the consolidated balance sheet.

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**SolarMax Technology, Inc. and Subsidiaries**

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Future minimum lease commitments for offices, warehouse facilities and equipment, payable to related parties and other, as of March 31, 2024, are as follows:

<b>For the year ending December 31,</b>	<b>Total</b>
2024 (remainder of)	\$ 1,715,941
2025	1,725,564
2026	1,768,488
Thereafter	-
<b>Total</b>	<b>\$ 5,209,993</b>

For the three months ended March 31, 2024 and 2023, rent expense for offices, warehouse facilities and equipment, including rental expense for related party leases, was approximately \$465,000 and \$509,000, respectively. These amounts include short-term leases and variable lease costs, which are immaterial.

As of March 31, 2024, the maturities of the Company's operating lease liabilities (excluding short-term leases) are as follows:

<b>For the year ending December 31,</b>	<b>Total</b>
2024 (remainder of)	\$ 1,675,305
2025	1,725,564
2026	1,768,488
Thereafter	-
Total minimum lease payments	5,169,357
Less: Interest	(802,545)
Present value of lease obligations	4,366,812
Less: current portion	(1,465,296)
Noncurrent portion	<u>\$ 2,901,516</u>

Other information related to leases is as follows:

	<b>As of</b>
	<b>March 31,</b>
	<b>2024</b>
Weighted average remaining lease term (in years)	2.75
Weighted average discount rate	8.0%

Between September and October 2022, the Company entered into subleases with one unrelated company through March 31, 2024. Monthly sublease payments totaled approximately \$68,700 and the related sublease income is recognized as other income in the Company's consolidated statements of operations. This is consistent with the Company's recognition of sublease income prior to the adoption of FASB ASC Topic 842. The tenants under the subleases provided security deposits of approximately \$73,100 to the Company. The Company continues to be responsible for performance under the lease until it expires on December 31, 2026.

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The following table summarizes the Company's operating lease cost for the three months ended March 31, 2024 and 2023:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Operating lease cost	\$ 454,768	\$ 1,056,643
Short-term lease cost	9,813	131,414
Less: Sublease income	(247,944)	(255,043)

**Employment Agreements**

On October 7, 2016, the Company entered into employment agreements with its chief executive officer for a five-year term commencing on January 1, 2017 and continuing on a year-to-year basis unless terminated by the Company or the executive on not less than 90 days' notice prior to the expiration of the initial term or any one-year extension. The agreement provides for an initial annual salary of \$600,000 and \$560,000, respectively, with an increase of not less than 3% on January 1st of each year, commencing January 1, 2018, and an annual bonus payable in restricted stock and cash, commencing with the year ending December 31, 2017, equal to a specified percentage of consolidated revenues for each year. The bonus is based on a percentage of consolidated revenue in excess of \$30 million, ranging from \$250,000 and \$200,000, respectively, for revenue in excess of \$30 million but less than \$50 million, to 1.0% and 0.9%, respectively, of revenue in excess of \$300 million. The agreements provide for severance payments equal to one or two times, depending on the nature of the termination, of the highest annual total compensation of the three years preceding the year of termination, multiplied by the number of whole years the executive has been employed by the Company, which commenced in February 2008.

On February 24, 2020, the Company's then executive vice president resigned. Pursuant to a release and separation agreement dated October 1, 2020, her employment agreement was terminated and, with certain limited exceptions, the Company and the former executive vice president released each other from their obligations under the employment agreement. Pursuant to the release and separation agreement, the Company paid the former executive officer \$25,497, and agreed to pay to her \$803,095, representing the outstanding balance due to her for her deferred salary from 2019 and 2020, cash bonus deferred from 2017 and 2018 and accrued medical and dental benefits. This amount was payable at the rate of \$15,000 per month (less applicable deductions and withholding), commencing with the month of April 2020, until the completion by the Company of its public offering, and any unpaid balance then outstanding was to be paid within three business days after the Company receives the proceeds of its initial public offering. For the three months ended March 31, 2024 and 2023, the former vice president was paid approximately \$883,000 and \$45,000, respectively. As of March 31, 2024, all the Company's obligations owed to the former executive vice president are fully settled.

The Company entered into a consulting agreement dated October 1, 2020 with the former executive vice president pursuant to which the Company engaged her as a consultant for a term ending December 31, 2022, and continuing thereafter on a month-to-month basis for monthly compensation of \$3,000. The release and separation agreement provides that since the long-term incentive plan pursuant to which the options granted to the former executive vice president were granted provides that options may be held by and exercised by a consultant to the Company, the Company agreed that the option shall continue in full force and effect as long as she, at the request of the Company or pursuant to an agreement with the Company, serves as a consultant to the Company. As of March 31, 2024, the former executive officer was a consultant to the Company.

[Table of Contents](#)**SolarMax Technology, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****For the Three Months Ended March 31, 2024 and 2023 (Unaudited)****18. Stockholders' Equity*****Amendment of 2016 Long-Term Incentive Plan***

In October 2016, the Company's board of directors adopted and in November 2016 the stockholders approved the 2016 Long-Term Incentive Plan, pursuant to which a maximum of 6,491,394 shares of common stock may be issued pursuant to restricted stock grants, incentive stock options, non-qualified stock options and other equity-based incentives may be granted. In March 2019, the Company's board of directors and stockholders approved an increase in the maximum number of shares of common stock subject to the 2016 long-term incentive plan to 15,120,000 shares.

***Amendment of the 2016 Restricted Stock Grants***

Pursuant to the 2016 Long-Term Incentive Plan, the board of directors granted 3,819,949 shares as restricted stock grants in October 2016, of which 3,045,963 shares were granted to officers and directors. On March 23, 2019, the Company's board of directors approved the following modifications with respect to the 2016 Restricted Stock Grants:

- Granted to the holders of 1,184,434 restricted shares the right to exchange their restricted shares for a ten-year option to purchase 2.119 shares of common stock at \$5.01 per share for each share of restricted stock exchanged.
- Granted to the chief executive officer, the then current executive vice president and one other employee, who held 1,348,213, 998,676 and 199,736 restricted shares, respectively, the right (a) to exchange 50% of their restricted shares for a ten-year option to purchase 2.119 shares of common stock at \$5.01 per share and (b) transfer to the Company 50% of their restricted shares for a total of \$1,275,000, or \$1.01 per share.

The grantees of the restricted stock grants have all rights of ownership with respect to the shares, including the right to vote the shares and to receive dividends and distributions with respect to the shares until and unless a forfeiture event shall occur; provided, however, that prior to a forfeiture termination event, (i) the grantees shall have no rights to sell, encumber or otherwise transfer the shares, and (ii) any shares of any class or series of capital stock which are issued to the grantee as a holder of the shares as a result of a stock dividend, stock split, stock distribution, reverse split, recapitalization, or similar event, shall be subject to the same forfeiture provisions as the shares. A forfeiture termination event shall mean such date as is six months following a public stock event. The definition of a public stock event includes, among other events, the effectiveness of a registration statement relating to an underwritten public offering by the Company. The board of directors has the right to defer the date of a forfeiture event to a later date. As a result of the Company's completion of its initial public offering on February 12, 2024, the restricted shares became non-forfeitable and will vest six months following such date.

