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

FORM 10-K

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

For the fiscal year ended December 31, 2021

or

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

For the transition period from________to________
Commission file number 001-35944

POWER SOLUTIONS INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**33-0963637**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
201 Mittel Drive, Wood Dale, IL	**60191**
(Address of Principal Executive Offices)	(Zip Code)

(630) 350-9400
(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**
None	—	—

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share

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

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

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

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

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

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

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

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

The aggregate market value of 5,378,337 shares of Common Stock held by non-affiliates of the registrant as of December 31, 2021 was $32.8 million based on the last reported sale price on the over-the-counter ("OTC") market on June 30, 2021 (although the total market capitalization of the registrant as of such date was approximately $139.2 million). Shares of the registrant's Common Stock held by each executive officer and director and by each person who holds 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 28, 2022, there were 22,926,875 outstanding shares of the Common Stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to the registrant's definitive proxy statement (the "2022 proxy statement"), to be filed with the United States Securities and Exchange Commission (the "SEC") within 120 days after the fiscal year ended December 31, 2021.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K ("2021 Annual Report") that are not historical facts are intended to constitute "forward-looking statements" entitled to the safe-harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may involve risks and uncertainties. These statements often include words such as "anticipate," "believe," "budgeted," "contemplate," "estimate," "expect," "forecast," "guidance," "may," "outlook," "plan," "projection," "should," "target," "will," "would" or similar expressions, but these words are not the exclusive means for identifying such statements. These forward-looking statements include statements regarding Power Solutions International, Inc.'s, a Delaware corporation ("Power Solutions," "PSI" or the "Company"), projected sales, potential profitability and liquidity, strategic initiatives, future business strategies, warranty mitigation efforts and market opportunities, improvements in its business, remediation of internal controls, improvement of product margins, and product market conditions and trends. These statements are not guarantees of performance or results, and they involve risks, uncertainties and assumptions. Although the Company believes that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect the Company's results of operations and liquidity and could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the Company's forward-looking statements.

The Company cautions that the risks, uncertainties and other factors that could cause its actual results to differ materially from those expressed in, or implied by, the forward-looking statements include, without limitation: the factors discussed in this report set forth in Item 1A. Risk Factors; the impact of the ongoing COVID-19 pandemic could have on the Company's business and financial results; the Company's ability to continue as a going concern; the Company's ability to raise additional capital when needed and its liquidity; uncertainties around the Company's ability to meet funding conditions under its financing arrangements and access to capital thereunder; the potential acceleration of the maturity at any time of the loans under the Company's uncommitted senior secured revolving credit facility through the exercise by Standard Chartered Bank of its demand right; the timing of completion of steps to address, and the inability to address and remedy, material weaknesses; the identification of additional material weaknesses or significant deficiencies; risks related to complying with the terms and conditions of the settlements with the SEC and the United States Attorney's Office for the Northern District of Illinois (the "USAO"); variances in non-recurring expenses; risks relating to the substantial costs and diversion of personnel's attention and resources deployed to address the internal control matters; the Company's obligations to indemnify past and present directors and officers and certain current and former employees with respect to the investigations conducted by the SEC and the criminal division of the USAO, which will be funded by the Company with its existing cash resources due to the exhaustion of its historical primary directors' and officers' insurance coverage; the ability of the Company to accurately forecast sales, and the extent to which sales result in recorded revenues; changes in customer demand for the Company's products; volatility in oil and gas prices; the impact of U.S. tariffs on imports from China on the Company's supply chain; impact on the global economy of the war in Ukraine; the impact of supply chain interruptions and raw material shortages; the impact of increasing warranty costs and the Company's ability to mitigate such costs; any delays and challenges in recruiting and retaining key employees consistent with the Company's plans; any negative impacts from delisting of the Company's common stock par value $0.001 (the "Common Stock") from the NASDAQ Stock Market ("NASDAQ") and any delays and challenges in obtaining a re-listing on a stock exchange.

The Company's forward-looking statements are presented as of the date hereof. Except as required by law, the Company expressly disclaims any intention or obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

AVAILABLE INFORMATION

The Company is subject to the reporting and information requirements of the Exchange Act, and as a result, it is obligated to file annual, quarterly and current reports, proxy statements and other information with the SEC. The Company makes these filings available free of charge on its website (http://www.psiengines.com) as soon as reasonably practicable after it electronically files them with, or furnishes them to, the SEC. Information on the Company's website does not constitute part of this 2021 Annual Report. In addition, the SEC maintains a website (http://www.sec.gov) that contains the annual, quarterly and current reports, proxy and information statements, and other information the Company electronically files with, or furnishes to, the SEC.

PART I

Unless the context indicates otherwise, references in this 2021 Annual Report to "Power Solutions," "PSI," "the Company," "Corporate," "it," "its" and "itself" mean Power Solutions International, Inc. and its wholly-owned subsidiaries. References herein to "2021," "fiscal 2021" or "fiscal year 2021" refer to the fiscal year ended December 31, 2021. References herein to "2020," "fiscal 2020" or "fiscal year 2020" refer to the fiscal year ended December 31, 2020.

Item 1. Business.

General Business Overview

Power Solutions International, Inc., incorporated under the laws of the state of Delaware in 2011, designs, engineers, manufactures, markets and sells a broad range of advanced, emission-certified engines and power systems that are powered by a wide variety of clean, alternative fuels, including natural gas, propane, and biofuels, as well as gasoline and diesel options, within the power systems, industrial and transportation end markets. The Company manages the business as a single reportable segment.

The Company's products are primarily used by global original equipment manufacturers ("OEMs") and end-user customers across a wide range of applications and equipment that includes standby and prime power generation, demand response, microgrid, combined heat and power, arbor equipment, material handling (including forklifts), agricultural and turf, construction, pumps and irrigation, compressors, utility vehicles, light- and medium-duty vocational trucks, and school and transit buses.

The Company provides highly engineered, comprehensive solutions designed to meet specific customer application requirements and technical specifications, including those imposed by environmental regulatory bodies, including the U.S. Environmental Protection Agency ("EPA"), the California Air Resources Board ("CARB") and the People's Republic of China's Ministry of Ecology and Environment ("MEE," formerly the Ministry of Environmental Protection), as well as regulatory bodies within the European Union ("EU").

The Company's products include both sourced and internally designed and manufactured engines that are engineered and integrated with associated components. These comprehensive power systems are tested and validated to meet quality, safety, durability and global environmental standards and regulations.

Through advanced research and development ("R&D") and engineering capabilities, the Company is able to provide its customers with highly optimized, efficient, durable and emissions-compliant products that enhance their competitive position.

The Company's business is diversified across end markets and applications and also includes extensive aftermarket and service parts programs. These programs consist of (i) internal aftermarket service parts programs with worldwide sales and distribution capabilities and (ii) internal OEM-developed service parts programs for components and products supplied by the Company.

The Company’s end markets, product categories and equipment are as highlighted in the following table:

End Market	Product Categories	Equipment/Products (End Use)
Power Systems (Energy)*	Electric Power Generation (“Gensets”) Large Custom Genset Enclosures	Mobile and Stationary Gensets for: Emergency Standby Rental Prime Power Demand Response Microgrid Renewable Energy Resiliency (Wind, Solar, Storage) Combined Heat and Power (“CHP”)
Industrial	Material Handling Agricultural/Arbor Care Irrigation/Pumps Construction Compressors Other Industrial	Forklifts Wood Chippers Stump Grinders Sweepers/Industrial Scrubbers Aerial Lift Platforms/Scissor Lifts Irrigation Pumps Oil and Gas Compression Oil Lifts Off Road Utility Vehicles Ground Support Equipment Ice Resurfacing Equipment Pump Jacks
Transportation	Trucks Buses Fuel Systems and Tanks	Class 2 - 7 Vocational Trucks and Vans School Buses (Type A and Type C) Transit Buses Terminal and Utility Tractors

* In 2022, the Company renamed the Energy end market to Power Systems. There were no changes to the product categories or equipment/products (end use).

Products

The Company’s sourced and internally designed and manufactured engine blocks are engineered and integrated with associated components in a range of configurations that includes basic engine blocks integrated with appropriate fuel system parts as well as completely packaged power systems that include combinations of front accessory drives, cooling systems, electronic systems, air intake systems, fuel systems, housings, power takeoff systems, exhaust systems, hydraulic systems, enclosures, brackets, hoses, tubes, packaging, telematics and other assembled componentry. The Company also designs and manufactures large, custom-engineered integrated electrical power generation systems for both standby and prime power applications. The Company’s comprehensive power systems are tested and validated to meet quality, safety, durability and global environmental standards and regulations.

The Company’s engines and power systems include both emission-certified compression and spark-ignited internal combustion engines ranging from 0.99 liters (“L”) to 53L of displacement, which are enabled by advanced controls to run on a wide variety of clean, alternative fuels, including natural gas, propane, and biofuels, as well as gasoline and diesel options, within the power systems, industrial and transportation end markets.

COVID-19 and other Recent Business Impacts

The ongoing COVID-19 pandemic has resulted in the implementation of significant governmental measures to control the spread of the virus, including quarantines, travel restrictions, business shutdowns and restrictions on the movement of people in the United States and abroad.

During 2020 and 2021, as a result of the COVID-19 pandemic, the global economy experienced substantial turmoil, which led to challenging market conditions across certain areas of the Company’s business. In addition, due to unprecedented decreases in demand, an oil price war, and economic uncertainty resulting from the COVID-19 pandemic, average crude oil prices were considerably lower in 2020 as compared to prices at the end of 2019. At year-end 2021, crude oil prices were 55% above prices at year-end 2020. However, U.S. rig counts have been slower to return as the average count for 2021 was up 10% versus 2020 and average rig counts remain significantly below the full year 2019 average. Meanwhile, the Company believes that capital spending within the U.S. oil markets during 2021 remained well below 2019 levels. These factors have contributed to a continued challenging environment for the sale of the Company’s oil and gas related products during 2021. A significant portion of the Company’s sales and profitability has historically been derived from the sale of products that are used within the oil and gas industry.

In addition, the Company experienced delays in its supply chain during 2021 due to temporary shortages of raw materials and container delays of overseas materials as bottlenecks occurred at ports in Asia and North America. This, in turn, caused delivery delays to some of the Company's customers. The Company also experienced inflationary cost pressures for certain materials and shipping-related costs. Additionally, the Company has also experienced higher tariff costs as a result of the non-renewal of certain tariff exclusions that expired at the end of 2020. The Company is working to mitigate the impact of these matters through price increases and other measures, such as seeking certain tariff exclusions, where possible. The potential for continued disruptions, economic uncertainty, and unfavorable oil and gas market dynamics may have a material adverse impact on the timing of delivery of customer orders and the levels of future customer orders.

Lastly, during 2021, the Company incurred significantly higher legal costs due to its obligation to indemnify certain former officers and employees of the Company. Specifically, spending activity was elevated during 2021 due to the USAO trial involving former officers and employees of the Company that occurred during the year. With a verdict reached in the USAO trial matter in September 2021, the Company believes its costs related to the matter will cease. However, at this time, the Company is not able to estimate the potential future amount of its indemnity obligations related to the pending SEC matter involving prior officers and employees. See Note 10. *Commitments and Contingencies* for further discussion of the Company's indemnification obligations. Accordingly, the above challenges may continue to have a material adverse impact on the Company's future results of operations, financial position, and liquidity.

Strategic Initiatives/Growth Strategies

The Company continues to execute against a comprehensive set of business objectives aimed at improving profitability, streamlining processes, strengthening the business and focusing on achieving growth in higher-return product lines. Key elements of these objectives and other initiatives are highlighted below.

Improve profitability

The Company continues to execute on its plan to enhance profitability through the review of its customer and product portfolio. To date, this has resulted in strategic price increases in certain areas of the business, along with product redesign and the re-sourcing of certain components, to support improved margins. This program is a multi-year effort and will entail a strategic assessment of certain areas in which profitability does not meet established thresholds. The Company also continues to transform its manufacturing operations through the ongoing adoption of lean, agile and flexible lines, which provides opportunities for improved efficiency, margins and profitability, particularly as volume and sales improve. The Company has also been investing heavily in the expansion of its heavy-duty engine product line, particularly through its collaboration with Weichai. This product line has historically provided better margins.

During 2021, the Company continued to incur substantial legal costs related to governmental investigation matters and its obligations to indemnify certain former officers and employees of the Company. Specifically, spending activity was elevated during 2021 due to the USAO trial involving former officers and employees of the Company that occurred. With a verdict reached in the USAO trial matter in September 2021, the Company believes its costs related to the matter will cease. However, at this time, the Company is not able to estimate the potential future amount of its indemnity obligations related to the pending SEC matter involving prior officers and employees. The Company also continues to incur costs related to the remediation of the deficiencies in its internal control over financial reporting and for the enhancement of its corporate compliance program pursuant to the Non-Prosecution Agreement ("NPA") with the USAO. Upon the conclusion of these matters, the Company expects to see a decline in these expenses.

Warranty expense mitigation efforts

The Company aims to curtail its warranty expense through various mitigation efforts. As part of this, the Company is developing reimbursement and commercial remedies from key suppliers, where applicable. Also, the Company is undergoing a continued evaluation and improvement of its engineering validation and reliability programs for products and applications. The Company also continues to make investments in technology to further enhance its tools and processes.

Streamlining of business processes and footprint rationalization

The Company has an ongoing program to review and identify cost reductions throughout the organization. As part of this program, the Company has adopted tighter controls, monitors major areas of spending and is centralizing certain business processes. During 2021, the Company took rightsizing actions to align its staffing with current needs, while also streamlining certain roles. These actions, when coupled with attrition, contributed to the reduction headcount by approximately 100 positions totaling approximately 12.5%.

The Company continues to review its facilities footprint in light of its current and planned business mix and its evolving needs. To date, these efforts resulted in the exit and sublease of its Hanover Park, IL materials and warehousing facility which is expected to generate annualized savings of approximately $1.3 million. with approximately $0.9 million expected to be realized in 2022.

Strengthen the business through the optimization of business systems and technology

The Company is working to strengthen its business through the optimization of its business systems and technology to support the remediation of internal controls, improve processes, drive greater operational efficiencies and provide better and timelier decision making across the organization. As part of this initiative, the Company is working on the continued enhancement and optimization of its Enterprise Resource Planning system and associated workflows.

Grow the business in the highest return on investment areas

The Company has been a major participant in the power systems market for many years as a supplier to several of the world's leading power generation companies and through its large custom Generator Set ("Genset") enclosure business. Building on its broad product offering the Company received EPA certification for its 32L and 40L heavy-duty engines in 2018 and for its 53L heavy-duty engines in 2019. These heavy-duty engines provide a natural-gas-fueled power range from 500 kilowatt-electric ("kWe") to 1.25 megawatt ("MW"), which is well above the Company's prior capabilities, allowing it to serve a greater portion of the demand response, microgrid, combined heat and power, and oil and gas markets. Additionally, in 2019, the Company received EPA emergency standby certification for its 20L, 40L and 53L diesel engines, which provide a power range of 550 kWe to 1.65 MW. These diesel engines are largely designed for power systems market applications including emergency power, wastewater treatment, and oil and gas exploration and production. Also, the engines can handle mission critical customer operations in the health care, data center, hospitality and transportation industries. In addition to dedicating significant R&D resources within the power systems end market, the Company has also strategically invested in expanding its management, sales and operations staff to support these efforts. The Company's heavy-duty engines have historically provided better margins.

Capitalize on key market trends

The Company's breadth of products and solutions will enable it to capitalize on numerous market trends that it believes have the potential to drive customer demand for its products and contribute toward its long-term growth. Further, the Company's R&D activity is largely focused on expanding its solutions to further address trends in these areas. The key trends include the following:

- the worldwide growth of intermittent sources of energy, such as wind and solar, and an aged electric grid in the United States, coupled with power outage activity due to weather or power shutdowns, which is driving increased demand for generators, microgrids and demand response equipment;
- increasingly stringent regulations and growing efforts to reduce emissions, which are driving demand for clean energy and alternatives to diesel power engines (e.g., EPA Tier 4 emission standards, CARB regulations, MEE policies in China, and grants, rebates and other incentives for adopting clean energy applications), in particular, in several markets such as the power generation market for microgrids and oil and gas applications, school bus and arbor care market, among others;
- growth in datacenters and their increasing demand for electricity, which is driving growth for backup power (commercial generators/microgrids);
- growth in e-commerce activity around the world, which is driving demand for last-mile delivery vehicles; and
- the availability of automotive engines that are suited for industrial application.

New product expansion by leveraging deep industry experience

Throughout the Company's history, it has evolved from a provider of diesel power systems to become a major supplier of power systems fueled by alternatives to diesel, including gasoline, propane, and natural gas, among others. By leveraging the deep industry experience of its engineering and new-product development teams, the Company is continuing to take steps to broaden the range of its power system product offerings, including engine classes, power ratings and the OEM and direct user market categories into which it supplies products. The Company plans to capitalize on its technologically sophisticated, in-house design, prototyping, testing and application engineering capabilities to further refine its superior power system technology.

Leverage the Company's relationship with Weichai

In March 2017, the Company executed a share purchase agreement (the "SPA") with Weichai America Corp., a wholly owned subsidiary of Weichai Power Co., Ltd. (HK2338, SZ000338) (herein collectively referred to as "Weichai"). Under the terms of the SPA, Weichai invested $60.0 million in the Company (the "Weichai Transactions") by purchasing a combination of newly issued Common Stock and preferred stock, par value $0.001 (the "Preferred Stock"), as well as a stock purchase warrant, which significantly strengthened the Company's financial condition and contributed to the extinguishment of its $60.0 million term loan in 2017. Weichai has also provided support for PSI's business and operations through various shareholder loan agreements as described in Part II, Item 7. *Liquidity and Capital Resources*.

The Company and Weichai also entered into a strategic collaboration agreement (the “Collaboration Agreement”) under which they have been working together to accelerate market opportunities for each company’s respective product lines across various geographic and end-user markets.

The Collaboration Agreement provides the Company with strategic benefits and opportunities, including the ability to leverage Weichai’s strengths and capabilities in R&D, manufacturing, procurement and distribution and its widespread sales channels in China and other emerging markets. This collaboration has enabled the Company to broaden its existing product portfolio, improve material quality, decrease costs, accelerate the development of new products and bring them to market, and expand access and exposure to new markets.

Among other things, the Collaboration Agreement establishes a joint steering committee, permits Weichai to second a limited number of certain technical, marketing, sales, procurement and finance personnel to work at the Company and establishes several collaborations, including with respect to stationary natural gas applications and Weichai diesel engines. The Collaboration Agreement also provides for the steering committee to create different subcommittees with various operating roles, and it otherwise governs the treatment of intellectual property of the parties prior to the collaboration and the intellectual property developed during the collaboration. The Collaboration Agreement had a term of three years that was set to expire in March 2020. In March 2020, the Collaboration Agreement was extended for an additional term of three years.

Also, through the Company’s relationship with Weichai, it has access to Weichai’s ‘New Energy’ product portfolio and is exploring product diversification opportunities in the areas of battery storage and electrification.

The Weichai stock purchase warrant, as last amended (the “Weichai Warrant”), was exercisable commencing on April 1, 2019 for such number of shares of the Company’s Common Stock as was sufficient to provide Weichai with majority ownership of the Company’s Common Stock. On April 23, 2019, Weichai exercised the Weichai Warrant resulting in the Company issuing 4,049,759 shares of the Company’s Common Stock. See Note 1. *Summary of Significant Accounting Policies and Other Information–Stock Ownership and Control* in Part II. Item 8. *Financial Statements and Supplemental Information*, for additional information. Weichai is currently the Company’s majority stockholder, holding over 51% of the Company’s outstanding Common Stock, as of March 28, 2022.

Expand global business

Through the expansion of its product lineup and the entry into new markets, the Company has a history of growing its product offerings internationally beyond North America. The Company sees long-term opportunity in continuing to grow its business worldwide with further R&D investment including new-product development and offerings. In January 2022, PSI and Baudouin, a subsidiary of Weichai, entered into an international distribution and sales agreement which enables Baudouin to bring PSI’s power systems line of products into the European, Middle Eastern, and African markets. In addition to sales, Baudouin will manage service, support, warranty claims, and technical requests. PSI is optimistic that this agreement will offer enhanced global growth opportunities, particularly in Europe.

Sales and Marketing

The Company employs a direct sales and marketing approach to maintain maximum interface with and service support for its OEM customers. This direct interface incorporates the corporate internal technical sales representatives. The Company complements its direct OEM relationships with a localized, independent sales and product support organization. This localized sales and support organization provides the necessary knowledge of local customs and requirements while also delivering immediate sales assistance and customer support.

The Company has invested in and is focused on capturing aftermarket sales of the value-added components that are included in its power systems. With a significant portion of the selling prices of the Company’s power systems coming from value-added components, this is a large, continuing growth opportunity for its aftermarket business.

Customers

The Company’s customers primarily include global OEMs and direct end-users across a wide range of applications that demand high product quality, best-in-class engineering support and on-time delivery. Within several applications for which the Company provides solutions, it maintains supplier relationships with two or more customers, which are often among the largest in that category.

The Company’s largest customers, based upon its consolidated net sales in 2021, included the following subsidiaries/affiliates of Daimler AG: Freightliner Custom Chassis Corporation, Thomas Built Buses and FUSO Company (collectively, “Freightliner”) and Hyster-Yale Materials Handling Group. Freightliner and Hyster-Yale Materials Handling Group represented 21% and 17% of 2021 consolidated net sales, respectively. The largest customers change from time to time as a result of various factors, including prevailing market conditions, customers’ strategies and inventory of the Company’s power systems.

Competition

In each of the Company's end markets there are a variety of competitors, including engine manufacturers, independent suppliers and distributors of engines, fuel systems and component providers, manufacturers of power generation equipment, engine packagers and integrators, and the in-house operations of certain OEMs, some of which have longer operating histories, strong brand recognition and significantly greater financial and marketing resources.

Notwithstanding significant competition, the Company believes that the following factors provide it with a differentiated value proposition that allows the Company to compete effectively:

- fuel-agnostic strategy;
- demonstrated expertise in on- and off-road applications;
- ability to leverage Weichai's strengths and capabilities;
- completeness and comprehensiveness of engines and power systems;
- expansive product integrations, including electronics, controls, fuel systems and transmissions;
- commonality of technology platform spanning all product lines;
- emissions regulation compliance and certification;
- breadth and depth of advanced engineering disciplines;
- industry-leading product and application engineering;
- competitive pricing/cost;
- ability to tailor power systems to specific customer needs;
- performance and quality;
- speed to market; and
- customer support and service.

Manufacturing

The Company manufactures and assembles its products at facilities in suburban Chicago, Illinois, and Darien, Wisconsin, and customizes its power systems to meet specific requirements of OEM applications and the needs of its OEM customers. The Company has invested in precision computer numerical control ("CNC") machining equipment to finish its internally designed engine blocks and cylinder heads, which are cast by various suppliers. The manufacturing lines in the Company's production facilities are technologically sophisticated, lean, agile and flexible, and the Company allocates production capacity on its mixed model manufacturing lines to accommodate the demand levels and product mix required by its OEM customers.

The Company focuses on safety, people, quality, on-time delivery, cost and environment in its manufacturing operations. The Company is certified to the most recent International Organization for Standardization ("ISO") standard, ISO 9001: 2015. The ISO 9000 family of quality management standards, which must be met in order to become ISO certified, is designed to help organizations monitor and improve the quality and delivery of their products and/or services to their customers. The Company also uses tools such as Six Sigma, Lean Manufacturing, 80/20, Value Stream Mapping and other manufacturing engineering strategies to help manage its business, build quality, and drive performance and a continuous improvement culture within the manufacturing operations' teams. The Company also uses a customer relationship management database to help collect customer feedback and to track overall quality performance at its OEM customers. Structured staff training is a constant priority and includes closed-loop quality monitoring and feedback systems.

Research, Development and Engineering

The Company's research, development and engineering programs are focused on new product development, enhancements to current products, in addition to performance and quality improvements across its product lines. Its efforts are market driven, with the sales team identifying and defining market requirements and trends and its engineering and new-product development groups reviewing existing power system portfolios and developing new solutions that build upon the technology within that portfolio.

The Company's product and application development engineering teams include in-house mechanical and electrical engineering functions, including advanced engine modeling, simulation, analysis and testing. Internal resources are supplemented with engineering outsourcing relationships for design, development and product testing. In addition to these engineering outsourcing relationships, the Company benefits from the design, development and testing capabilities of its supplier base. The Company staffs its engineering support activities associated with released product and component sourcing programs with dedicated internal engineering personnel.

Research, development and engineering expenditures include salaries, contractor fees, building costs, utilities, testing, information technology and administrative expenses and are expensed, net of contract reimbursements, when incurred. From time to time, the Company enters into agreements with its customers to fund a portion of the research, development and engineering costs of a particular project. These reimbursements are accounted for as a reduction of the related research, development and engineering expenditure. The Company's net research, development and engineering expenditures for 2021 and 2020 were $22.4 million and $25.4 million, respectively.

Supplier Relationships

In addition to producing its own engines, the Company has established relationships with its suppliers for certain engines that are integrated into its comprehensive power systems, the most significant of which are Doosan Infracore Co., Ltd. ("Doosan"), a subsidiary of Doosan Group, Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("SAME"), General Motors Company ("GM") and Weichai. The Company also sources other power system components and coordinates design efforts with third-party suppliers for some of its key components. In general, the prices at which the Company purchases engines, components and other raw materials are based on market factors, including the prices offered by other suppliers operating in the same market and the prevailing market prices of raw materials.

The Company aggregates product sourcing efforts across its large and diverse OEM customer base and across industry categories, capitalizing on volume, economies of scale and global supply opportunities. The Company's customers benefit from the aggregation of its global sourcing, procurement, and assembly and services, obtaining cost benefits that they might not obtain if they were to rely on their own internal resources, capabilities and more limited demand requirements. Through this process, customers are able to streamline their supply base by consolidating procurement and assembly efforts down to a single part number product supplied by the Company. The Company delivers this assembly to its customer's production line ready to install into the customers' product.

The Company is party to a supply agreement with Doosan, under which it purchases and distributes, on an exclusive basis, specified Doosan engines within a territory consisting of the United States, Canada and Mexico. On October 1, 2019, the supply agreement with Doosan was amended and extended to December 31, 2023, after which the agreement will automatically be extended for additional one-year terms unless a notice of termination is provided by either party six months prior to the scheduled expiration. The addendum also includes minimum product purchase commitments for the period 2019 through 2023, subject to reductions based on market declines in oil prices and defined prescribed payments to Doosan triggered by shortfalls in purchases made by the Company during each annual calendar period. As of December 31, 2021, the Company recorded a $1.6 million liability related to a purchasing shortfall of the 2021 volume commitment. See Note 10. *Commitments and Contingencies* in Part II. *Item 8. Financial Statement and Supplemental Information* for further discussion.

The Company had an exclusive supply agreement with GM through December 31, 2019 to purchase and distribute GM 6.0L engines to on-highway customers. With the GM announcement that it will discontinue its production of the GM 6.0L engine, the Company conducted last-time buys of this engine during 2019 through 2021 (including certain engines where prepayment was provided), to ensure adequate supply to certain transportation customers. At December 31, 2021, the Company had fully exhausted its stock of engines where prepayment was provided and holds a small quantity of other GM 6.0L engines which it expects to deliver to customers throughout 2022. The Company does not have a supply agreement with GM for its successor product to the GM 6.0L engine; however, it will source the 6.0L through a GM designated third party manufacturer.

The Company is also party to a supply agreement with SAME through December 31, 2022 for the exclusive purchase and distribution of engines around the world, with the exception of China (including Hong Kong, Macao and Taiwan), within the forklift and marine markets. The agreement, which automatically extends for an additional one-year term on an annual basis, unless either party provides notice of termination at least 180 days before the expiration date, includes minimum purchase commitments.

Product Support

The Company's dedicated team of product and application engineers enables it to deliver high-quality, responsive technical support to its OEM and end-user customers. The Company provides technical support and training to its customers, including in-plant training and support through web- and phone-based field service. The Company further supports its customers by engaging regional providers to perform warranty services and offer support for its power systems. The Company also leverages its technical resources to provide service and support functions for its power systems sold to OEM customers.

Backlog

Backlog generally is not considered a significant factor in the Company's business.

Employees and Human Capital

As of December 31, 2021, the Company's workforce consisted of approximately 700 full-time employees. None of the members of the Company's workforce are represented by a union or covered by a collective bargaining agreement.