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On October 7, 2016, the Company entered into an advisory services agreement with a consultant who has been providing services to the Company including, among other things, business planning, financial strategy and implementation and corporate structure related to the Company's business development, financing and acquisition transactions. The term of the service commenced on September 1, 2016 and has been extended to April 30, 2019 pursuant to amendments. As compensation for the service, the Company issued to the consultant 336,000 shares of restricted stock valued at \$5.01 per share based on the then current fair value of the common stock, subject to forfeiture if the public stock event has not occurred by December 31, 2023, which was extended to April 20, 2024. The restricted stock was granted on October 7, 2016 pursuant to the 2016 Long-Term Incentive Plan and is subject to restrictions and forfeiture provisions that are applicable to other restricted stock grants pursuant to the plan as described under the caption "2016 Restricted Stock Grants." As a result of the Company's completion of its initial public offering on February 12, 2024, the restricted shares are now non-forfeitable and will vest six months following the public offering date of February 12, 2024.

None of the shares granted above pursuant to the 2016 Long-Term Incentive Plan had vested as of March 31, 2024 and are not considered to have been issued under the requirement of U.S. GAAP since the shares are still subject to the vesting provision of the agreement even though they met the forfeiture provision on February 12, 2024 when the public offering event was deemed completed.

As of December 31, 2023, total unrecognized compensation costs for outstanding restricted stock awarded was estimated at \$ 1.3 million, based on the estimate of the then most recent price at which shares were sold of \$5.01 per share.

The following table below summarizes the activity of the restricted stock shares:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value per Share</b>
Outstanding at December 31, 2023	264,650	5.01
Nonvested as of December 31, 2023	264,650	5.01
Outstanding at March 31, 2024	264,650	5.01
Nonvested as of March 31, 2024	264,650	5.01

**Stock Options**

From time to time, the Company granted non-qualified stock options to its employees and consultants for their services. Option awards are generally granted with an exercise price equal to the estimated fair value of the Company's stock at the date of grant; those option awards generally vest between 18 months and 36 months of continuous service and have contractual terms of seven to ten years. The vested options are exercisable for six months after the termination date unless (i) termination is due to optionee's death or disability, in which case the option shall be exercisable for 12 months after the termination date, or (ii) the optionee is terminated for cause, in which case the option will immediately terminate.



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A summary of option activity is as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual (years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2023	6,295,858	4.96	4.5	-
Nonvested as of December 31, 2023	5,946,320	5.01	4.7	-
Exercisable as of December 31, 2023	349,538	4.15	2.5	300,000
Granted	-	-	-	-
Exchanged	-	-	-	-
Exercised	-	-	-	-
Cancelled or forfeited	(48,183)	-	-	-
Outstanding at March 31, 2024	6,247,675	4.93	4.3	-
Nonvested as of March 31, 2024	-	-	-	-
Exercisable as of March 31, 2024	6,247,675	4.93	4.3	-

Forfeitures are accounted for as actual forfeitures occur.

The aggregate intrinsic value represents the total pretax intrinsic value. The aggregate intrinsic values as of December 31, 2023 are based upon the value per share of \$5.01, which was the latest sale price of the Company's common stock in May 2018.

**Non-vested Option Awards**

The following table summarizes the Company's nonvested option awards activity:

Balance at December 31, 2023	\$ 5,946,320
Granted	-
Forfeited	(48,183)
Vested	(5,898,137)
Balance at March 31, 2024	\$ -

As a result of the Company's completion of its initial public offering, all the stock options which are performance-based awards are vested and compensation cost of \$17.2 million related to such stock options was recognized for the three months ended March 31, 2024 as the performance condition of such awards has been met. The compensation cost of \$17.2 million is determined using the Black Scholes model that includes key assumptions for each grant of options as follows: volatility ranging from 54.34% to 67.75%, the risk-free rate ranging from 1.55% to 2.34%, and an expected term ranging from 5 to 6.5 years. For the three months ended March 31, 2023, approximately \$ 1.3 million and \$15.9 million of compensation cost was charged to cost of revenue and general and administrative expenses, respectively, related to stock options. During the three months ended March 31, 2024 and 2023, no vested options to purchase shares of common stock were cancelled. No nonvested options to purchase common stock were cancelled during the three months ended March 31, 2023.

**19. Income Taxes**

The components of the Company's income (loss) before income taxes and income (loss) from operations for the three months ended March 31, 2024 and 2023 are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Domestic (U.S. Segment)	\$(19,088,377)	\$ (308,924)
Foreign (PRC Segment)	(178,609)	850,451
Income (loss) before income taxes	(19,266,986)	541,527
Income tax expense (benefit)	4,801	(201,288)
Income (loss) from operations	\$(19,271,787)	\$ 742,815
Effective tax rate	(0.2)%	(37.17)%



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The Company is subject to taxation in the U.S. and various states jurisdictions. The Company is also subject to taxation in China. The Company's effective tax rate is determined quarterly, reflecting actual activities and various tax-related items.

The Company's effective income tax rate was (.02)% and (37.17)% for the three months ended March 31, 2024 and 2023, respectively. The variance from the U.S. federal statutory rate of 21% for the three months ended March 31, 2024 was primarily attributable to losses not benefitted for tax purposes, and state and foreign taxes.

As of March 31, 2024, the Company determined that, based on an evaluation of its history of net losses and all available evidence, both positive and negative, including the Company's latest forecasts and cumulative losses in recent years, it was more likely than not that none or substantially none of its deferred tax assets would be realized and, therefore, the Company continued to record a valuation allowance on U.S. side and partially on the Chinese side.

## 20. Net Income (Loss) Per Share

The following table presents the calculation of the Company's basic and diluted net income (loss) per share for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
	(Unaudited)	
<b>Numerator</b>		
Net income (loss)	\$(19,271,787)	\$ 742,815
<b>Denominator</b>		
Weighted average shares used to compute net loss per share, basic	41,461,502	39,735,536
Weighted average shares used to compute net loss per share, diluted	41,461,502	44,533,059
Basic net income (loss) per share	\$ (0.46)	\$ 0.02
Diluted net income (loss) per share	\$ (0.46)	\$ 0.02

For the three months ended March 31, 2023, outstanding in-the-money options to purchase 199,736 shares of common stock, and 4,737,323 shares of common stock issuable upon conversion of outstanding notes were excluded from the computation of diluted net loss per share as the impact of including these shares would be anti-dilutive.

## 21. Segment Reporting

The Company uses the management approach for segment reporting disclosure, which designates the internal organization that is used by

management for making operating decisions and assessing performance as the source of our reporting segments. For the three months ended March 31, 2024 and 2023, the Company operates under two operating segments on the basis of geographical areas: The U.S. and the PRC. Operating segments are defined as components of an enterprise about which separate financial information is available and that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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The Company evaluates performance based on several factors, including revenue, cost of revenue, operating expenses, and income from operations. The following tables show the operations of the Company's operating segments for the three months ended March 31, 2024 and 2023:

	<b>Three Months Ended March 31, 2024</b>		
	<b>US</b>	<b>PRC</b>	<b>Total</b>
<b>Revenue from external customers</b>			
Solar energy systems	\$ 4,644,446	\$ -	\$ 4,644,446
Finance revenue	101,618	-	101,618
LED and other	1,018,010	-	1,018,010
Total	5,764,074	-	5,764,074
<b>Cost of revenue</b>			
Solar energy systems	5,506,627	-	5,506,627
Other	721,854	-	721,854
Total	6,228,481	-	6,228,481
Depreciation and amortization expense	23,772	299	24,071
Interest (expense) income, net	(381,466)	12,895	(368,571)
Equity in income of solar farm projects	-	60,163	60,163
Provision for income taxes	6,000	(1,199)	4,801
Net income (loss)	(19,094,377)	(177,410)	(19,271,787)
	<b>Three Months Ended March 31, 2023</b>		
	<b>US</b>	<b>PRC</b>	<b>Total</b>
<b>Revenue from external customers</b>			
Solar energy systems	\$12,050,315	\$ -	\$12,050,315
Finance revenue	151,419	-	151,419
LED and other	666,744	-	666,744
Total	12,868,478	-	12,868,478
<b>Cost of revenue</b>			
Solar energy systems	10,373,641	-	10,373,641
Other	422,500	-	422,500
Total	10,796,141	-	10,796,141
Depreciation and amortization expense	50,893	152	51,045
Interest (expense) income, net	(396,657)	6,197	(390,460)
Equity in income of solar farm projects	-	67,902	67,902
Provision for income taxes	6,000	(207,288)	(201,288)
Net income (loss)	(314,924)	1,057,739	742,815

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**SolarMax Technology, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
For the Three Months Ended March 31, 2024 and 2023 (Unaudited)**

and as of March 31, 2024 and December 31, 2023:

	March 31, 2024		
	US	PRC	Total
Equity investments in solar farm projects	\$ -	\$ 9,557,500	\$ 9,557,500
Long-lived assets	10,251,047	17,174,611	27,425,658
Total reportable assets	28,454,363	26,237,699	54,692,062

  

	December 31, 2023		
	US	PRC	Total
Equity investments in solar farm projects	\$ -	\$ 9,698,308	\$ 9,698,308
Capital expenditures	(27,999)	-	(27,999)
Long-lived assets	11,258,512	17,475,104	28,733,616
Total reportable assets	21,727,209	26,927,992	48,655,201

## 22. Subsequent Events

The Company has evaluated subsequent events through May 15, 2024, the date the March 31, 2024 condensed consolidated financial statements were available to be issued, and except as disclosed below, no other events require adjustment of, or disclosure in, the condensed consolidated financial statements.

### **Convertible Notes Issued**

In April and May, 2024, the Company issued convertible notes in the principal amount of \$ 1.5 million to limited partners of CEF, which resulted in a reduction of \$1.5 million in the principal amount of the related party notes to CEF, and in April 2024, entered into an agreement with a convertible noteholder to redeem one convertible note with a principal balance of \$500,000 for a cash payment of \$350,000. See Note 12.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our financial statements and the related notes appearing elsewhere in this report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See "Forward-Looking Statements." Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in "Risk Factors" included elsewhere in our annual report on Form 10-K. All amounts in this report are in U.S. dollars, unless otherwise noted.

Initial Public Offering

On February 27, 2024, we sold 4,500,000 shares of common stock, at a price of \$4.00 per share in our initial public offering. The gross proceeds of the offering were \$18 million, prior to deducting the underwriting discounts, commissions and offering expenses payable by the Company. In addition, we granted the underwriters a 45-day option to purchase an additional 675,000 shares of common stock at the initial public offering price, less underwriting discounts and commissions, to cover over-allotments. On March 5, 2024, the underwriters purchased 539,950 shares of common stock upon the partial exercise of the over-allotment option. Net proceeds received by us from our initial public offering, including the partial exercise of the over-allotment option, were approximately \$18.6 million. We are using the proceeds of our initial public offering for working capital and other corporate purposes, including payment of debt.

Elimination of Forfeiture Provisions of Options upon Initial Public Offering

During the years 2015 to 2019, we granted stock options to employees and consultants, of which options to purchase 5,898,137 shares were outstanding at the date of our initial public offering. Under the terms of the options, the options became non-forfeitable upon our completion of an initial public offering, which occurred on February 12, 2024, the effective date of the registration statement relating to our initial public offering. Under GAAP, upon the termination of the forfeiture provisions, the value of the options is treated as a compensation expense in the period in which the options become non-forfeitable. Using the Black Scholes valuation method, the fair value of the options at the time of our initial public offering was approximately \$17.2 million, which is stock-based compensation that does not reflect a cash expense, of which approximately \$1.3 million is in cost of revenues and \$15.9 million is in general and administrative expense. The \$17.2 million stock-based compensation expense, which is not deductible for federal and state income tax purposes and is a non-cash expense, represents the major portion of our \$19.3 million loss for the three months ended March 31, 2024.

**Overview**

We are an integrated solar and renewable energy company. A solar energy system retains the direct current (DC) electricity from the sun and converts it to alternating current (AC) electricity that can be used to power residential homes and commercial businesses. We were founded in 2008 to engage in the solar business in the United States and, following our acquisition of Chengdu ZHTH and ZHPV, we commenced operations in China.

Our United States operations primarily consist of the sale and installation of photovoltaic and battery backup systems for residential and commercial customers, and sales of LED systems and services to government and commercial users. Prior to 2020, we also financed the purchase of solar equipment from us.

Our business in China is conducted through our subsidiaries, primarily ZHTH and ZHPV, and their subsidiaries. Our China operations consist primarily of identifying and procuring solar farm projects for resale to third parties and performing EPC services primarily for solar farm projects. Our China operations did not generate any revenue for the years ended December 31, 2023 and December 31, 2022. Our China segment last generated

revenue for the year ended December 31, 2021, substantially all of which was generated in the second quarter of the year. As of the date of this report, we do not have any agreements relating to any projects in China.

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**Effects of NEM 3.0**

Net metering is a billing mechanism that credits solar energy system owners for the electricity that they add to the electricity grid. If the owner of a solar system generates more electricity than it consumes, the excess electricity is sold back to the grid. The California Public Utilities Commission has adopted the current net metering regulations, known as NEM 3.0, which became effective in April 2023. NEM 3.0 features a 75% reduction in export rates (the value of excess electricity pushed onto the grid by solar systems) from the rate set forth in the previous net metering regulations, NEM 2.0,, thereby reducing the overall savings and increasing the payback period of home solar installations. The changes under NEM 3.0, which are likely to result in reduced benefits for most residential solar users, could alter the return on investment for solar customers.

In January 2024, we laid off a portion of our employees associated with the design and installation of residential solar systems in response to a slowdown in demand after NEM 3.0 took effect in April 2023. The layoff represented approximately 25% of our residential solar system design and installation team. Approximately half of the employees who were laid off had been hired in late 2022 to help install our growing backlog of residential solar systems under contract in anticipation of NEM 3.0, and the contracts representing that backlog were completed during 2023. We may need to revise our pricing metrics to reflect the change resulting from NEM 3.0 in order for the purchase of a solar system to be economically attractive to the customer, which may result in lower prices and reduced margins. Although we anticipate the near-term impact of NEM 3.0 on residential solar contracts will be offset by commercial solar contracts for which we use third-party subcontractors to complete the installations, we cannot assure you that our overall business will not be impacted by the effects of NEM 3.0.

**Inflation and Supply Chain Issues**

Prior to mid-to-late 2021, our business was not impacted by inflation or supply chain issues. With the recent inflationary pressures combined with the world-wide supply chain issues, our business is subject to the inflationary pressure and we were subject to supply chain issues that were affecting many domestic and foreign companies, and we expect that the inflationary pressures will continue to affect our ability to sell our products, the price at which can sell products in both the United States and China and our gross margin in both the United States and China. To the extent that we are not able to raise our prices or to the extent that we cannot accurately project our costs when we set our prices, our gross margin and the results of our operations will be impacted.

Polysilicon is an essential raw material in the production of solar power products, principally solar panels. The costs of silicon wafers and other silicon-based raw materials have accounted for a large portion of the costs associated with solar panels. Although the price of silicon had declined in recent years, increases in the price of polysilicon have resulted in increases in the price of wafers, leading to increases in our costs. Due to the volatile market prices, we cannot assure you that the price of polysilicon will remain at its current levels particularly in view of inflationary pressures and supply chain issues, especially if the global solar power market gains its growth momentum. Moreover, in the event of an industry-wide shortage of polysilicon, we may experience late or non-delivery from suppliers and it may be necessary for us to purchase silicon raw materials of lower quality that may result in lower efficiencies and reduce its average selling prices and revenues. We currently are able to obtain the raw material we request, although the prices pay are increasing as a result of the inflationary pressures.