Part of the Company's values focus on developing and maintaining a world class workforce through personal accountability, teamwork, customer service and innovation. The Company monitors and manages attrition. It approves, through its human resources department, the replacement of key positions that it believes are critical to sustaining improved business performance and analyzes departure data to continually improve upon the experience of employees. Turnover for salaried employees in 2021 was approximately 33%. The Company's talent management and succession planning process includes the identification of key

positions based on current and future business strategies, the identification of potential successors, and a plan for talent development.

The Company focuses on attracting and retaining the best employees by providing market competitive pay and benefits. This ensures sustainability of the organization. The Company's short-term and long-term incentive plans are designed to provide a variable pay opportunity to reward the attainment of key financial and operational goals as well as shareholder value creation. In addition to the base and variable pay plans, the Company offers employees other benefits including medical, paid-time off, and retirement savings plans.

Health and safety are also a key priority, as the Company is committed to removing conditions that cause personal injury or occupational illness. Employees participate in trainings sessions focused on these topics and are encouraged to promote behaviors that protect others from risk of injury. The Company sets annual targets for its Total Recordable Incident Rate ("TRIR") and Days Away, Restricted or Transferred ("DART") and regularly reviews these metrics. For 2021, the Company achieved an overall TRIR of 4.8, meaning that for every 100 employees, 0.48 employees incurred an injury that resulted in recordable medical treatment. The DART was 3.7 in 2021, meaning that for every 100 employees, 0.37 individuals experienced an incident that resulted in days away from work.

In response to the COVID-19 pandemic and to support the Company's customers and communities, the Company made keeping employees safe a priority. Many of the Company's employees have the ability to work from home and continue to have that option since the outbreak of the COVID-19 pandemic. Recently, the Company has made efforts to transition employees back into the office environment. However, the Company continues to focus resources and investments on its R&D and production facilities including the following steps to help protect the health and safety of employees:

- visitor/vendor questionnaires for all non-employees entering the Company's facilities;
- mandatory personal protective equipment provided for employees;
- masks required inside open plants and facilities.

Environmental Matters

The Company's reporting facilities follow the guidelines required for its federally enforceable state operating permits (FESOP) used with the Illinois environmental protection agency (IEPA), and the Wisconsin department of natural resources (WDNR) Type-B permit guidelines. This includes monitoring the emissions produced from these locations as part of the requirements within the states PSI operates. A majority of PSI's current production utilizes traditional utility supply. PSI's production processes that require product testing rely on liquid propane and natural gas fuels, which produce lower emissions than diesel and gasoline.

The Company is committed to producing high quality products that provide reduced emissions and to operating its facilities in a manner that mitigates their impact on the environment.

For the full year ended 2021, just over 50% of the engines sold run on either propane or natural gas. Also, the Company has taken the following steps to enhance its sustainability:

- updated most of the interior/exterior lighting in its buildings to LED lighting. As lamps or fixtures burn out or require replacement, they are converted to LED (if not already) as a measure of energy conservation;
- recycling of certain materials including cardboard, metal, wood scrap, used oil and antifreeze, and metal processing coolants and lubricants reclamation;
- reduced loaded hot testing of large displacement engines due to quality improvements (reduces noise, emissions and fuel consumption)

The Company intends to continue exploring additional avenues for greater sustainability through new product development and the exploration of additional operational opportunities.

Impact of Government Regulation

The Company's power systems are subject to extensive statutory and regulatory requirements that directly or indirectly impose standards governing exhaust emissions, evaporative emissions, greenhouse gas ("GHG") emissions and noise. The Company's power systems are subject to compliance with regulatory standards imposed by the EPA, state regulatory agencies in the United States, including the CARB, and other regulatory agencies around the world, such as the MEE. Since its engines are sold into both off-road and on-road markets, the Company must ensure certification to the specific regulations within the applicable statutory segment. For products sold into the U.S. market, both EPA and CARB have imposed specific regulations on engines used in both off-road equipment and on-road vehicles. These regulations generally serve to restrict exhaust emissions, with a primary focus on oxides of nitrogen, hydrocarbons and carbon monoxide. Exhaust emission regulations for engines used in off-highway industrial and power generation equipment vary based upon the use of the equipment into which the engine is incorporated (such as stationary power generation or mobile off-highway industrial equipment) and the type of fuel used to

drive the power system. Similarly, on-road regulations from the EPA and CARB focus on the same exhaust constituents as well as sophisticated requirements to meet on-board diagnostic ("OBD") system regulations. Emissions of GHGs such as carbon dioxide, methane and nitrogen dioxide are also regulated, with more stringent requirements which started in 2021. The Company continues to make significant investments into the necessary intellectual property that supports full compliance of the Company's engines now and into the foreseeable future.

The first EPA emissions regulations adopted for diesel engines, known as Tier 1, applied to diesel engines used in mobile off-highway applications in the U.S., and similar standards for diesel engines, known as Stage I regulations, were implemented thereafter in the EU. The EPA and applicable agencies in the EU have continued to develop emissions regulations for diesel engines in the U.S. and the EU, respectively, and have adopted more restrictive standards. The current diesel engine emission requirements in the U.S are known as Tier 4 and are applicable to off-road diesel engines used in industrial equipment. Similarly, the EU has adopted more restrictive standards under its Stage V regulations. Tier 4 and Stage V regulations call for reductions in levels of particulate matter and oxides of nitrogen.

The Company's entry into the transportation end market began in 2013 with the development of its 8.8L power systems targeted for 2015 regulatory standards. In 2014, the EPA and CARB certified the Company's new engine as a Model Year 2015 product for liquid propane gas ("LPG") and compressed natural gas ("CNG") fuels, and in 2015 the Company launched its first propane-fueled engine for on-road applications. To assist the adoption of alternative-fueled vehicles in the marketplace, the EPA and CARB granted alternative-fueled engines an exemption from OBD regulations until 2018 (CARB) /2019 (EPA). Gasoline engines are not exempt from OBD regulations, therefore, in 2017, the Company achieved full OBD certification for its 2018 and beyond gasoline 6.0L and 8.8L products. The knowledge gained from this gasoline OBD development was applied to the Company's alternative-fueled engines for 2019 after all OBD exemptions ended as of December 31, 2018. In 2016, the EPA launched new Phase 1 GHG emission regulations. New EPA Phase 2 GHG emission regulations began January 1, 2021.

Historically, the Company's 6.0L and 8.8L gasoline engines qualified for the small manufacturer exemption for Phase 1 GHG under Title 40 of the Code of Federal Regulation Section 1036.150(d). Starting in 2020, as a result of the Weichai ownership change in April 2019, those products no longer qualified for the exemption and had to meet Phase 1 GHG standards. In order to address the impact of the transition of its emission regulation requirements in 2020 and 2021, the Company licensed its technology to a third-party small manufacturer to produce and certify the 6.0L gasoline engine and utilized averaging, banking, and trading compliance provisions for the sale of its 8.8L gasoline engine. The Company is utilizing averaging, banking, and trading compliance provisions for compliance with the EPA Phase 2 GHG emission regulations.

The initial and ongoing certification requirements vary by power system application and market segment. Each application must undergo a series of rigorous and demanding tests to demonstrate compliance with regulatory standards, including useful life, zero hours and durability testing. Once a power system is certified, regulatory agencies impose ongoing compliance requirements, which include testing newly produced power systems on a regular quarterly schedule to ensure ongoing compliance with applicable regulations. In addition, there are field audit requirements, which require the removal of power systems from service at specified stages of their useful lives to perform confirmatory exhaust emissions testing and/or OBD system audits and testing. All of the Company's emission-certified power systems meet existing exhaust emission standards of the EPA and CARB. Failure to comply with these standards could result in adverse effects on the Company's future financial results.

Information about the Company's Executive Officers

The following selected information for each of the Company's current executive officers was prepared as of March 29, 2022.

Name	Age	Executive Officer Since	Present Position with the Company
Lance Arnett	51	2019	Chief Executive Officer
Donald P. Klein	48	2018	Chief Financial Officer
C. (Dino) Xykis	63	2020	Chief Technical Officer

Lance Arnett was appointed as the Company's Chief Executive Officer effective February 15, 2021. Mr. Arnett previously served as the Company's Chief Commercial Officer since November 18, 2019. Prior to joining the Company, from January 2009 to November 2019, he worked at Cummins Inc., a publicly traded company on the NYSE that designs, manufactures, distributes and services a broad portfolio of power solutions. During his tenure, he served in various capacities for Cummins Central Region in Minnesota, most recently serving as Director and Chief of Staff of their North American OEM Performance Cell. In this capacity, he oversaw direct strategy for their North American business including sales, engineering, assembly and upfit, pricing, marketing, and customer support. His previous roles at Cummins Central Region include serving as Interim President, Vice President of OEM business, Vice President of OEM and Customer Care and Executive Director of Operational Effectiveness. Prior thereto, from 2006 to 2009, he worked as Business Development Manager for PreVisor, Inc. and, from 2001 to 2006, he served as Director, Franchise Sales and Development at Mighty Distributing System of America (Mighty Auto Parts). Earlier in his career, he served in management and sales roles within the staffing industry.

Donald P. Klein has served as the Chief Financial Officer since January 2021 and as the Principal Accounting Officer since May 14, 2018. Mr. Klein previously served as the Company's Interim Chief Financial Officer from July 20, 2020 to January 19, 2021 and the Company's Corporate Controller from May 14, 2018 to July 20, 2020. Prior to joining the Company, he served as Assistant Corporate Controller at Littelfuse, Inc., a publicly traded company on the NASDAQ, with customers in the electronics, automotive and industrial markets with products that include fuses, semiconductors, polymers, ceramics, relays and sensors. Prior to that role, from 2008 to 2017, Mr. Klein served in various positions of increasing responsibility within finance and accounting, including most recently as Assistant Corporate Controller, at Navistar International Corporation, a NYSE-listed global manufacturer of commercial and military trucks, school buses, diesel engines and provider of service parts for trucks and diesel engines. Prior to Navistar, he worked for Hewitt Associates as Manager of External Reporting and at Ernst & Young LLP as a senior manager of assurance and advisory services.

C. (Dino) Xykis was appointed as the Chief Technical Officer on March 15, 2021. Mr. Xykis is responsible for the oversight of the Company's advanced product development, engineering design and analysis, on-highway engineering, applied engineering, emissions and certification, Waterford, Michigan engineering operations, program management and product strategic planning. Since joining the Company in 2010 and until his appointment as Chief Technical Officer in March 2021, Mr. Xykis served as Vice President of Engineering for the Company. He has more than 30 years of professional experience in multi-disciplined engineering areas including senior management and executive positions at various companies including Cummins Inc., an NYSE-listed company, and Generac Power Systems, an NYSE-listed company. Mr. Xykis also served as Adjunct Professor of Mechanical Engineering and Mechanics at the Milwaukee School of Engineering and previously served on the audit and compensation committees of the Board of Directors of Image Sensing Systems, a publicly traded company on NASDAQ, from 1996 to 2001. Mr. Xykis has also served on the advisory board of Civil, Environmental, and Geo-Engineering, College of Science and Engineering, University of Minnesota for the past eight years.

Item 1A. Risk Factors.

The Company's business and results of operations are subject to various risks, including those listed below, many of which are not within the Company's control, which may cause actual financial performance to differ materially from historical or projected future performance. New risks may emerge at any time, and the Company cannot predict those risks or estimate the extent to which they may affect its results of operations.

COVID-19 Pandemic

The Company's financial condition, results of operations and cash flows have been and will continue to be adversely impacted by the COVID-19 pandemic and future periods may continue to be adversely affected by the COVID-19 pandemic or other outbreaks of infectious diseases or similar public health threats and the resulting economic impact.

Any outbreaks of contagious diseases and other adverse public health developments could have a material and adverse effect on the Company's business, results of operations and financial condition. The ongoing COVID-19 pandemic has resulted in the implementation of significant governmental measures to control the spread of the virus, including quarantines, travel restrictions, business shutdowns and restrictions on the movement of people in the United States and abroad. As discussed in Item 1. *Business*, these factors have impacted and will continue to impact the Company's operations, financial condition and demand for the Company's goods and services. Depending on the severity and longevity of the COVID-19 pandemic, the Company's business, employees, customers, suppliers and stockholders may continue to experience significant negative impacts for future periods. In addition, due to the nature with which the COVID-19 situation continues to evolve, there is significant uncertainty around its ultimate impact on public health, business operations and the overall economy; therefore, the negative impact on the Company's business, results of operations and financial condition cannot be reasonably estimated at this time, but the impact may continue to be material in the future.

In April 2020, the Company implemented contingency actions as a result of the expected significant negative impacts of these factors. The Company's temporary cost reduction measures included, among others, reduced hours of operations of the

Company’s production facilities; reduced pay for salaried employees between 10% and 30%, depending on the employee’s position; suspended the Company’s 401(k) plan match; deferred spending on certain R&D programs; and minimized discretionary expenses and consulting services.

The measures with regard to pay for salaried employees and the suspension of the Company’s 401 (k) plan match were in effect through December 31, 2020. Any additional cost savings initiatives or other cash actions the Company undertakes in response to the COVID-19 pandemic may not achieve the intended results and may result in other adverse impacts, which could be material.

The degree to which the COVID-19 pandemic continues to impact the Company’s financial condition, cash flows, and results of operations depends upon future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration, location, and spread of the outbreak, its severity, government and business measures to contain the virus and address its impact, and how quickly and to what extent normal economic and operating conditions can resume. The Company cannot, at this time, predict the many potential impacts of the COVID-19 pandemic, but it could have a material adverse effect on the Company’s business, prospects, financial condition, cash flows, and results of operations.

Liquidity and Indebtedness

The Company’s management has concluded as of the filing of this 2021 Annual Report that, due to uncertainty surrounding the Company’s ability to extend or refinance its current debt agreements and uncertainty as to whether it will have sufficient liquidity to fund its business activities, substantial doubt exists as to its ability to continue as a going concern. The Company’s plans to alleviate the substantial doubt about its ability to continue as a going concern may not be successful, and it may be forced to limit its business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition.

The consolidated financial statements included herein have been prepared assuming the Company will continue as a going concern. As of December 31, 2021, the Company had $180.9 million of total borrowings outstanding under its debt arrangements with Standard Chartered Bank (“Standard Chartered”) and Weichai. On March 25, 2022, the Company amended and restated its $130.0 million uncommitted senior secured revolving credit agreement with Standard Chartered (the “Second Amended and Restated Uncommitted Revolving Credit Agreement”), which extends the maturity date of loans outstanding under its previous credit facility to the earlier of March 24, 2023 or the demand of Standard Chartered. The $130.0 million Second Amended and Restated Uncommitted Revolving Credit Agreement is subject to customary events of default and covenants and is secured by substantially all of the Company’s assets. In addition, Standard Chartered has the right to demand payment of any and all outstanding borrowings and other amounts outstanding at any point in time at its discretion. In connection with this Second Amended and Restated Uncommitted Revolving Credit Agreement, on March 25, 2022, the Company also amended two of the three shareholder’s loan agreements with Weichai, to among other things, extend the maturities thereof. The amended first shareholder’s loan agreement continues to provide the Company with a $130.0 million subordinated loan under which Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the $130.0 million Second Amended and Restated Uncommitted Revolving Credit Agreement if the Company is unable to pay such borrowings. The amended second shareholder’s loan agreement continues to provide the Company with a $25.0 million subordinated loan at the discretion of Weichai. The maturity of the amended first shareholder’s loan agreement was extended to April 24, 2023 and the maturity of the amended second shareholder’s loan agreement was extended to May 20, 2023. The Company is also party to a third shareholder’s loan agreement with Weichai, which was entered into on December 10, 2021, and matures on November 30, 2022. The third shareholders loan agreement provides the Company with access to up to $50.0 million of credit at the discretion of Weichai. All of the shareholder loan agreements with Weichai are subject to customary events of default and covenants. The Company has covenanted to secure any amounts borrowed under either of the agreements upon payment in full of all amounts outstanding under the $130.0 million Second Amended and Restated Uncommitted Revolving Credit Agreement.

Due to the above maturity dates of existing debt, which range from November 30, 2022 to May 20, 2023, the Company will need to extend and amend or refinance these loans on or before the expiration dates.

The Company’s ability to continue as a going concern is dependent on generating profitable operating results, having sufficient liquidity, maintaining compliance with the covenants and other requirements under the various debt agreements, and extending and amending, refinancing or repaying the indebtedness outstanding under the Company’s debt agreements.

There can be no assurance that it will be able to complete a financing on acceptable terms or repay this outstanding indebtedness, when required or if at all. Further, since certain of the Company’s loans are uncommitted or at the discretion of the lender, there can be no assurance that any available credit will be extended. If the Company does not have sufficient liquidity to fund its business activities, it may be forced to limit its business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition.

Furthermore, if the Company cannot raise capital on acceptable terms, it may not, among other things, be able to do the following:

- continue to expand the Company's research and product investments and sales and marketing organization;
- expand operations both organically and through acquisitions; and
- respond to competitive pressures or unanticipated working capital requirements.

The Company has a significant amount of indebtedness and is highly leveraged. Its existing debt or any potential new debt could adversely affect its business and growth prospects.

As of December 31, 2021, the Company's total debt obligations, including indebtedness under agreements with Standard Chartered and Weichai, was $180.9 million. The Company's debt arrangements contain and may contain in the future certain requirements, including specific financial and other covenants or restrictions. The failure or the inability to meet such obligations under existing debt or any new debt could materially and adversely affect the Company's business and financial condition. In addition, the Company's debt obligations could make it more vulnerable to adverse economic and industry conditions and could limit its flexibility in planning for or reacting to changes in its business and the industries in which it operates. The Company's indebtedness and the cash flow needed to satisfy its debt obligations and the covenants contained in current and potential future debt agreements could have important consequences, including the following:

- limiting funds available for borrowing through the imposition of availability blocks;
- limiting funds otherwise available for financing capital expenditures by requiring dedication of a portion of cash flows from operating activities to the repayment of debt and the interest on such debt;
- limiting the ability to incur additional indebtedness;
- limiting the ability to capitalize on significant business opportunities, including mergers, acquisitions and other strategic transactions;
- making the Company more vulnerable to rising interest rates or higher interest rates; and
- making the Company more vulnerable in the event of a downturn in its business.

The Company's Second Amended and Restated Credit Agreement places limitations on its ability to make acquisitions and restricts its ability to incur additional indebtedness, while certain loan agreements with Weichai place limitations or restrictions on the Company's usage of borrowed funds. Any future failure by the Company to comply with the financial covenants set forth under the Company's debt agreements, if not cured or waived, could result in the acceleration of debt maturities or prevent the Company from accessing availability. If the maturity of the indebtedness is accelerated, the Company may not have sufficient cash resources, or have the ability to obtain financing through alternative resources, to satisfy its debt and other obligations, and the Company may not be able to continue as a going concern.

Litigation and Internal Control Remediation

The Company has identified material weaknesses in its internal control over financial reporting that have not been fully remediated. If its remediation measures are insufficient to address the material weaknesses, or if the Company otherwise fails to establish and maintain an effective system of internal control over financial reporting, it may not be able to accurately report financial results, timely file periodic reports, maintain its reporting status or prevent fraud.

In connection with the Company's assessment of the effectiveness of its internal control over financial reporting as of December 31, 2021, the Company concluded that there were material weaknesses in its internal control over financial reporting. See Item 9A. *Controls and Procedures*, included in Part II, for additional information regarding these matters.

The Company's management may identify other material weaknesses in its internal control over financial reporting in the future. The existence of internal control material weaknesses could harm its business, the market price of its Common Stock and its ability to retain the Company's current, or obtain new, lenders, suppliers, key employees, alliance and strategic partners or require the implementation of certain undertakings with the SEC. In addition, the existence of material weaknesses in the Company's internal control over financial reporting may affect its ability to timely file periodic reports under the Exchange Act. The inability to timely file periodic reports could result in the SEC revoking the registration of the Company's Common Stock, which would negatively impact the Company's ability to re-list its Common Stock on the NASDAQ Stock Market or any other stock exchange.

The Company has incurred significant costs in connection with the restatement of previously issued consolidated financial statements and its failure to timely file prior periodic reports and will continue to incur significant costs to remediate material weaknesses in internal control.

The Company has incurred significant expenses, including audit, legal, consulting and other professional fees, and lender and noteholder consent fees, related to the restatement of its previously issued consolidated financial statements and the ongoing remediation of material weaknesses in its internal control over financial reporting. The Company anticipates that it will continue to incur certain of these expenses in the future. The Company has taken a number of actions, including adding significant internal resources and implementing a number of additional procedures and controls, in order to strengthen its accounting function and reduce the risk of future material misstatements in its financial statements. In addition, in September 2020, the Company settled the investigations by the SEC and USAO into the Company's past revenue recognition practices. As part of the settlement, among other undertakings, the Company committed to remediate the deficiencies in its internal control over financial reporting that constituted material weaknesses as identified in Part II, Item 9A. *Controls and Procedures* by April 30, 2021. On April 12, 2021 the SEC granted the Company's request for an extension of time until March 31, 2022 in which to comply with the requirements of the administrative order to remediate the remaining material weaknesses. Due to the progress achieved in remediating the material weaknesses as noted in Changes in Internal Control over Financial Reporting below, the Company formally requested an additional extension from the SEC to remediate the three remaining material weaknesses below. To the extent that the Company's request for an extension from the SEC, or other actions are not successful and completed in accordance with the provisions of the settlement with the SEC and USAO, the Company may be required to incur additional time and expense towards further remediation efforts and incremental substantive procedures, which could have a material adverse effect on its results of operations. In addition, failure to comply with the provisions of the settlement agreements with the SEC and USAO could result in further actions by one or both governmental agencies which could have a material adverse effect on the Company's results of operations.

Limitations of the Company's Directors' and Officers' liability insurance and potential indemnification obligations will have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Under its bylaws and certain indemnification agreements, the Company has obligations to indemnify current and former officers and directors and certain current and former employees. Based on cumulative legal fees and settlements incurred, the Company fully exhausted its primary directors and officers insurance coverage of $30.0 million during the first quarter of 2021. Further, during 2021 the Company also exhausted most of its primary $10 million side A insurance coverage. Additional expenses currently expected to be incurred and that may occur in the future and/or liabilities that may be imposed in connection with actions against certain of the Company's past and present directors and officers and certain current and former employees who are entitled to indemnification will be funded by the Company with its existing cash resources. Since exhausting its primary directors' and officers' liability insurance coverage in early 2021, the Company has incurred $22.8 million related to its indemnification obligation in 2021 and 2020 combined. Such expenses could continue to have a material impact on the Company's financial condition, results of operations and cash flows. In June 2020, the Company entered into a new directors' and officers' liability insurance policy, which was renewed in June 2021. The insurance policy includes standard exclusions including for any ongoing or pending litigation such as the disclosed investigations by the SEC and USAO.

Financial Condition, Results of Operations, and Cash Flows

The Company has experienced substantial net losses in recent fiscal years and may continue to experience net losses.

The Company generated a net loss in fiscal years 2021 and 2020 and has an accumulated deficit as of December 31, 2021. The net loss experienced in 2021 was principally attributable to reduced gross profit as a result of higher material, tariff and freight costs (which were not fully recovered through pricing), significant warranty expenses (mostly related to certain engines sold into the transportation end market), and unfavorable product mix. In addition, the Company incurred significant legal and professional expenses associated with indemnifications of certain former employees of the Company. Some of these costs could remain in future periods. Continued losses could reduce cash available from operations to service or refinance the Company's indebtedness as necessary, as well as limit the Company's ability to finance future growth in its business and implement its strategies.

The Company could incur restructuring and impairment charges as it evaluates its portfolio of assets and identifies opportunities to restructure its business to optimize its cost structure.

The Company continuously evaluates its portfolio of assets and its operational structure in an effort to identify opportunities to optimize its cost structure including as a result of its business needs, the COVID-19 pandemic and its high warranty costs. These actions could result in restructuring and related charges, including but not limited to asset impairments and employee termination costs, any of which could be significant and could adversely affect the Company's results of operations.

The Company has substantial amounts of long-lived assets, including goodwill and intangible assets, which are subject to periodic impairment analysis and review. Identifying and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred, including market conditions, operating results, competition and general economic conditions, including as a result of the COVID-19 pandemic, requires significant judgment. Declines in profitability due to changes in volume, market pricing, cost or the business environment could result in charges that could have an adverse effect on the Company's results of operations.

The Company is subject to price increases in some of the key components in its power systems.

The prices of some of the key components of the Company's power systems are subject to fluctuation due to market forces, including changes in the costs of raw materials incorporated into these components. Such price increases, which were substantial in 2021, occur from time to time due to spot shortages of commodities, increases in labor costs or longer-term shortages due to market forces. In particular, the prices of certain precious metals, such as palladium and rhodium, used in emissions-control systems fluctuate frequently and often significantly. Substantial increases in the prices of raw materials used in components that the Company sources from suppliers may result in increased prices charged by suppliers. If the Company incurs price increases from suppliers for key components in its power systems, production costs will increase, and given competitive market conditions, or contractual limitations, the Company may not be able to pass all or any of those cost increases on to OEM customers in the form of higher sales prices. To the extent that its competitors do not suffer comparable component cost increases, the Company may have even greater difficulty passing along price increases, and the Company's competitive position may be harmed. As a result, increases in costs of key components may adversely affect the Company's margins and otherwise adversely affect its results of operations, as was experienced during 2021.

Many of the Company's power systems involve long and variable design and sales cycles.

The design and sales cycle for customized power systems, from initial contact with potential OEM customers to the commencement of shipments, may be lengthy. Customers generally consider a wide range of solutions before making a decision to purchase power systems. Before an OEM commits to purchase power systems, they often require a significant technical review, assessment of competitive products and approval at a number of management levels within their organization. During the time the Company's customers are evaluating its products, the Company may incur substantial sales and marketing, engineering, and research and development expenses to customize the power systems to the customer's needs.

Warranty, Safety Standards, and Emissions

The Company could suffer warranty claims or be subject to product liability claims, both of which could materially adversely affect its business.

The Company's power systems are sophisticated and complex, and the success of the power systems is dependent, in part, upon the quality and performance of key components, such as engines, fuel systems, generators, breakers, and complex electrical components and associated software. The Company may incur liabilities for warranty claims as a result of defective products or components, including claims arising from defective products or components provided by its suppliers that are integrated into its power systems.

The provisions the Company makes for warranty accrual may not be sufficient, or it may be unable to rely on a warranty provided by a third-party manufacturer or recover costs incurred associated with defective components or products provided by its suppliers. The Company may recognize additional expenses as a result of warranty claims in excess of its current expectations. Such warranty claims may necessitate a redesign, re-specification, a change in manufacturing processes and/or a recall of its power systems, which could have a material adverse impact on the Company's financial condition and results of operations and on existing or future sales of its power systems and other products. Even in the absence of any warranty claims, a product deficiency such as a manufacturing defect or a safety issue may necessitate a product recall, which could have a material adverse impact on the Company's financial condition and results of operations and on existing or future sales.

The Company is exposed to potential product liability claims that are inherent to natural gas, propane, gasoline and diesel and products that use these fuels. Natural gas, propane, diesel and gasoline are flammable and are potentially dangerous products. Any accidents involving the Company's power systems could materially impede widespread market acceptance and demand for its power systems. In addition, the Company may be subject to a claim by end-users of its OEM customers' products or others alleging that they have suffered property damage, personal injury or death because its power systems or the products of its customers into which its power systems are integrated did not perform adequately. Such a claim could be made whether or not the Company's power systems perform adequately under the circumstances. From time to time, the Company may be subject to product liability claims in the ordinary course of business, and it carries a limited amount of product liability insurance for this purpose. However, current insurance policies may not provide sufficient or any coverage for such claims, and the Company cannot predict whether it will be able to maintain insurance coverage on commercially acceptable terms.

The Company and its products are subject to numerous environmental and regulatory policies, including emission and fuel economy rules.

The Company's business is affected by government environmental policies, mandates and regulations around the world, most significantly with respect to emission standards in the United States. Examples of such regulations include those that (i) restrict the sale of power systems that do not meet emission standards and (ii) impose penalties on sellers of noncompliant power systems.

The Company generally must obtain product certification from both the EPA and the CARB to sell its products in the United States. The Company may attempt to expand sales of its certified power systems to OEMs that sell their products in other countries, which may also have stringent emissions requirements. Accordingly, future sales of the Company’s products will depend upon its products being certified to meet the existing and future air quality and energy standards imposed by the relevant regulatory agencies. While the Company incurs significant research and development costs to ensure that its products comply with emission standards and meet certification requirements in the regions in which its products are sold, the Company cannot provide assurance that its products will continue to meet those standards. The failure to comply with certification requirements would not only adversely affect future sales but could result in the recall of products or the imposition of civil or criminal penalties.