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The inflationary pressures that are affecting us are not unique to our industry, and relate to the cost of raw materials, labor costs generally and the price at which we can sell our products. Because solar energy can be seen as a way to provide a homeowner with relief from the increasing utility prices for electricity, the market for solar systems generally, and our business specifically, has enabled us to sell more solar systems. Thus, the effects of inflation may also affect the marketability of our solar systems to residential users.

Our cost of revenue per watt of solar systems, which makes up approximately 80% of our costs, increased approximately 27% during the three months ended March 31, 2024 compared to the same period in 2023. We have increased the price of solar system installations in our United States segment to offset the increase in cost in 2024, 2023 and during the first half of 2022. Although we do not have any data as to the effect of higher utility costs on purchases of solar systems, it has been our experience during the years ended December 31, 2023 and 2022 that, as inflationary pressures are increasing the cost of electricity generally, our domestic business has grown as homeowners are seeking alternatives to what they see as high utility bills. As a result, we have been able to increase our prices, which reduced the effect of increased cost of raw materials and the general increase in overhead costs. However, the changes in NEM 3.0 did not affect our business in 2023 as we believe homeowners purchased solar systems in anticipation of NEM 3.0, and our residential business is feeling the effects of the reduced value seen as a result of NEM 3.0. Our gross margin from United States operations decreased from 16.1% for the three months ended March 31, 2023 to 13.9% for the three months ended March 31, 2024, and increased from 16.7% for the year ended December 31, 2022 to 21% for the year ended December, 2023, and decreased from 19.8% for the year ended December 31, 2021 to 16.7% for the year ended December 31, 2022 as a result of the increase in the cost of raw materials. The effect of increased costs on our margin was reduced because we were able to increase prices. However, competitive factors limit the amount we can increase our prices, but our price increases reduced what would otherwise have been a decline in gross margin for the three months ended March 31, 2024 and for the year ended December 31, 2023, and, if our prices are too high, the residential customer may not see the value of installing a solar system. We are seeking to reduce the effect of increased prices in raw materials by purchasing in greater quantities. However, to the extent inflation continues or increases, we may not be able to raise prices sufficiently to prevent a significant decline in our gross margins and the results of our operations.

Compensation costs per employee, excluding stock-based compensation, for sales, marketing and administrative personnel in our United States segment increased approximately 19% for the three months ended March 31, 2024 compared to the same period in 2023 in response to the increased cost of retaining and attracting talent, and such costs may continue to increase as labor costs in California continue to increase as a result of the inflationary pressures. In addition, to the extent that inflationary pressure affects our cost of revenue and general overhead, we may face the choice of raising prices to try and maintain our margins or reduce or maintain our price structure to generate business. In addition, to the extent that inflationary pressure affects our cost of revenue and general overhead, we may face the choice of raising prices to try and maintain our margins or reduce or maintain our price structure to meet competition which would result in a lower gross margin and a drop in operating income. Supply chain issues have caused us to periodically stock up on components such as solar panels and battery systems to ensure an adequate supply to meet expected demand, putting pressure on our cash flow. We do not believe that the supply chain issues that affected our operations in prior periods are currently affecting us. We cannot assure you that such delays and increased costs will not affect our business in the future.

We are seeking to address the inflationary pressures by seeking to cut overhead expenses where possible and raising prices to levels that we believe are both competitive and attractive to customers in view of the increases in utility prices in California and maintaining an inventory of raw materials to enable us to better price our products. We believe that the proceeds of our initial public offering will provide us with funding to assist us in dealing with the effects of inflation on our business.

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**Results of Operations**

The following tables set forth information relating to our operating results for the three months ended March 31, 2024 and 2023 (dollars in thousands) and as a percentage of revenue:

	Three Months ended March 31,			
	2024		2023	
	Dollars	%	Dollars	%
Revenue:				
Solar energy sales (US)	\$ 4,644	80.5%	\$ 12,050	93.6%
LED sales (US)	1,018	17.7%	667	5.2%
Financing (US)	102	1.8%	151	1.2%
Total revenues	5,764	100.0%	12,868	100.0%
Cost of revenue:				
Solar energy sales	5,535	96.1%	10,374	80.6%
LED sales	694	12.0%	422	3.3%
Total cost of revenues	6,229	108.1%	10,796	83.9%
Gross profit	(465)	(8.1)%	2,072	16.1%
Operating expenses:				
Sales and marketing (US)	165	2.9%	250	1.9%
General and administrative (US)	17,999	312.2%	2,049	15.9%
General and administrative (China)	252	4.4%	(754)	(5.9)%
Total operating expenses	18,416	319.5%	1,545	12.0%
Income (loss) from operations (US)	(18,629)	(323.2)%	(227)	(1.8)%

Income (loss) from operations (China)	(252)	(4.3)%	754	5.9%
Equity in income of solar project companies	60	1.0%	68	0.5%
Gain on debt extinguishment	54	0.9%	13	0.1%
Gain on early termination of lease	77	1.3%	4	0.0%
Interest income	16	0.3%	9	0.1%
Interest (expense)	(384)	(6.7)%	(398)	(3.1)%
Other income (loss), net	(208)	(3.6)%	319	2.5%
Income (loss) before income taxes	(19,266)	(334.3)%	542	4.2%
Income tax benefit (provision)	(5)	(0.1)%	(201)	(1.6)%
Net income (loss)	(19,271)	(334.4)%	743	5.8%
Currency translation adjustment	(208)	(3.6)%	221	1.7%
Comprehensive income (loss)	\$ (19,479)	(338.0)%	\$ 964	7.5%



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**Three Months Ended March 31, 2024 and 2023**

*Revenues*

Revenues for the three months ended March 31, 2024 were \$5.8 million, a decrease of \$7.1 million or 55% from \$12.9 million in the three months ended March 31, 2023, all of which was generated by the United States segment. The decrease resulted primarily from a \$7.4 million decrease in solar energy and battery sales. In our United States segment, our revenue from solar systems decreased from \$12.1 million for the three months ended March 31, 2024 to \$4.6 million for the three months ended March 31, 2023. The decrease in revenue in the three months ended March 31, 2024 reflects an increased interest by residential users of solar systems in early 2023 in anticipation of the implementation of NEM 3.0, as a result of which we generated a backlog of orders starting in early, all of which were filled during 2023. In addition, our revenues in the three months ended March 31, 2024 were impacted by unusually heavy and frequent rains in California, which affected both the residential users' desire to purchase a solar system and our ability to install solar units. The decrease in the solar energy and battery sales in the United States segment in the three months ended March 31, 2024 reflects a 65% decrease in the number of systems completed and a 74% decrease in the wattages deployed. The number of completed systems and the wattages deployed in the three months ended March 31, 2023 reflects incremental business resulting from customers signing solar contracts for solar systems prior to the April 2023 NEM 2.0 deadline in California. The decreases in the three months ended March 31, 2024 were impacted adversely by unusually frequent rain resulting in our inability to complete as many solar systems during the current period and an increase in interest rates since the same period last year. During the three months ended March 31, 2024 and 2023, our battery only sales were \$238,000 and \$387,000, respectively. Battery sales refer to the sale of batteries sold other than as a part of a solar system. We expect the revenue from our residential non-installment sales to decrease in 2024, but we believe we will offset most, or all, of the decrease with commercial sales and sales through third party leasing companies which can offer favorable terms to customers compared to third party financing during a time of high interest rates.