The adoption of new, more stringent and burdensome government emissions regulations, whether at the foreign, federal, state or local level, in markets in which the Company supplies power systems may require modification of emission certification and other manufacturing processes for its power systems. The Company might incur additional and/or unanticipated expenses in meeting future compliance requirements, and it may be required to increase its research and product development expenditures. Increases in such costs and expenses could necessitate increases in the prices the Company charges for its power systems, which could adversely affect demand for such power systems. There are no assurances that the Company will have adequate financial or technical resources in the future to maintain compliance with government emissions standards.

Historically, the Company’s 6.0L and 8.8L gasoline engines qualified for the small manufacturer exemption for Phase 1 GHG under Title 40 of the Code of Federal Regulation Section 1036.150(d). Starting in 2020, as a result of the Weichai ownership change in April 2019, those products no longer qualified for the exemption and must meet Phase 1 GHG standards. In order to address the impact of the transition of its emission regulation requirements in 2020 and 2021, the Company licensed its technology to a third-party small manufacturer to produce and certify the 6.0L gasoline engine and utilized averaging, banking, and trading compliance provisions for the sale of its 8.8L gasoline engine. New EPA Phase 2 GHG regulations began January 1, 2021. The Company plans to meet Phase 2 GHG standards utilizing averaging, banking, and trading compliance provisions. Future changes to the regulations and/or failure of the Company to comply with the regulations could have a material adverse effect on the Company’s results of operations.

Supply Chain

The Company is dependent on third-party suppliers, and the partial or complete loss of one of these key suppliers, or the failure to find replacement suppliers or manufacturers in a timely manner, could result in supply shortages.

The Company sources engines, components and replacement parts used in the assembly of its power systems and aftermarket sales from various third-party suppliers. Much of the technology incorporated into the components that the Company sources from a limited number of suppliers is technologically sophisticated, and the Company does not believe that its competitors have access to some of this sophisticated technology. The Company’s business could be harmed by adverse changes in its relationships with these suppliers, including through the management of the timing of payables, or if its competitors gain access to such technology. The viability of certain key third-party suppliers, or the exiting by certain suppliers of certain business lines, could require the Company to find other suppliers for materials or components. Furthermore, the COVID-19 pandemic has resulted in work stoppages at certain suppliers that are part of the Company’s supply chain. During 2021, the Company experienced delays in its supply chain due to temporary shortages of raw materials and container delays of overseas materials as bottlenecks occurred at ports in Asia and North America. This, in turn, has caused delivery delays to some of the Company’s customers. If future work stoppages were to be prolonged or expanded in scope, there could be additional supply shortages, which could continue to impact the Company’s ability to deliver its products to customers on schedule. Some components cannot be quickly or inexpensively re-sourced to another supplier due to long lead times and contractual commitments that might be required by another supplier in order to provide the components or materials. Any extended delay in receiving engines or other critical components, or the inability of third-party suppliers to meet the Company’s quality, quantity or cost requirements, could impair or prohibit the Company’s ability to deliver products to its OEM customers.

The loss of certain of the Company’s exclusive supply and distribution agreements, coupled with the Company’s inability to manufacture or source alternative products, could have a material adverse impact on its financial results.

The Company is the exclusive supplier and distributor of certain engine products sourced from certain engine manufacturers. The agreements provide the Company with the exclusive rights to distribute the associated products in certain geographic regions. The Company may not be able to extend the agreements or may not achieve acceptable pricing. For example, the Company was an exclusive supplier of the GM 6.0L engine to OEMs and GM has discontinued the engine. The Company does not have an agreement with GM to supply on-highway OEMs with GM’s successor product to the 6.0L engine. If the Company is not able to maintain the arrangements or achieve competitive pricing, then it may need to find alternative products through either alternative supply sources or the design and manufacture of competitive products to meet customer demands. The loss of any of the exclusive supply agreements and failure to source alternative products could have a materially adverse impact on the Company’s financial results. In addition, the exclusive agreements often include minimum purchase requirements. The failure

to reach the minimum purchase requirements could result in financial penalties or the loss of exclusivity that could be material to the Company.

The Company utilizes a global supply chain to source products, including engines, components and materials, which may subject it to tariffs, including U.S. tariffs imposed on imports from China. The Company also sells its products on a global basis, and therefore its export sales could be impacted by tariffs.

Several of the Company's products are sourced internationally, including from China, where the United States has imposed tariffs on specified products imported from China. These tariffs have an impact on the Company's material costs and have the potential to have an even greater impact, depending on the outcome of future trade negotiations and policies. The Company is evaluating U.S. government policy, which is subject to change in the current negotiating environment, pricing, its supply chain and its operational strategies to mitigate the impact of these tariffs; however, there can be no assurances that any mitigation strategies employed will remain available under government policy or that the Company will be able to offset tariff-related costs or maintain competitive pricing of its products. Further, the imposition of tariffs on imports from China and other countries has the potential to materially and adversely impact the Company's sales, profitability and future product launches. The Company also sells its products on a global basis; and, therefore, its export sales could be impacted by the tariffs. Any material reduction in sales may have a material adverse effect on the Company's results of operations.

Growth and Profitability

The market for alternative-fueled, spark-ignited power systems may not continue to develop as expected.

The continued market acceptance and growth of the market for efficient alternative-fueled, spark-ignited power systems, including natural gas, propane and gasoline, is a key tenet of the Company's growth strategy. The impact of diesel emission regulations is expected to increase the cost and complexity of diesel power systems, but this may not materialize to the expected extent or at all. Also, customers, or potential customers, may not substitute natural gas-, propane- and gasoline-powered power systems for diesel power systems in response to these regulations. In addition, to the extent that diesel power system manufacturers develop the ability to design and produce emission-compliant diesel power systems that are more competitive than the Company's alternative-fueled power systems, customers and potential customers may be less likely to substitute alternative-fueled power systems for diesel power systems. Furthermore, if alternative-fueled power systems are substituted for diesel power systems, there can be no assurance that the Company's power systems would capture any portion of the potential market increase. If the industrial OEM market generally, or more specifically any of the OEM categories that represent a significant portion of the Company's business or in which it anticipates significant growth opportunities for its power systems, fails to develop or develops more slowly than the Company anticipates, its business could be materially adversely affected. Lastly, the Company also faces competition from other forms of power systems, including electric and fuel cells, for example, which could limit its ability to grow in the future.

The Company may be impacted by volatility of oil and gas prices and/or fuel price differentials.

The prices of various fuel alternatives are subject to fluctuation, based upon many factors, including global supply and demand, changes in resource base, pipeline transportation capacity for natural gas, refining capacity for crude oil, and government excise and fuel tax policies. The price differential among various fuel alternatives can impact OEMs and their decisions on which, if any, power systems they purchase from the Company. Furthermore, if OEMs do decide to purchase the Company's power systems, relative fuel prices may affect which power systems they purchase, and the margins can vary significantly among the Company's various power systems.

The Company may be affected by the price of oil and gas. For example, when the price of oil declines, oil becomes a more favorable source of fuel in the short term, and alternative fuel and energy producers suffer as a result. This volatility, as with any commodity, will occur from time to time and may adversely affect the Company's business.

Also, a significant portion of the Company's sales and profitability has historically been derived from sales of products that are used in the oil and gas industry, primarily in support of operating wells. Various factors, such as capital allocation strategies, oil pricing, rig counts, and governments policies, among others, could lead oil and gas producers curtail or limit capital expenditures as was experienced in both 2020 and 2021. In addition, oil and gas producers may cease or suspend production at well sites that have or are likely to become unprofitable. As a result, sales of the Company's products could be severely impacted during periods of a prolonged depression in energy prices, rig counts and capital expenditures which could have a material adverse effect on the Company's results of operations. The Company estimates that as much as approximately $25 million and $45 million of its 2021 and 2020 net sales, respectively, were attributable to the sale of products used within the oil and gas industry. The potential impact of future disruptions, continued economic uncertainty, and continued depressed crude oil prices and low rig count levels may have a significant adverse impact that may result in the recognition of material impairments or other related charges.

The introduction of new products, including new engines that the Company develops, and the continued expansion of products in the power systems and transportation markets may not succeed or achieve widespread acceptance.

The Company's growth depends on its ability to develop and/or acquire new products and/or refine existing products and power system technology, to complement and enhance the breadth of its power system offerings with respect to engine class and the OEM market categories into which the Company supplies its products. The Company will generally seek to develop or acquire new products, or enhance existing products and power system technology, if it believes such acquisitions or enhancements will provide significant additional sales and favorable profit margins. However, the Company cannot know beforehand whether any new or enhanced products will successfully penetrate target markets. There can be no assurance that newly developed or acquired products will perform as well as the Company expects, or that such products will gain widespread adoption among the Company's customers.

Additionally, there are greater design and operational risks associated with new products. The inability of the Company's suppliers to produce technologically sophisticated components for new engines and power systems, the discovery of any product or process defects or failures associated with production of any new products, and any related product returns could each have a material adverse effect on the Company's business and its results of operations. If new products that the Company expends significant resources to develop or acquire are not successful, or such products do not achieve the required production volume and scale, its business could be adversely affected.

The Company's strategy includes production of in-house developed and manufactured engines used by OEM customers, including large transportation OEMs. The costs and regulations involved with developing and certifying an engine for transportation applications are significant and may be higher and more stringent than expected. Additionally, the stresses and demands on engines and power systems used for transportation applications could result in unexpected issues. The discovery of any significant problems with these engines could result in recall campaigns, increased warranty costs, potential product liability claims, and reputational and brand risks. Sales of the Company's internally developed engines could lead to significantly higher warranty costs to service these engines if they do not perform to expectations.

The Company's OEM customers may not continue to outsource their power system needs.

The purchasers of the Company's power systems are OEMs that manufacture a wide range of applications and equipment that include standby and prime power generation, demand response, microgrid, combined heat and power, utility power, arbor equipment, material handling (including forklifts), agricultural and turf, construction, pumps and irrigation, compressors, utility vehicles, light- and medium-duty vocational trucks, and school and transit buses. As a result of the significant resources and expertise required to develop and manufacture emission-certified power systems, certain of these customers have historically chosen to outsource production of power systems to the Company. To a significant extent, the Company depends on OEMs continuing to outsource design and production of power systems, power system components and subsystems. OEM customers may not continue to outsource as much or any of their power system production in the future. Increased levels of OEM vertical integration could result from a number of factors, such as shifts in the Company's customers' business strategies, acquisition by a customer of a power system manufacturer or the emergence of low-cost production opportunities in foreign countries. Any number of these factors could have an adverse impact on the Company's business.

The Company currently faces, and will continue to face, significant competition.

The market for the Company's products and related services is highly competitive, subject to rapid change and sensitive to new-product and service introductions and changes in technical requirements. New developments in power system technology may negatively affect the development or sale of some or all of the Company's power systems or make them uncompetitive or obsolete. Other companies, some of which have longer operating histories, greater name recognition and significantly greater financial and marketing resources than the Company, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, certain of the Company's products and power system technologies. If the markets for its products grow as the Company anticipates, competition may intensify, as existing and new competitors identify opportunities in such markets.

The Company faces competition from companies that employ current power system technologies, and it may face competition in the future from additional companies as new power system technologies are adopted. Additionally, the Company may face competition from companies developing technologies such as cleaner diesel engines, biodiesel, fuel cells, electrification, advanced batteries and hybrid battery/internal combustion power systems. The Company may not be able to incorporate such technologies into its product offerings, or it may be required to devote substantial resources to do so. The success of its business depends in large part on its ability to provide single assembly, integrated, comprehensive, technologically sophisticated power systems to its customers. The development or enhancement by its competitors of similar capabilities could adversely affect the Company's business.

Technology and Intellectual Property

Failure to keep pace with technological developments may adversely affect the Company's operations.

The Company is engaged in an industry that will be affected by future technological developments. The Company's success will depend upon its ability to develop and introduce, on a timely and cost-effective basis, new products, applications and

processes that keep pace with technological developments and address increasingly sophisticated customer requirements. The Company may not be successful in identifying, developing and marketing new products, applications and processes, and product or process enhancements. The Company may experience difficulties that could delay or prevent the successful development, introduction and marketing of product or process enhancements or new products, applications or processes. The Company's products, applications or processes may not adequately meet the requirements of the marketplace and achieve market acceptance. If the Company were to incur delays in developing new products, applications or processes, or product or process enhancements, or if its products do not gain market acceptance, its results of operations could be materially adversely affected.

The Company could fail to adequately protect its intellectual property rights or could face claims of intellectual property infringement by third parties.

The Company believes that the success of its business depends, in substantial part, upon its proprietary technology, information, processes and know-how. The Company does not own any material patents and relies on a combination of trademark and trade secret laws, along with confidentiality agreements, contractual provisions and licensing arrangements, to establish and protect its intellectual property rights. Despite the Company's efforts to protect its intellectual property rights, existing laws afford only limited protection, and the Company's actions may be inadequate to protect its rights or to prevent others from claiming violations of their proprietary rights. In addition, the laws of some foreign countries may not protect the Company's proprietary rights as fully or in the same manner as the laws of the United States. The unauthorized use of the Company's intellectual property rights and proprietary technology by others could materially harm its business.

In addition, the Company cannot be certain that its products, services and power system technologies, including any intellectual property licensed from third parties for use therein or incorporated into components that it sources from its suppliers, do not, or in the future will not, infringe or otherwise violate the intellectual property rights of third parties. In the future, the Company may be subject to infringement claims that may result in litigation. Successful infringement claims against the Company could result in substantial monetary liability, require the Company to enter into royalty or licensing arrangements, or otherwise materially disrupt the conduct of the Company's business. In addition, even if the Company prevails in the defense of any such claims, any such litigation could be time-consuming and expensive to defend or settle and could materially adversely affect its business.

Human Capital

The loss of key members of management or failure to attract and retain other highly qualified personnel could, in the future, affect the Company's business results.

The Company's success depends on its ability to attract, retain and motivate a highly-skilled and diverse management team and workforce. During 2021, the Company has experienced significant leadership changes, including appointing a new Chief Executive Officer, a new Chief Financial Officer, and a new Chief Technical Officer. Also, its Executive Vice President and Co-Founder retired from the Company. Executive leadership transitions can be difficult to manage and could cause disruption to the Company's business. Failure to ensure that the Company has the depth and breadth of management and personnel with the necessary skill set and experience could impede its ability to deliver growth objectives and execute its operational strategy. Competition for qualified employees among companies that rely heavily upon engineering and technology is at times intense, and the loss of qualified employees could hinder the Company's ability to conduct research activities successfully and develop marketable products. As the Company continues to expand, it will need to promote or hire additional staff, and, as a result of increased compensation and benefit mandates, it may be difficult to attract or retain such individuals without incurring significant additional costs.

Common Stock Ownership and Stockholder Influence

Ownership of the Company's stock is concentrated among certain former employees and Weichai, therefore limiting other stockholders' ability to influence corporate matters.

As of March 28, 2022, Weichai beneficially owned 51.2% of the Company's outstanding shares of Common Stock. Additionally, Gary S. Winemaster, the Company's founder, former Chairman of the Board, Chief Executive Officer, and President and nonexecutive Chief Strategy Officer, beneficially owned approximately 14.5% of the Company's outstanding shares of Common Stock, and Kenneth J. Winemaster, the Company's co-founder and former Executive Vice President, beneficially owned approximately 9.6% of the Company's outstanding shares of Common Stock. Each of these stockholders, by virtue of their significant equity ownership in the Company, may be able to significantly influence, and, in the case of Weichai, control the outcome of all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. The interests of these stockholders may not coincide with the interests of other stockholders. The concentration of ownership might also have the effect of delaying or preventing a change of control of the Company that other stockholders may view as beneficial. With the exercise of the Weichai Warrant, Weichai alone owns a

majority of the outstanding shares of Common Stock and, therefore, it possesses voting control over the Company sufficient to prevent any change of control from occurring.

Weichai also maintains certain rights through its Investor Rights Agreement with the Company.

Weichai entered into an Investor Rights Agreement (the "Rights Agreement") with the Company upon execution of the SPA. The Rights Agreement provides Weichai with representation on the Company's Board and management representation rights. Weichai currently has four representatives on the Board which constitutes the majority of the directors serving on the Board. According to the Rights Agreement, during any period when the Company is a "controlled company" within the meaning of the NASDAQ Listing Rules, it will take such measures as to avail itself of the "controlled company" exemptions available under Rule 5615 of the NASDAQ Listing Rules of Rules 5605(b), (d) and (e). With Weichai being the majority owner of the Company's outstanding shares of its Common Stock, Weichai will be able to exercise control over matters requiring stockholders' approval, including the election of the Directors, amendment of the Company's Charter and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of the Company or changes in management and will make the approval of certain transactions impractical without the support of Weichai.

The continued delisting of its Common Stock could have a material adverse effect on the Company.

The historical failure to timely file its periodic reports with the SEC resulted in the Company not being in compliance with NASDAQ Listing Rule 5250(c)(1), which requires listed companies to timely file all required periodic financial reports with the SEC, and triggered the delisting of the Company's Common Stock. The Company's delisting and potential inability to remediate failures to comply with applicable NASDAQ rules to be relisted could have a material adverse effect on the Company by, among other things, reducing:

- the liquidity of its Common Stock;
- the market price of its Common Stock;
- the number of institutional and other investors that will consider investing in its Common Stock;
- the number of market makers in its Common Stock;
- the availability of information concerning the trading prices and volume of its Common Stock;
- the number of broker-dealers willing to execute trades in shares of its Common Stock;
- the Company's ability to obtain equity financing for the continuation of its operations;
- the Company's ability to use its equity as consideration in any merger transaction; and
- the effectiveness of equity-based compensation plans for its employees used to attract and retain individuals important to the Company's operations.

NOLs and Future Tax Payments

The Company's inability to generate sufficient taxable income in the future may limit the Company's ability to use net operating loss ("NOL") carryforwards to reduce future tax payments.

The Company has NOL carryforwards with which to offset its future taxable income for U.S. federal income tax reporting purposes. If the Company should fail to generate a sufficient level of taxable income prior to the expiration of the NOL carryforward periods, then it will lose the ability to apply the NOLs as offsets to future taxable income. Similar limitations also apply to certain U.S. federal tax credits.

General Risk Factors

The Company is exposed to, and may be adversely affected by, potential security breaches or other disruptions to its information technology systems and data security.

The Company relies on its information technology systems and networks in connection with many of its business activities. The Company's operations routinely involve receiving, storing, processing and transmitting sensitive information pertaining to its business, customers, dealers, suppliers, employees and other sensitive matters. Cyber incidents could materially disrupt operational systems, result in loss of trade secrets or other proprietary or competitively sensitive information, compromise personally identifiable information regarding customers or employees, and jeopardize the security of the Company's facilities. A cyber incident could be caused by malicious outsiders using sophisticated methods to circumvent firewalls, encryption and other security defenses. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, the Company may be unable to anticipate these techniques or to implement adequate preventive measures. Information technology security threats, including security breaches, computer

malware and other cyber-attacks, are increasing in both frequency and sophistication and could create financial liability, subject the Company to legal or regulatory sanctions, or damage its reputation with customers, dealers, suppliers and other stakeholders. The Company continuously seeks to maintain a robust program of information security and controls, but the impact of a material information technology event could have a material adverse effect on its reputation and results of operations.

The Company is exposed to political, economic and other risks, in addition to various laws and regulations that arise from operating a multinational business.

The Company sells products internationally and sources a significant amount of materials from suppliers outside of the U.S. Accordingly, the Company is subject to the political, economic and other risks that are inherent in operating a multinational company, including risks related to the following:

- general economic conditions;
- the imposition of tariffs and other import or export barriers, which could potentially disrupt the Company's existing supply chains and impose additional costs on the Company's business;
- trade and technology protection measures;
- compliance with regulations governing import and export activities;
- import and export duties and restrictions;
- currency fluctuations and exchange restrictions;
- transportation delays and interruptions;
- potentially adverse income tax consequences;
- political and economic instability;
- terrorist activities;
- acts of war, including the events currently underway in Ukraine, which could lead to volatility in commodity availability and pricing, access to current or new markets, and general overall market volatility and weakness, among other factors;
- labor unrest;
- natural disasters; and
- public health concerns including the potential negative impacts to suppliers, customers or the Company's business as a result of the COVID-19 pandemic.

Any of these factors could have a material adverse effect on the Company's business and results of operations.

The COVID-19 pandemic negatively impacted the Company's business in 2020 and 2021 and will likely have future impacts in 2022 and beyond. Furthermore, the extent and duration of such impacts over the longer term remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the coronavirus, the extent and effectiveness of containment actions taken, including mobility restrictions and work restrictions, and the impact of these and other factors on the Company's customer base, suppliers, and general commercial activity.

Also, the Company is subject to, and may become subject to, various state, federal and international laws and regulations governing its business, environmental, labor, trade and tax practices. These laws and regulations, particularly those applicable to the Company's international operations, are or may be complex, extensive and subject to change. The Company needs to ensure that it and its OEM customers and suppliers timely comply with such laws and regulations, which may result in increased operating costs. Other legislation has been, and may in the future be, enacted in other locations in which the Company manufactures or sells its products. If the Company or its component suppliers fail to timely comply with applicable legislation, its customers may refuse to purchase its products, or it may face increased operating costs as a result of taxes, fines or penalties. In connection with complying with such environmental laws and regulations as well as with industry environmental initiatives, the standards of business conduct required by some of its customers and its commitment to sound corporate citizenship in all aspects of its business, the Company could incur substantial compliance and operating costs and be subject to disruptions to its operations and logistics. In addition, if the Company were found to be in violation of these laws or noncompliant with these initiatives or standards of conduct, it could be subject to governmental fines, liability to its customers and damage to its reputation and corporate brand, any of which could cause its financial condition or results of operations to suffer.

Lastly, the Company's overseas sales are subject to numerous stringent U.S. and foreign laws, including the Foreign Corrupt Practices Act ("FCPA") and comparable foreign laws and regulations, which prohibit improper payments or offers of payments

to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. Safeguards that the Company implements to discourage these practices could prove to be ineffective, and violations of the FCPA and other laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against the Company, including class action lawsuits and enforcement actions from the SEC, the USAO and overseas regulators. Any of these factors, or any other international factors, could impair the Company's ability to effectively sell its power systems, or other products or services that it may develop, outside of the United States.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's operations are located in 9 leased facilities in the United States, totaling approximately 1.0 million square feet of floor space. The Company's corporate headquarters is located in Wood Dale, Illinois, a suburb of Chicago.

The Company's primary manufacturing, assembly, engineering, research and development, sales and distribution facilities are located in suburban Chicago, Illinois and Darien, Wisconsin.

The Company believes that all of its facilities have been adequately maintained, are in good operating condition and are suitable for its current needs. These facilities are expected to meet the Company's needs in the foreseeable future.

Item 3. Legal Proceedings.

See Note 10. *Commitments and Contingencies*, included in Part II, Item 8. *Financial Statements and Supplementary Data*, for a discussion of legal proceedings, which are incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

The Company's Common Stock traded on the NASDAQ under the symbol "PSIX" from May 28, 2013 through April 18, 2017. The Company's Common Stock was suspended from trading on NASDAQ effective at the open of business on April 19, 2017 (and subsequently delisted) and began trading on the OTC Pink marketplace ("OTCPink"), operated by OTC Markets Group, Inc. ("OTC Market") on that date under "PSIX."

The OTCPink is a quotation system and not a national securities exchange, and many companies have experienced limited liquidity when traded through this quotation system. The quotations represent inter-dealer prices without adjustment for retail markups, markdowns or commissions, and may not necessarily represent actual transactions.

As of March 28, 2022, the sale price for the Company's Common Stock, as reported by the OTC Market, was $2.90 per share.

Holders

As of March 28, 2022, there were approximately 51 holders of record of the Company's Common Stock.

Dividend Policy

The Company has not paid any cash dividends on its Common Stock to date. The payment of dividends is currently restricted by the Amended and Restated Uncommitted Revolving Credit Agreement. The Company intends to retain its future earnings to support operations, to finance expansion and reduce debt.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During 2021 and 2020, the Company did not repurchase any equity securities.

Item 6.

Reserved

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

The following discussion and analysis includes forward-looking statements about the Company's business and consolidated results of operations for the fiscal years ended December 31, 2021 and 2020, including discussions about management's expectations for the Company's business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and these statements should not be construed either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors are likely to cause the Company's actual performance and management's actions to vary, and the results of these variances may be both material and adverse. A description of material factors known to the Company that may cause its results to vary, or may cause management to deviate from its current plans and expectations, is set forth under "Risk Factors" in this report. See also "Forward-Looking Statements." The following discussion should also be read in conjunction with the Company's consolidated financial statements and the related Notes included in this report.

Executive Overview

The Company designs, engineers, manufactures, markets and sells a broad range of advanced, emission-certified engines and power systems that run on a wide variety of clean, alternative fuels, including natural gas, propane, and biofuels, as well as gasoline and diesel options, within the power systems, industrial and transportation end markets with primary manufacturing, assembly, engineering, R&D, sales and distribution facilities located in suburban Chicago, Illinois and Darien, Wisconsin. The Company provides highly engineered, comprehensive solutions designed to meet specific customer application requirements and technical specifications, including those imposed by environmental regulatory bodies, such as the EPA, the CARB and the MEE.

The Company's products are primarily used by global OEM and end-user customers across a wide range of applications and equipment that includes standby and prime power generation, demand response, microgrid, combined heat and power, arbor care, material handling (including forklifts), agricultural and turf, construction, pumps and irrigation, compressors, utility vehicles, light- and medium-duty vocational trucks, school and transit buses, and utility power. The Company manages the business as a single reporting segment.

For 2021, net sales increased $38.6 million, or 9%, compared to 2020, as a result of sales increases of $42.5 million and $22.3 million within the transportation and industrial end markets, respectively, partly offset by a decrease of $26.2 million in the power systems end market. Gross margin was 9.0% and 14.0% during 2021 and 2020, respectively. Gross profit decreased during 2021 by $17.2 million compared to 2020, while operating expenses increased by $2.7 million as compared to 2020. Interest expense increased by $1.6 million in 2021 versus 2020. Other expense (income), net increased by $1.2 million during 2021. Also, the Company recorded an income tax benefit of $0.4 million for 2021 versus a benefit of $3.7 million for 2020. Collectively, these factors contributed to a $25.5 million increase in the net loss, which totaled $48.5 million in 2021 compared to net loss of $23.0 million in 2020. Diluted loss per share was $2.12 in the 2021 period compared to diluted loss per share of $1.00 in 2020. Adjusted net loss, which excludes certain items described below that the Company believes are not indicative of its ongoing operating performance, was $26.7 million in 2021 compared to Adjusted net loss of $11.1 million in 2020. Adjusted loss per share was $1.16 in 2021 compared to Adjusted loss per share of $0.48 in 2020. Adjusted earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") was a loss of $12.4 million in 2021 compared to Adjusted EBITDA of $3.0 million in 2020. Adjusted net loss, Adjusted (loss) earnings per share and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of each of these measures to the nearest applicable GAAP financial measure, as well as additional information about these non-GAAP measures, see the section entitled Non-GAAP Financial Measures in this Item 7.

Net sales by geographic area and by end market for 2021 and 2020 are presented below:

(in thousands)	For the year ended December 31, 2021		For the Year Ended December 31, 2020	
Geographic Area		**% of Total**		**% of Total**
United States	$ 406,077	89 %	$ 366,445	88 %
North America	8,616	2 %	9,831	2 %
Pacific Rim	25,457	5 %	25,869	6 %
Europe	7,457	2 %	9,339	3 %
Others	8,648	2 %	6,155	1 %
Total	$ 456,255	100 %	$ 417,639	100 %

(in thousands)	For the year ended December 31, 2021		For the Year Ended December 31, 2020	
End Market		**% of Total**		**% of Total**
Power Systems	$ 123,132	27 %	$ 149,282	36 %
Industrial	153,289	34 %	131,026	31 %
Transportation	179,834	39 %	137,331	33 %
Total	$ 456,255	100 %	$ 417,639	100 %

During 2021, the Company sold over 49,000 engines of which approximately 52% utilized propane or natural gas as their fuel source and 39% utilized gasoline. The remaining 9% of engines were dual fuel gasoline/propane, diesel and service/base engines.

Weichai Transactions

In March 2017, the Company and Weichai entered into a number of transactions (see Note 3. *Weichai Transactions*, included in Item 8. *Financial Statements and Supplementary Data*, for additional information), including the issuance of Common and Preferred Stock and a stock purchase warrant to Weichai for aggregate proceeds of $60.0 million. The stock purchase warrant issued to Weichai was exercisable for any number of additional shares of Common Stock such that Weichai, upon exercise, would hold 51% of the Common Stock then outstanding on a fully dilutive basis, on terms and subject to adjustments as provided in the SPA. On April 23, 2019, Weichai exercised the Weichai Warrant and increased its ownership to 51.5% of the Company's outstanding Common Stock, as of such date.