During the three months ended March 31, 2024 and continuing through the date of this quarterly report, we did not generate any revenue in the China segment because there are no projects under construction as a result of the strict lockdown in China through the end of 2022 resulting from the resurgence of the pandemic, as a result of which we have not been able to negotiate new contracts with SPIC since the last project, which was completed in June 2021. Because we currently do not have any projects under contract for our China segment, we have neither revenue nor cost of revenue for our China segment for the three months ended March 31, 2024.

Our LED revenue increased by \$351,000, or 53%, to \$1.0 million for the three months ended March 31, 2024 from \$667,000 for the three months ended March 31, 2023, primarily resulting from the increase in the number of LED projects. LED revenues include LED product sales and LED consulting revenues and are expected to continue to fluctuate based on the number of LED projects awarded which is based on the bidding process and specific customer purchase requirements and timing. The revenue trend from our LED business is therefore not as consistent as our solar business, and LED revenue tends to fluctuate period to period.

We have not originated any loans to our solar customers since early 2020. As a result, our finance revenue for the three months ended March 31, 2024 and 2023 was \$102,000 and \$151,000, respectively, from our portfolio of solar loans. Finance revenue will decrease as loans in our portfolio are paid and not replaced by new loans.

#### *Cost of revenue and gross profit*

During the three months ended March 31, 2024, our United States operations recognized a one-time non-cash stock-based compensation expense of approximately \$1.3 million in cost of revenue as a result of performance options vesting upon our initial public offering. Excluding this one-time stock-based compensation expense cost of revenue for our United States segment decreased 54% from \$10.8 million in the three months ended March 31, 2023 to \$5.0 million in the three months ended March 31, 2024, primarily as a result of the corresponding decrease in revenue in the United States segment. Gross margin for the United States segment decreased to 13.9% for the three months ended March 31, 2024 from 16.1% in the three months ended March 31, 2023, primarily as result of the decreased sales in the current period while the labor components of the cost remain fixed which adversely impacted the gross margin. We have no cost of revenue with respect to interest income on customer loans. Our China segment had no revenue and no cost of revenue for the three months ended March 31, 2024 and 2023.



As a result of these factors, our overall gross margin for the three months ended March 31, 2024 was (8)% compared to 16.1% in the three months ended March 31, 2023, primarily resulting from the recognition of the one-time stock-based compensation expense of approximately \$1.3 million. Excluding the stock-based compensation expense, our overall gross margin for the three months ended March 31, 2024 was 13.9% compared to 16.1% in the three months ended March 31, 2023.

#### *Operating expenses*

Sales and marketing expenses for the three months ended March 31, 2024 decreased for our United States segment to \$165,000, a decrease of \$85,000, or 34%, from \$250,000 in the comparable period of 2023. Sales and marketing expenses in the United States were 2.9% of revenue for the three months ended March 31, 2024 compared to 1.9% for the three months ended March 31, 2023. Our sales and marketing expenses in the United States may fluctuate from time to time based on the types of marketing and promotion initiatives we deploy. Due to the nature of our EPC business in our China segment, the EPC contracts for solar farm projects are generally obtained through customer relationship with just a few corporate customers, with substantially all revenues for our China segment since the second half of 2019 being generated by agreements with SPIC. Accordingly, our China segment did not incur sales and marketing expenses for the three months ended March 31, 2024 and 2023.

During the three months ended March 31, 2024, our United States operations recognized a one-time stock-based compensation expense of approximately \$15.9 million in general and administrative expense as a result of performance options vesting upon our initial public offering. Excluding the stock-based compensation expense, general and administrative expenses for the United States segment for the three months ended March 31, 2024 remained flat to the same period in 2023 at approximately \$2.1 million. General and administrative expenses were 21% of revenue for the three months ended March 31, 2023, compared to 36% for the three months ended March 31, 2024. We expected an overall increase in general and administrative expenses in 2024 as a result of the cost of compliance and other regulatory costs associated with being a public reporting company. All of our corporate overhead, other than overhead directly related to the China segment, is allocated to the United States segment.

General and administrative expenses relating to the China segment were \$252,000 in the three months ended March 31, 2024, as compared with \$(754) in the three months ended March 31, 2023, we had a \$1.1 million recovery of previously reserved receivable on one of our projects for SPIC as a result of the settlement of a legal proceeding.

We recognized a one-time stock-based compensation expense for the three months ending March 31, 2024 of approximately \$17.2 million as a result of elimination of a forfeiture provision in outstanding options to purchase 5,898,137 shares of common stock at an average exercise price of \$5.01 as a result of the termination of the forfeiture provisions as a result of our completion of our initial public offering.

#### *Income (loss) from operations*

As a result of the factors described above, our loss from operations for the United States segment was \$18.6 million, compared to a loss of \$227,000 in the three months ended March 31, 2023.

#### *Equity in income (loss) from unconsolidated entities*

Equity in income from unconsolidated entities relates to our China segment and comprises the equity in income from three unconsolidated project companies in which we have a non-controlling 30% interest. The equity in income reported for the three months ended March 31, 2024 was \$60,000 compared to \$68,000 in the three months ended March 31, 2023, a decrease of \$8,000 or 12%. The change year over year correlates with the lower power production in the Guizhou region in China.

#### *Gain on debt extinguishment*

Gain on debt extinguishment for the three months ended March 31, 2024 was \$54,000 and relates primarily to an exchange of \$2.0 million of 3% secured EB-5 notes payable to a related party to an equal principal amount of 4% convertible notes. The gain on debt extinguishment for the three months ended March 31, 2023 was \$13,000.

#### *Interest expense, net*

Interest expense, net, for the three months ended March 31, 2024 was \$368,000 a decrease of \$21,000, or 5%, from the three months ended March 31, 2023. Our interest expense in the three months ended March 31, 2024 primarily includes interest at 3% on two loans from related parties in the United States with a total principal balance of \$15.0 million at March 31, 2024, interest at 4% on convertible notes issued to former limited partners of CEF in transactions in which the former limited partners of CEF accepted a 4% convertible note issued by SolarMax and the subsidiary that borrowed the funds from CEF with an aggregate principal balance of \$15.25 million at March 31, 2024, and interest at 8% on promissory notes issued to SMX Property (a related party) in October 2022 with a principal balance of \$1.4 million at March 31, 2024. The convertible notes issued to the former limited partners of CEF were issued as payment of the former limited partner's capital account in CEF and replace debt of an equal amount that had been due to CEF. The notes are secured by the same collateral as the notes to CEF.

#### *Other income (expenses), net*

During the three months ended March 31, 2024, other expense was \$(208,000) consisting primarily of \$(224,000) of foreign currency transaction for our United States segment intercompany receivable denominated in the Chinese currency, and gain on disposal of property in the amount of \$14,000.

During the three months ended March 31, 2023, other income was \$640,000, consisting primarily of \$321,000 of sublease income from four subtenants at the Riverside headquarters for the United States segment, \$264,000 of gain on insurance settlement related the fire claim at the Riverside headquarters for the United States segment, \$48,000 of income related to the foreign currency transaction gain for our United States segment intercompany receivable denominated in the Chinese currency, offset with \$17,000 of expense related to a legal settlement involving a former employee.

#### *Income tax benefit (provision)*

For the three months ended March 31, 2024 and 2023, our United States segment reported an income tax expense of \$6,000 for attributable to state minimum tax liabilities. For the China segment, an income tax benefit of approximately \$1,200 and \$207,000 was reported for the three months ended March 31, 2024 and 2023, respectively, arising from profitable operations subject to China income tax.

#### *Net income (loss)*

As a result of the foregoing, we had consolidated net loss of \$19.3 million, or \$(0.46) per share (basic and diluted), for the three months ended March 31, 2024, compared with a consolidated net income of \$743,000, or \$0.02 per share (basic and diluted), for the three months ended March 31, 2023.