Through the Weichai Transactions, the Company sought to expand its range of products and its presence in the Pacific Rim.

The Company and Weichai executed the Collaboration Agreement in order to achieve their respective objectives, enhance the cooperation alliance and share experiences, expertise and resources. Among other things, the Collaboration Arrangement established a joint steering committee, permitted Weichai to second a limited number of technical, marketing, sales,

procurement and finance personnel to work at the Company and established several collaborations related to stationary natural-gas applications and Weichai diesel engines. The Collaboration Agreement also provides for the steering committee to create various subcommittees with operating roles and otherwise governs the treatment of intellectual property of parties prior to the collaboration and the intellectual property developed during the collaboration. The Collaboration Agreement had a term of three years that was set to expire in March 2020. On March 26, 2020, the Collaboration Agreement was extended for an additional term of three years. For the years ended December 31, 2021 and 2020, sales to Weichai were not material. The Company purchased $12.4 million and $18.6 million of inventory from Weichai during 2021 and 2020, respectively.

PSI also entered into a series of Shareholder Loan agreements with Weichai. See Note 6. *Debt*, included in Item 8. *Financial Statements and Supplementary Data*, for additional information.

Incremental Financial Reporting, Internal Control Remediation, and Government Investigation and Other Legal Matter Expenses

Incremental financial reporting, internal control remediation and government investigation and other legal matter expenses consist of professional services fees related to the Company's efforts to restate prior period financial statements, prepare, audit and file delinquent financial statements, and remediate internal control material weaknesses as well as fees and reserves related to Company, SEC, and USAO investigations. Since August 2016, the Company has experienced a substantial and disruptive diversion of management resources to address various accounting, financial reporting and financial issues. During that time, the Company determined that it was necessary to restate financial results for 2014 and 2015 as well as the first quarter of 2016 and, since then, has also focused on becoming timely on all of its SEC financial reporting requirements, which was achieved with the filing of the Annual Report on Form 10-K for the year ended December 31, 2019. Additionally, the SEC and the USAO conducted investigations into the Company's financial reporting, revenue recognition practices and related conduct. These investigations were completed and settled in September 2020 (see Note 10. *Commitments and Contingencies*, included in Part II. Item 8. *Financial Statements and Supplementary Data*, for additional information). Incremental financial reporting, internal control remediation, and government investigation and other legal matter expenses, included in the 2021 and 2020 operating results, were $19.7 million and $15.3 million, respectively.

Recent Trends and Business Outlook

Impact of COVID-19, Oil and Gas Market Volatility, Supply Chain Challenges, Legal Costs

The COVID-19 pandemic has resulted in the implementation of significant governmental measures to control the spread of the virus, including quarantines, travel restrictions, business shutdowns, and restrictions on the movement of people in the United States and abroad. These factors, in turn, have impacted and may continue to impact the Company's operations, financial condition, and demand for its goods and services, as well as its overall ability to react timely to mitigate any further impact of the COVID-19 pandemic. In April 2020, the Company aggressively implemented contingency actions as a result of the expected significant negative impacts of these factors. The Company's temporary cost reduction measures included, among others, reduced hours of operations of the Company's production facilities; reduced pay for salaried employees between 10% and 30%, depending on the employee's position; suspended the Company's 401-(k) plan match; deferred spending on certain R&D programs; and minimized discretionary expenses and consulting services.

The measures with regard to pay for salaried employees and the suspension of the Company's 401-(k) match plan match were in effect through December 31, 2020. As of the date of this 2021 Annual Report, the Company continues to judiciously manage its expenses through the continuation of certain measures, including the restriction of all non-essential travel and minimized discretionary expenses and consulting services. The Company continues to review operating expenses, including prioritizing certain R&D investments in support of the Company's long-term growth objectives. During 2021, the Company took rightsizing actions to align its staffing with current needs, while also streamlining certain roles. These actions, when coupled with attrition, contributed to the reduction of approximately 100 positions, or approximately 12.5% of the Company's headcount. Also, the Company continues to review its facilities footprint in light of its current and planned business mix and its evolving needs. To date, these efforts resulted in the exit and sublease of its Hanover Park, IL materials and warehousing facility which is expected to generate annualized savings of approximately $1.3 million, with approximately $0.9 million expected to be realized in 2022.

The full impact of the COVID-19 pandemic continues to evolve as of the date of this 2021 Annual Report.

During 2020, as a result of the COVID-19 pandemic, the global economy experienced substantial turmoil, which led to challenging market conditions across certain areas of the Company's business. In addition, due to unprecedented decreases in demand, an oil price war, and economic uncertainty resulting from the COVID-19 pandemic, average crude oil prices were considerably lower in 2020 as compared to prices at the end of 2019. At year-end 2021, crude oil prices were 55% above prices at year-end 2020, a meaningful improvement. However, U.S. rig counts have been slower to return as the average count for 2021 was up 10% versus 2020 and average rig counts remain significantly below the full year average during 2019. Meanwhile, the Company believes that capital spending within the U.S. oil markets during 2021 remained well below 2019 levels. These

factors have contributed to a continued challenging environment for the sale of the Company's oil and gas related products during 2021. A significant portion of the Company's sales and profitability has historically been derived from the sale of products that are used within the oil and gas industry. In addition, the Company experienced delays in its supply chain during 2021 due to temporary shortages of raw materials and container delays of overseas materials as bottlenecks occurred at ports in Asia and North America. This, in turn, caused delivery delays to some of the Company's customers. The Company also experienced inflationary cost pressures for certain materials and shipping-related costs. Additionally, the Company experienced higher tariff costs as a result of the non-renewal of certain tariff exclusions. The Company is working to mitigate the impact of these matters through price increases and other measures, such as seeking certain tariff exclusions, where possible. However, during 2021 the Company was unable to adequately recover these higher costs. The potential for continued disruptions, economic uncertainty, and unfavorable spending on behalf of the Company's customers with oil and gas exposure may have a material adverse impact on the timing of delivery of customer orders and the levels of future customer orders.

Lastly, during 2021, the Company continued to incur substantial legal costs related to governmental investigations matters and its obligations to indemnify certain former officers and employees of the Company. Specifically, spending activity was elevated during 2021 due to the USAO trial involving former officers and employees of the Company that occurred during the year. With a verdict reached in the USAO trial matter involving former officers and employees in September 2021, the Company believes its costs related to the matter will cease. However, at this time, the Company is not able to estimate the potential future amount of its indemnity obligations related to the pending SEC matter involving prior officers and employees. See Note 10. *Commitments and Contingencies* for further discussion of the Company's indemnification obligations. Accordingly, the above challenges may continue to have a material adverse impact on the Company's future results of operations, financial position and liquidity.

The Company expects its sales in 2022 to increase by at least 3% versus 2021 levels, a result of expectations for strong growth in the industrial and power systems end markets, partly mitigated by a reduction in sales in the transportation end market. Gross profit as a percentage of sales is targeted to improve by at least 5 percentage points in 2022, a function of lower warranty expense, pricing actions, improved cost recovery and cost savings initiatives. Notwithstanding this outlook, which is being driven in part by expectations for an improvement in supply chain dynamics, including timelier availability of parts, and a continuation of favorable economic conditions within the United States and across the Company's various markets, the Company cautions that significant uncertainty remains as a result of supply chain challenges, inflationary costs, commodity volatility, and the COVID-19 pandemic, among other factors.

GM 6.0L Engine Off**ering**: The Company had an exclusive third-party agreement with GM through December 31, 2019 to purchase and distribute GM 6.0L engines to on-highway customers. With the GM announcement that it will discontinue its production of the GM 6.0L engine, the Company conducted last-time buys of this engine during 2019 through 2021 (including the purchase of certain engines where prepayment was provided), to ensure adequate supply to certain transportation customers. The Company experienced very strong sales of this product within its transportation end market during 2021 particularly with a large customer. At December 31, 2021, the Company had fully exhausted its stock of engines where prepayment was provided and holds a small quantity of other GM 6.0L engines which it expects to deliver to customers throughout 2022. The Company does not have a supply agreement with GM for its successor product to the GM 6.0L engine; however, it will source the 6.0L through a GM designate third party manufacturer. With the exhaustion of 6.0L engine inventory during 2021 where prepayment was received, coupled with its large customer obtaining future supply through alternative means, the Company anticipates significantly reduced sales within its transportation end market in 2022 as compared to 2021. To service customers in the future, the Company has obtained access to a 6.0L engine that another manufacturer will be producing.

Hyster-Yale Supply Arrangement: Hyster-Yale has indicated that it will be obtaining alternative supply beginning in late 2022 for several high-volume engines that the Company currently provides, including the 2.0L and 2.4L engines sourced from the Company's supplier SAME. As a result of this, the Company expects to see a decline in sales volumes to Hyster-Yale beginning in 2023. The Company believes it is positioned to continue its relationship in a moderated capacity with this customer in 2023 and beyond.

Strategic Initiatives/Growth Strategies: The Company has initiated a set of business objectives aimed at improving profitability, streamlining processes, strengthening the business and focusing on achieving growth in higher-return product lines. Central to this plan is the Company's increased emphasis on power systems product offerings through new product development and investments, in addition to leveraging the Company's relationship with Weichai. With the introduction of numerous natural gas and diesel engines over the past few years, coupled with its existing strong product lineup, despite economic disruptions related to the COVID-19 pandemic, and supply chain challenges, the Company believes that it has a solid foundation to achieve long-term growth, particularly within the power systems market.

Results of Operations

Results of operations for the year ended December 31, 2021 compared with the year ended December 31, 2020:

(in thousands, except per share amounts)	For the Year Ended December 31, 2021	2020	Change	% Change
Net sales	$ 456,255	$ 417,639	$ 38,616	9 %
Cost of sales	414,984	359,191	55,793	16 %
Gross profit	41,271	58,448	(17,177)	(29)%
Gross margin %	*9.0 %*	*14.0 %*	*(5.0)%*	
Operating expenses:				
Research, development and engineering expenses	22,435	25,375	(2,940)	(12)%
Research, development and engineering expenses as a % of sales	*4.9 %*	*6.1 %*	*(1.2)%*	
Selling, general and administrative expenses	57,871	51,744	6,127	12 %
Selling, general and administrative expenses as a % of sales	*12.7 %*	*12.4 %*	*0.3 %*	
Amortization of intangible assets	2,535	3,053	(518)	(17)%
Total operating expenses	82,841	80,172	2,669	3 %
Operating loss	(41,570)	(21,724)	(19,846)	91 %
Other expense, net:				
Interest expense	7,307	5,714	1,593	28 %
Loss on debt extinguishment and modifications	—	497	(497)	(100)%
Other expense (income), net	1	(1,240)	1,241	(100)%
Total other expense, net	7,308	4,971	2,337	47 %
Loss before income taxes	(48,878)	(26,695)	(22,183)	83 %
Income tax benefit	(406)	(3,713)	3,307	(89)%
Net loss	$ (48,472)	$ (22,982)	$ (25,490)	111 %
Loss per common share:				
Basic	$ (2.12)	$ (1.00)	$ (1.12)	112 %
Diluted	$ (2.12)	$ (1.00)	$ (1.12)	112 %
Non-GAAP Financial Measures:				
Adjusted net loss *	$ (26,749)	$ (11,091)	$ (15,658)	141 %
Adjusted loss per share *	$ (1.16)	$ (0.48)	$ (0.68)	142 %
EBITDA *	$ (34,165)	$ (12,781)	$ (21,384)	167 %
Adjusted EBITDA *	$ (12,442)	$ 3,015	$ (15,457)	NM

NM Not meaningful

* See reconciliation of non-GAAP financial measures to GAAP results below

Net Sales

Net sales increased $38.6 million, or 9%, compared to 2020, as a result of sales increases of $42.5 million and $22.3 million within the transportation and industrial end markets, respectively, partly offset by a decrease of $26.2 million in the power systems end market. The increase within the transportation end market was primarily driven by higher sales within the medium duty truck market partly attributable to lower sales volumes during 2020 due to the acceleration of shipments of certain engines during the fourth quarter of 2019, in combination with the continued sell down and exhaustion of certain 6.0L engines during 2021 that were previously prepaid by a customer under a long-term supply agreement. Partly mitigating these higher sales were lower sales of products used in the terminal tractor market. Higher industrial end market sales reflect increased demand for products used across a range of applications, with the largest increases attributable to those products used in the material handling/forklift, arbor care and industrial cleaning equipment markets. Lower power systems end market sales were driven by decreased demand for the Company's power generation products, especially for demand response products and those used within the oil and gas industry.

Gross Profit

Gross profit decreased by $17.2 million, or 29%, to $41.3 million in 2021, compared to $58.4 million in 2020. Gross margin was 9.0% and 14.0% in 2021 and 2020, respectively. The decline in gross margin is primarily due to material cost increases, higher freight and tariff costs, higher warranty expenses, and unfavorable product mix, partly mitigated by the impact of higher sales. For 2021, warranty costs were $22.8 million, an increase of $3.3 million compared to warranty costs of $19.5 million last year, due largely to higher charges within the transportation end market and lower recognized recoveries during 2021.

Research, Development and Engineering Expenses

Research, development and engineering expenses in 2021 were $22.4 million, a decrease of $2.9 million, or 12%, from 2020 levels, primarily as a result of lower project activity, coupled with lower wages and benefits driven by reduced headcount.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") increased in 2021 by $6.1 million, or 12%, compared to 2020. The increase was primarily due to higher legal expenses mostly related to the Company's indemnification obligations of former officers and employees specifically related to elevated spending activity during 2021 as a result of the USAO's trial, which concluded in September 2021 (see additional discussion in Note 10. *Commitments and Contingencies* of Item 8. *Financial Statements and Supplementary Data)*. As previously disclosed, the Company exhausted its directors' and officers' insurance during the early part of 2020. The company also experienced higher wages and benefits expense during 2021 as 2020 included salary reductions and other cost containment actions. In addition, there were higher severance costs largely related to rightsizing actions in 2021 as compared to 2020, due in part to certain actions that the Company took near the end of 2021. These increases were partly offset by lower financial reporting costs during 2021, largely driven by continued efficiencies and lower staffing needs since completing the financial restatement and becoming a timely filer of its SEC filings.

Interest Expense

Interest expense increased $1.6 million to $7.3 million in 2021 from $5.7 million in 2020 largely due to higher average outstanding debt and a higher overall effective interest rate on the Company's debt during 2021, including fees, as compared to prior year. See Note 6. *Debt*, included in Item 8. *Financial Statements and Supplementary Data* for additional information.