#### *Currency translation adjustment*

Although our functional currency is the U.S. dollar, the functional currency of our China subsidiaries is the Renminbi ("RMB"). The financial statements of our subsidiaries are translated to U.S. dollars using period end exchange rates for assets and liabilities, and average exchange rates for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and reflects changes in the exchange rates between U.S. dollars and RMB.

As a result of foreign currency translations, which are non-cash adjustments, we reported net foreign currency translation losses of \$208,000 for the three months ended March 31, 2024 and income of 221,000 for the three months ended March 31, 2023.

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#### **Liquidity and Capital Resources**

The following tables show consolidated cash flow information for the three months ended March 31, 2024 and 2023 (dollars in thousands):

	<b>Three Months ended March</b>		<b>\$ Increase</b>
	<b>31,</b>		<b>(Decrease)</b>
	<b>2024</b>	<b>2023</b>	
Consolidated cash flow data:			
Net cash provided by (used in) operating activities	\$ (6,400)	\$ 2,364	\$ (8,764)
Net cash provided by (used in) investing activities	(6,986)	22	(7,008)
Net cash provided by (used in) financing activities	15,573	2,038	13,535
Net increase (decrease) in cash and cash equivalents and restricted cash	2,392	4,363	(1,971)
Net increase (decrease) in cash and cash equivalents and restricted cash excluding foreign exchange effect	2,187	4,424	(2,237)

#### **Operating Activities**

Net cash used in operating activities for the three months ended March 31, 2024 was \$6.4 million, compared to net cash provided by operating activities for the three months ended March 31, 2023 of \$2.4 million. The cash flow used in operations for the three months ended March 31, 2024, resulting from our net loss of \$19.3 million, were principally from increases of \$17.1 million in stock-based compensation expenses, and \$636,000 of

decrease in customer loans. During the three months ended March 31, 2024, our operating assets and liabilities used \$4.7 million in cash. Net cash provided by operations for the three months ended March 31, 2023 of \$2.4 million resulted from net income of \$743,000, increased by \$4.3 million in cash from contract assets, \$2.3 million increase in cash from other receivables and current assets, with an offset from \$863,000 decrease in cash from accounts receivable, \$429,000 decrease in cash from customer loans receivable, \$445,000 decrease in cash from inventories, \$58,000 decrease in cash from other assets, \$826,000 decrease in cash from accounts payable, \$23,000 decrease in cash from operating lease liabilities, \$4.3 million decrease in cash from contract liabilities, \$5.8 million decrease in cash from accrued expenses and other payables, and \$331,000 decrease in cash from other liabilities. We expect the fluctuations of working capital over time to vary based on the construction status and the related contractual billings of the projects in progress.

Non-cash adjustments changes:

- \$8,000 net increase resulting from equity in income from our equity investments.
- \$6,000 increase in depreciation and amortization expense which includes loan and debt discounts amortization.
- \$40,000 net decrease from the reduction in gain on debt extinguishment.
- \$8,000 increase from the reduction in gain on disposal of property and equipment.
- \$245,000 decrease in expenses associated with loss provisions for bad debts, loan losses, inventories, warranty, customer care and production guaranty.
- \$206,000 increase in deferred income taxes.

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Changes in operating assets and liabilities:

- \$2.3 million increase in net cash inflow from other receivables and current assets
- \$863,000 decrease in net cash inflow from accounts receivable
- \$445,000 million decrease in net cash inflow from inventories.
- \$429,00 decrease in net cash inflow from customer loans receivable.
- \$826,000 decrease in cash inflows from accounts payable.

- \$5.8 million decrease in cash from accrued expenses and other liabilities.
- \$4.3 million decrease in net cash outflow from contract liabilities related to projects for which the performance obligations have not been satisfied under the revenue recognition standard which became effective January 1, 2019.
- \$4.1 million increase in net cash inflow from contract assets related to projects for which the performance obligations have not been satisfied under the revenue recognition standard which became effective January 1, 2019.
- \$23,000 decrease in net cash from operating lease liabilities.

#### Investing Activities

Net cash used by investing activities for the three months ended March 31, 2024 was approximately \$7.0 million, consisting of \$7.0 million short-term investment in two promissory notes, offset by \$14,000 of cash proceeds received from disposal of property and equipment. Net cash provided by investing activities for the three months ended March 31, 2023 was \$22,000, consisting of cash received of \$22,000 related to the disposal of property and equipment.

#### Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2024 was \$15.6 million, consisting of \$18.6 million of net cash proceeds from the initial public offering completed in February and March 2024, offset by \$3.0 million principal payments on convertible notes in the United States segment, and \$4,000 payment on equipment leases in the United States segment.

Net cash provided by financing activities for the three months ended March 31, 2023 was \$2.0 million, consisting of \$3.5 million principal payments on convertible notes in the United States segment, \$14,000 payments on other borrowings and equipment leases in the United States segment, and \$2.3 million payment to Uonone, offset by \$6.7 million of proceeds from Uonone, related to legal settlement received by SolarMax on Uonone's behalf in the China segment.

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#### Cash and Cash Equivalents and Restricted Cash

The following table sets forth, our cash and cash equivalents and restricted cash held by our United States and China segments at March 31, 2024 and December 31, 2023 (dollars in thousands):

	March 31, 2023	December 31, 2023
US Segment		
Insured cash	\$ 723	\$ 819
Uninsured cash	4,214	813
	4,937	1,632
China Segment		
Insured cash	242	295
Uninsured cash	107	967
	349	1,262
Total cash and cash equivalents & restricted cash	5,286	2,894
Cash and cash equivalents	4,930	2,539
Restricted cash	\$ 356	\$ 355

We currently do not plan to repatriate any cash or earnings from any of our non-United States operations because we intend to utilize such funds to expand our China operations. Therefore, we do not accrue any China exit taxes related to the repatriation.

Under applicable PRC law and regulations, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated after-tax profits, if any, each year, to fund certain reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital before they may pay dividends. We do not believe that this restriction will impair our operations since we do not anticipate that we will use the cash generated from our PRC operations in those operations and we do not plan to repatriate such funds to the United States.

#### *Borrowings*

Contemporaneously with the execution of our lease with 3080 Landlord and the termination of our former lease with SMXP, we issued two two-year 8% notes to SMXP. Both notes provide for quarterly payments of interest during the term with the principal being due at maturity. One note, in the principal amount of \$414,581, was issued to pay past due rent under our former lease with SMXP for the period June 1, 2022 to October 12, 2022. The second note, for \$944,077 was issued in respect of a loan from SMXP to finance our security deposit (\$809,209) and one month's rent under our lease with 3080 Landlord.

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#### *EB-5 Loans*

On January 3, 2012, CEF entered into a loan agreement with SREP, one of our United States subsidiaries, pursuant to which CEF advanced \$45.0 million. On August 26, 2014, CEF II entered into a loan agreement with LED, another United States subsidiary, for up to \$13.0 million. CEF II advanced \$10.5 million pursuant to the agreement. The loans from CEF and CEF II bear interest at 3% per annum. The loans are secured by a security interest in the accounts and inventory of the borrowing subsidiary. CEF and CEF II are limited partnerships, the general partner of which is Inland Empire Renewable Energy Regional Center, a related party. The limited partners of both CEF and CEF II are investors who are not related parties who made a capital contribution to CEF or CEF II pursuant to the United States EB-5 immigration program. The EB-5 immigrant investor visa is a federal program that grants green cards and a path to citizenship to foreign investors who invest at least \$500,000 toward job-creating projects. Under this program, which is administered by the United States Customs and Immigration Service, entrepreneurs (and their spouses and unmarried children under 21) are eligible to apply for a green card (permanent residence) if they make the necessary investment in a commercial enterprise in the United States and plan to create or preserve 10 permanent full-time jobs for qualified United States workers. We are a commercial enterprise that creates permanent full-time jobs in the United States.

The loans from CEF and CEF II become due, as to the investment of each limited partner, four years from the date of the loan and may be



extended as may be necessary to meet applicable USCIS immigrant investor visa requirements, which will be the date that the limited partner is eligible for a green card. Under the limited partnership agreements for CEF and CEF II, the limited partners have the right to demand repayment of their capital account when the petition is approved, which demand may trigger a maturity of the loan from CEF or CEF II in the amount of the limited partner's investment. The initial four-year term of notes in the principal amount of \$55.5 million, which were issued to CEF and CEF II, and had expired prior to December 31, 2023 and are on extension until the limited partners meet applicable immigrant investor visa requirements. We cannot determine the period of the extensions. As of March 31, 2024, limited partners whose capital contributions funded loans of \$41.5 million had received their green card approval and their extensions expired and one limited partner whose capital contribution funded \$500,000 had withdrawn from CEF II and the limited partner's capital contribution was returned. The petitions of limited partners of CEF whose capital contribution funded loans of \$3.5 million are pending.

As the loans matured and the limited partners requested return of their capital contribution, we offered the limited partners, in lieu of the payment by the limited partnership, a convertible note with a term of five years, with 20% of the principal amount being due on each of the first, second, third, fourth and fifth anniversaries of the date of issuance. The notes are secured by the same assets that secured the notes issued to CEF. As of March 31, 2024, we had issued convertible notes in the principal amount of \$36.5 million to former limited partners of CEF, of which principal payments of \$19.75 million had been made on the anniversary of the respective dates of issuance, and convertible notes in the principal amount of \$2.5 million had been purchased by us for \$1.77 million, leaving convertible notes in the principal amount of \$14.25 million outstanding. As of March 31, 2024, notes to CEF and CEF II in the aggregate principal amount of \$15.0 million were outstanding.

#### *Other Debt Obligations*

We have a loan for \$2.0 million from an unrelated party bearing interest rate at 6% per annum which becomes due at June 30, 2024. This loan had been extended periodically since the original maturity date of April 30, 2021.

On February 1, 2021, we received loans pursuant to the PPP Second Draw totaling \$1,855,813. The loans were issued to three of our United States subsidiaries and may be entirely or partially forgivable if the loan proceeds are used for eligible expenses which include employee payroll, mortgage interest, rents, utilities and other eligible costs allowed by the Small Business Administration, during the 24-week period beginning on the date of the first disbursement of the loans. For the non-forgivable portion, the loans would be due in five years at a fixed interest rate of one percent per annum with the first payment due 16 months from the date of the first disbursement of the loans. In February and April 2022, \$1,852,291 of the loans from the PPP Second Draw were forgiven and in May 2022 the remaining \$3,522 of the loans were repaid.

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On October 10, 2022, SMX Property LLC, a related party, made unsecured loans to us for \$944,077 and \$414,581 at an interest rate of 8%, with interest payable quarterly at the end of each quarter. The principal amount plus accrued interest of both notes is due on October 10, 2024. The proceeds of the loans were used to pay the security deposit and lease obligations for one month owed to the new owner of our headquarters building under the new lease agreement and for rent on our headquarters building from June 1, 2022 to October 12, 2022.

#### **Contractual Obligations**

##### *Borrowings*

Principal maturities for the financing arrangements as of March 31, 2024 are as follows (dollars in thousands):

	Bank and Other Unsecured Loans	EB-5 Loans - Related Party	Notes Payable - Related Party	Convertible Notes	Total
<b>For the year ending December 31,</b>					
2024 (remainder of)	\$ 2,000	\$ 8,000	\$ 1,359	\$ 5,580	\$ 16,939

2025		3,000		5,390	8,390
2026		4,000		2,390	6,390
2027				990	990
2028				500	500
Thereafter				400	400
Total	\$ 2,000	\$ 15,000	\$ 1,359	\$ 15,250	\$ 33,609

#### Operating Leases

Future minimum lease commitments for office facilities and equipment for each of the next five years as of December 31, 2024, are as follows (dollars in thousands):

For the year ending December 31,	Related Parties	Others	Total
2024 (remainder of)	\$	\$ 1,716	\$ 1,716
2025		1,726	1,726
2026		1,768	1,768
2027		-	-
2028		-	-
Thereafter		-	-
Total	\$	\$ 5,210	\$ 5,210

#### Employment Agreements

On October 7, 2016, we entered into an employment agreement with our chief executive officer, David Hsu, for a five-year term commencing January 1, 2017 and continuing on a year-to-year basis unless terminated by us or Mr. Hsu on not less than 90 days' notice prior to the expiration of the initial term or any one-year extension. The agreements provide for an annual salary with an increase of not less than 3% and an annual bonus in restricted stock and cash equal to a specified percentage of consolidated revenues for each year. Mr. Hsu's annual salary for 2023 was \$716,431, and his salary for 2024 is at the annual rate of \$737,924. We also owe Mr. Hsu \$675,000 as the cash payment in connection with his exchange of 1,348,213 restricted shares of common stock for options to purchase 1,428,432 shares of common stock at \$5.01 per share and a cash payment of \$675,000, which was initially payable by December 15, 2019 and has been extended and is now due commencing on February 27, 2025 in twelve equal monthly installments. In addition, at March 31, 2024, we owed Mr. Hsu \$1,833,378, representing deferred salary from 2019, 2020, 2021, 2022, 2023, and 2024 and cash bonuses deferred from 2017 and 2018. Mr. Hsu waived his bonus for 2019, 2020, 2021, 2022, and 2023 as part of the suspension of incentive programs for key employees, and he agreed that the \$1,833,378 deferred salary and bonus be paid in twelve equal monthly installments with the first payment becoming due on February 27, 2025.

#### Cash Requirements

We require substantial funds for our business, and we believe that the net proceeds from our initial public offering, together with cash generated by our operations should enable us to meet our cash requirements for at least the twelve months from the date of this annual report. However, we cannot assure you that we will not require additional funds to meet our commitments or that funds will be available on reasonable terms, if at all. We have significant debt obligations which mature or may mature during the next year. We have extended our loan obligation to an unrelated third party for \$2.0 million to June 30, 2024 and, with respect to the loans made under the EB-5 program, as described above, we are seeking to refinance the loans through

the issuance of secured subordinated convertible notes to the limited partners of the lenders. We also have obligations to Mr. Hsu described above, approximately \$2.5 million of which will be paid in twelve equal monthly installments with the first payment becoming due on February 27, 2025. We cannot assure you that we will be able to negotiate extensions to our loans or refinancing of our EB-5 debt. The willingness of the limited partners of CEF and CEF II to accept convertible notes rather than a cash payment of their investment in the limited partnership may be affected by their perception of our performance and the performance of our common stock as well as their perception that they could get a more favorable result with litigation. If our current liabilities exceed the available cash, including the proceeds of our initial public offering, we will need to obtain alternative financing. We cannot assure you that such financing will be available on acceptable, if any terms, which would impair our ability to develop our business. Our financial statements for the year ended December 31, 2023 have a going concern paragraph.

### **Critical Accounting Estimates and Policies**

The accounting policies described below are considered critical to obtaining an understanding of our consolidated financial statements because their application requires the use of significant estimates and judgments by management in preparing the consolidated financial statements. Management estimates and judgments are inherently uncertain and may differ significantly from actual results achieved. Management considers an accounting estimate to be critical if the estimate requires significant assumptions and changes in the estimate or, the use of alternative estimates, could have a material impact on our results of operations or financial position. For more information on our accounting policies, see "Notes to Consolidated Financial Statements—Note 2. Basis of Presentation and Summary of Significant Accounting Policies."

#### ***Impairment assessment of goodwill***

##### **Nature of Estimates Required**

At least annually, we are required to assess the carrying value of our long-lived assets and related intangibles for impairment whenever events or changes in circumstances indicate that the carrying value of the long-lived asset, or group of assets, may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the long-lived assets to the respective estimated future undiscounted cash flows. The estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If our analysis indicates that the carrying value of the long-lived assets is not recoverable on an undiscounted cash flow basis, it recognizes an impairment charge for the amount by which the carrying value exceeds the fair value of the long-lived asset.

##### **Key Assumptions and Approach Used**

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. When assessing goodwill for impairment, we consider the enterprise value and if necessary, the discounted cash flow model, which involves assumptions and estimates, including our future financial performance, weighted-average cost of capital and interpretation of currently enacted tax laws. Circumstances that could indicate impairment and require us to perform a quantitative impairment test include a significant decline in the financial results, a significant decline in the enterprise value relative to our net book value, an unanticipated change in competition or the market share and a significant change in the strategic plans.

Our China segment did not complete any new projects in 2021, 2022 or 2023; however, we believe it is more likely than not the fair value of our China segment is greater than its carrying value because we believe that we will generate business in 2024 from SPIC and/or other PRC customers with which we are engaged in negotiations.

Because of the COVID restrictions, we were not able to complete negotiation for new projects with SPIC and with one other potential customer. In China, in order for us to generate business, we need to have face-to-face meetings with the representatives of SPIC or any other potential customers rather than remote meetings such as Zoom. These negotiations were initially deferred from late 2021 until 2022 and further deferred to 2023 as a result of COVID restrictions. We are now engaged in negotiations with respect to new projects for our China segment. In addition, our negotiations were impacted by a temporary spike in panel prices in China, which began to moderate in 2022. Despite the interruption of COVID in China, we believe that the macroeconomic conditions for the solar market in China continues to be strong. China remains the number one market in the world for photovoltaic systems, which includes the solar farms that our China segment designs and builds for third parties. As COVID restrictions eased in late 2022, discussions, negotiations, design work and permitting on potential projects resumed in the first quarter of 2023, although, as of the date of this annual report, we have not entered into any agreements.

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##### **Effect if Different Assumptions Used**

Under different assumptions, there could be a likelihood that the fair value of our China segment is less than its carrying value and would require an impairment.

#### ***Allowance for credit and loan losses***

##### **Nature of Estimates Required**

In adopting ASU 2016-13, we are required to estimate credit and loan losses based on a forward-looking methodology and, if needed, record a

reserve for each of the following assets: accounts receivable, customer loans receivable and certain contract assets.

#### Key Assumptions and Approach Used

In determining the expected loss, we make assumptions based on historical collection experience, current and forecasted economic and business conditions, and a review of the status of each customer's financial asset account. Specifically, we estimate loss reserve based on the aging of the financial asset balances and the financial condition of customers and provide for specific allowance amounts for those customers that have a higher probability of default. With respect to our China segment, we review China's current and future economic conditions along with its political landscape, and how these factors may affect our receivable from SPIC, a state-owned entity. We regularly monitor collection status of these financial assets through account reconciliation, payment tracking, customer's financial condition and macroeconomics conditions.

#### Effect if Different Assumptions Used

We believe that assumptions not based on the use of historical collection experience, current and forecasted economic, political (China segment) and business conditions, and a review of the status of each customer's financial asset account would be contra to the requirements of ASU 2016-13 and a departure from GAAP.

### **Income Taxes**

#### Nature of Estimates Required

As part of the process of preparing our consolidated financial statements, we are required to estimate income taxes for each jurisdiction in which we operate. This process involves estimating actual current period tax expense together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheets, including net operating loss and tax credit carryforwards. Certain estimates and assumptions are required to determine whether deferred tax assets can and will be utilized in future periods.

We take certain tax positions we believe are in accordance with the applicable tax laws. However, these tax positions are subject to interpretation by the Internal Revenue Service, state tax authorities and the courts. We determine uncertain tax positions in accordance with the authoritative guidance.

#### Key Assumptions and Approach Used

In determining whether it is more likely than not that all or some portion of net operating loss and tax credit carryforwards can be utilized, we analyze the trend of GAAP earnings and then estimates the impact of future taxable income, reversing temporary differences and available prudent and feasible tax planning strategies based on currently enacted tax laws.

Accounting for tax obligations requires management judgment. We use judgment in determining whether the evidence indicates it is more likely than not, based solely on the technical merits, that a tax position will be sustained, and to determine the amount of tax benefits to be recognized. Judgment is also used in determining the likelihood a tax position will be settled and possible settlement outcomes. In assessing uncertain tax positions we consider, among others, the following factors: the facts and circumstances of the position, regulations, rulings, and case law, opinions or views of legal counsel and other advisers, and the experience gained from similar tax positions. We evaluate uncertain tax positions at the end of each reporting period and make adjustments when warranted based on changes in fact or law.

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#### Effect if Different Assumptions Used

Should a change in facts or circumstances, including a change in enacted tax legislation, lead to a change in judgment about the ultimate realizability of a deferred tax asset, we would record or adjust the related valuation allowance in the period that the change in facts and circumstances occurs, along with a corresponding increase or decrease in the provision for income taxes.

Actual income taxes may differ from the estimated amounts which could have a significant impact on the liabilities, revenue and expenses recorded in the financial statements. Significant judgment is required to determine the tax treatment of particular tax positions that involve interpretations of complex tax laws. Such liabilities are based on judgment and a final determination could take many years from the time the liability is recorded. Furthermore, settlement of tax positions included in open tax years may be resolved by compromises of tax positions based on current factors and business considerations that may result in material adjustments to income taxes previously estimated. For a discussion of current and deferred taxes, net operating losses and tax credit carryforwards, accounting for uncertainty in income taxes, unrecognized tax benefits, and tax disputes, see Note 19.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. At December 31, 2023, we were a privately-owned company, not subject to disclosure controls and internal controls over financial reporting required by the Exchange Act for public companies.

This quarterly report on Form 10-Q does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

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### Part II - Other Information

#### Item 6. Exhibits

<a href="#">31.1</a>	<a href="#">Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">31.2</a>	<a href="#">Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">32.1</a>	<a href="#">Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
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 (formatted as Inline XBRL and contained in Exhibit 101).

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#### SIGNATURES

Pursuant to the requirements of Section 12 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.

#### SOLARMAX TECHNOLOGY, INC

Date: May 15, 2024

By: /s/ David Hsu  
David Hsu, Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Stephen Brown  
Stephen Brown, Chief financial Officer  
(Principal Financial Officer)



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, David Hsu, certify that:

1. I have reviewed this annual report on Form 10-Q of SolarMax Technology, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 controls 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 quarterly 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;
  - 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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.

Dated: May 15, 2024

By: /s/ David Hsu  
David Hsu  
Chief Executive Officer  
(Principal Executive Officer)



**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Stephen Brown, certify that:

1. I have reviewed this annual report on Form 10-Q of SolarMax Technology, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 controls 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 quarterly 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;
  - 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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.

Dated: May 15, 2024

By: /s/ Stephen Brown  
Stephen Brown  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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In connection with the Quartely Report of SolarMax Technology, Inc. (the "Company") on Form 10-Q for the year ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Hsu, chief executive officer of the Company, and I, Stephen Brown, chief financial officer of the Company, certify, pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

By: /s/David Hsu  
David Hsu  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Stephen Brown  
Stephen Brown  
Chief Financial Officer  
(Principal Financial Officer)