Loss on Extinguishment of Debt

There was no loss on the extinguishment of debt during 2021. The Company recognized a loss on the extinguishment of debt for the year ended December 31, 2020 of $0.5 million.

See Note 6. *Debt,* included in Item 8. *Financial Statements and Supplementary Data*, for additional information.

Other Expense (Income), Net

Other expense (income), net experienced a loss of less than $0.1 million during 2021 compared to income of $1.2 million during 2020 primarily due to the receipt of life insurance proceeds upon the death of a former employee and equity earnings from the Company's joint venture.

Refer to Note 15. *Related Party Transactions*, in Item 8. *Financial Statements and Supplementary Data*, for further discussion of the Company's joint venture.

Income Tax (Benefit) Expense

The Company recorded an income tax benefit of $0.4 million in 2021, a decrease of $3.3 million, as compared to an income tax benefit of $3.7 million in 2020. The Company's pretax loss was $48.9 million in 2021, compared to pretax loss of $26.7 million in 2020. The Company continues to record a full valuation allowance against deferred tax assets which offsets the tax benefits associated with the pre-tax loss for both the 2021 and 2020 periods. The income tax benefits for 2020 is primarily attributable to the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") in the period.

See Note 11. *Income Taxes*, included in Item 8. *Financial Statements and Supplementary Data*, for additional information related to the Company's income tax provision.

Non-GAAP Financial Measures

In addition to the results provided in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") above, this report also includes non-GAAP (adjusted) financial measures. Non-GAAP financial measures provide insight into selected financial information and should be evaluated in the context in which they are presented. These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP, and non-GAAP financial measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies. The non-GAAP financial measures should be considered in conjunction with the consolidated financial statements, including the related notes, and Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report. Management does not use these non-GAAP financial measures for any purpose other than the reasons stated below.

Non-GAAP Financial Measure	Comparable GAAP Financial Measure
Adjusted net income (loss)	Net income (loss)
Adjusted earnings (loss) per share	Earnings (loss) per common share – diluted
EBITDA	Net income (loss)
Adjusted EBITDA	Net income (loss)

The Company believes that Adjusted net loss, Adjusted (loss) earnings per share, EBITDA, and Adjusted EBITDA provide relevant and useful information, which is widely used by analysts, investors and competitors in its industry as well as by the Company's management in assessing the performance of the Company. Adjusted net (loss) income is defined as net income as adjusted for certain items that the Company believes are not indicative of its ongoing operating performance. Adjusted (loss) earnings per share is a measure of the Company's diluted net (loss) earnings per share adjusted for the impact of special items. EBITDA provides the Company with an understanding of earnings before the impact of investing and financing charges and income taxes. Adjusted EBITDA further excludes the effects of other non-cash and certain other items that do not reflect the ordinary earnings of the Company's operations.

Adjusted net loss, Adjusted (loss) earnings per share, EBITDA, and Adjusted EBITDA are used by management for various purposes, including as a measure of performance of the Company's operations and as a basis for strategic planning and forecasting. Adjusted net loss, Adjusted (loss) earnings per share, and Adjusted EBITDA may be useful to an investor because these measures are widely used to evaluate companies' operating performance without regard to items excluded from the calculation of such measures, which can vary substantially from company to company depending on the accounting methods, the book value of assets, the capital structure and the method by which the assets were acquired, among other factors. They are not, however, intended as an alternative measure of operating results or cash flow from operations as determined in accordance with U.S. GAAP.

The following table presents a reconciliation from Net loss to Adjusted net loss:

(in thousands)	For the Year Ended December 31,	
	2021	2020
Net loss	$ (48,472)	$ (22,982)
Stock-based compensation [1]	394	607
Loss on debt extinguishment [2]	—	497
Severance [3]	1,595	332
Incremental financial reporting [4]	—	1,783
Internal control remediation [5]	1,283	1,314
Governmental investigations and other legal matters [6]	18,451	12,193
Life insurance proceeds [7]	—	(930)
Discrete income tax items [8]	—	(3,905)
Adjusted net loss	$ (26,749)	$ (11,091)

The following table presents a reconciliation from Loss per common share – diluted to Adjusted loss per share:

	For the Year Ended December 31,	
	2021	**2020**
Loss per common share – diluted	$ (2.12)	$ (1.00)
Stock-based compensation [1]	0.02	0.03
Loss on debt extinguishment [2]	—	0.02
Severance [3]	0.07	0.01
Incremental financial reporting [4]	—	0.08
Internal control remediation [5]	0.06	0.06
Governmental investigations and other legal matters [6]	0.81	0.53
Life insurance proceeds [7]	—	(0.04)
Discrete income tax items [8]	—	(0.17)
Adjusted loss per share – diluted	$ (1.16)	$ (0.48)
Diluted shares (in thousands)	22,908	22,872

The following table presents a reconciliation from Net loss to EBITDA and Adjusted EBITDA:

(in thousands)	For the Year Ended December 31,	
	2021	**2020**
Net loss	$ (48,472)	$ (22,982)
Interest expense	7,307	5,714
Income tax (benefit) expense	(406)	(3,713)
Depreciation	4,871	5,147
Amortization of intangible assets	2,535	3,053
EBITDA	(34,165)	(12,781)
Stock-based compensation [1]	394	607
Loss on debt extinguishment [2]	—	497
Severance [3]	1,595	332
Incremental financial reporting [4]	—	1,783
Internal control remediation [5]	1,283	1,314
Governmental investigations and other legal matters [6]	18,451	12,193
Life insurance proceeds [7]	—	(930)
Adjusted EBITDA	$ (12,442)	$ 3,015

1. Amounts reflect non-cash stock-based compensation expense.
2. Amount represents the loss on the extinguishment of the Wells Fargo Credit Agreement and the Unsecured Senior Notes in April 2020 as further discussed in Note 6. *Debt* of Item 8. *Financial Statements and Supplementary Data*.
3. Amounts represent severance and other post-employment costs for certain former employees of the Company.
4. Amounts represent professional services fees related to the Company's efforts to restate prior period financial statements, prepare, audit and file delinquent financial statements with the SEC, as well as tax compliance matters impacted by the restatement of prior period financial statements. The amount excludes $2.0 million of recurring audit fees in 2020, respectively.
5. Amounts represent professional services fees related to the Company's efforts to remediate internal control material weaknesses including certain costs to upgrade IT systems.
6. The amounts include $15.7 million and $7.1 million for 2021 and 2020, respectively, related to indemnification of certain former officers of the Company. The Company is obligated to pay legal costs of certain former officers and employees in accordance with Company bylaws and certain indemnification agreements. As further discussed in Note 10. *Commitments and Contingencies* of Item 8. *Financial Statements and Supplementary Data*, the Company fully exhausted its historical primary directors' and officers' insurance coverage in connection with these matters during the first quarter of 2020. Also included are professional services fees and reserves related to certain other legal matters.
7. Amount represents a life insurance payment to the Company related to the death of a former employee.
8. Amount consists of the impact of the CARES Act and a change in the deferred tax liability related to an indefinite-lived intangible asset.

Cash Flows

Cash was impacted as follows:

(in thousands)	For the Year Ended December 31, 2021	2020	Change	% Change
Net cash used in operating activities	$ (61,478)	$ (7,594)	$ (53,884)	NM
Net cash provided by (used in) investing activities	398	(1,412)	1,810	(128)%
Net cash provided by financing activities	46,545	33,270	13,275	40 %
Net (decrease) increase in cash, cash equivalents, and restricted cash	$ (14,535)	$ 24,264	$ (38,799)	NM
Capital expenditures	$ (1,968)	$ (2,402)	$ 434	(18)%

2021 Cash Flows

Cash Flow from Operating Activities

Net cash used in operations was $61.5 million in 2021 compared to net cash used in operations of $7.6 million in 2020 resulting in an increase of $53.9 million in cash used in operating activities year-over-year. This was primarily due to an increase in the net loss of $25.5 million and a decrease in cash generated from working capital of $30.6 million, partially offset by an increase of $2.4 million in non-cash adjustments. The decrease in cash generated from working capital in the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily related to lower accounts receivable collections and an increase in cash outflows associated with inventory purchases and a net increase in liabilities. The increase in the cash outflow for inventory for the year ended December 31, 2021 compared to the same period in 2020 was largely due to increased purchases of inventory during the year ended December 31, 2021 to support expected growth in 2021, some of which did not occur due to supply chain shortages, coupled with expected sales in 2022. The net increase in liabilities was largely due to increased accounts payable related to the previously discussed increased inventory purchases as well as due to the timing of management of payables, partly offset by a decline in accrued expenses. The increase in non-cash adjustments was primarily due to increased amortization of deferred financing fees.

Cash Flow from Investing Activities

Net cash provided by investing activities was $0.4 million for the year ended December 31, 2021 compared to cash used in investing activities of $1.4 million for year ended December 31, 2020, respectively. For the year ended December 31, 2021, cash provided by investing activities primarily related to a return of investment upon the liquidation of a joint venture partly offset by capital expenditures associated with normal maintenance of the Company's facilities. For the year ended December 31, 2020, cash used in investing activities was primarily related to capital expenditures associated with normal maintenance of the Company's facilities, partly offset by proceeds from corporate-owned life insurance.

Cash Flow from Financing Activities

The Company generated $46.5 million in cash from financing activities in the year ended December 31, 2021 compared to $33.3 million in cash generated by financing activities in the year ended December 31, 2020. The cash generated by financing activities for the year ended December 31, 2021 was primarily attributable to cash received under the series of Shareholder's Loan Agreements with Weichai, compared to net borrowings under the Company's revolving credit facility for the year ended December 31, 2020 partly offset by repayment of the Company's senior secured notes. See additional discussion below and in Note 6. *Debt* in Item 8. *Financial Statements and Supplementary Data* related to the amendments of the Company's debt arrangements.

Liquidity and Capital Resources

On March 26, 2021, the Company amended its $130.0 million uncommitted senior secured revolving credit agreement with Standard Chartered (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement allows the Company to borrow up to $130.0 million, is uncommitted, and was subject to maturity on March 25, 2022. Borrowings under the Amended and Restated Credit Agreement incurred interest at either the alternate base rate or LIBOR plus 2.70%. In addition, the Company paid fees of $1.9 million related to the Amended and Restated Credit Agreement, which were deferred and amortized over the term of the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement was secured by substantially all of the Company's assets and included financial covenants related to the Company's financial performance for the second, third, and fourth quarters of 2021. There were no financial covenants applicable to the first quarter of 2021. The Amended and Restated Credit Agreement provided Standard Chartered the right to demand payment of any and

all of the outstanding borrowings and other amounts owed under the Amended and Restated Credit Agreement at any point in time prior to the maturity date at Standard Chartered's discretion. Furthermore, the Amended and Restated Credit Agreement granted Standard Chartered a power of attorney (POA) to submit a borrowing request to Weichai under the amended Shareholder's Loan Agreement (see discussion below) if the Company did not submit a borrowing request to Weichai within five business days of receiving a request from Standard Chartered to submit said borrowing request. As of December 31, 2021, the Company had $130.0 million outstanding under the Amended and Restated Credit Agreement.

In connection with the Amended and Restated Credit Agreement, on March 26, 2021, the Company entered into the First Amended and Restated Shareholder's Loan Agreement with Weichai (the "First Shareholder's Loan Agreement.") The First Shareholder's Loan provided the Company with a $130.0 million secured subordinated loan facility that expires on April 25, 2022. Under the First Shareholder's Loan, Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the Amended and Restated Credit Agreement if the Company is unable to repay such borrowings. Any potential borrowings under the First Shareholder's Loan Agreement were to be at LIBOR plus 4.50% per annum. As of December 31, 2021, there were no borrowings under the First Shareholder's Loan Agreement.

As discussed above, the Amended and Restated Credit Agreement included financial covenants which were effective for the Company beginning with the three months ended June 30, 2021 and each of the third and fourth quarters of 2021. The financial covenants include an interest coverage ratio and a minimum EBITDA threshold as further defined in the Amended and Restated Credit Agreement. For the three months ended June 30, 2021 and September 30, 2021, the Company did not meet the defined minimum interest coverage nor EBITDA requirements. A breach of the financial covenants under the Amended and Restated Credit Agreement constitutes an event of default which, if not cured or waived, could result in the obligations under the Amended and Restated Uncommitted Revolving Credit Agreement being accelerated. On November 9, 2021, the Company entered into a waiver with Standard Chartered, which waived the financial covenant defaults for the quarters ended June 30 and September 30, 2021. In connection with the waiver, a waiver fee of $0.6 million was remitted to Standard Chartered in November 2021. Further, the Company breached the financial covenants for the three months ended December 31, 2021; however. it received a waiver from Standard Chartered for no additional fee as part of the March 25, 2022 amendment and restatement to the Amended and Restated Credit Agreement as described below.

On July 14, 2021, the Company entered into an additional Shareholder's Loan Agreement (the "Second Shareholder's Loan Agreement") with Weichai. The Second Shareholder's Loan Agreement provided the Company with a $25.0 million uncommitted facility that is subordinated to the Amended and Restated Credit Agreement and any borrowing requests made under the Second Shareholder's Loan Agreement are subject to Weichai's discretionary approval. Borrowings under the Second Shareholder's Loan Agreement incurred interest at LIBOR plus 4.50% and were to be used for general corporate purposes, except for certain legal expenditures which required additional approval from Weichai. The Second Shareholder's Loan Agreement expires on May 20, 2022 with any outstanding principal and accrued interest due upon maturity. As of December 31, 2021, the Company had $25.0 million outstanding under the Second Shareholder's Loan Agreement.

On December 10, 2021, the Company entered into an additional Shareholder's Loan Agreement (the "Third Shareholder's Loan Agreement") with Weichai. The Third Shareholder's Loan Agreement provides the Company with a $50.0 million uncommitted facility that is subordinated to the Amended and Restated Credit Agreement and any borrowing requests made under the Third Shareholder's Loan Agreement are subject to Weichai's discretionary approval. Borrowings under the Third Shareholder's Loan Agreement bear interest at LIBOR plus 4.50% and can be used for general corporate purposes, except for certain legal expenditures which require additional approval from Weichai. The Third Shareholder's Loan Agreement expires on November 30, 2022 with any outstanding principal and accrued interest due upon maturity. As of December 31, 2021, the Company had $25.0 million outstanding under the Second Shareholder's Loan Agreement.

As of December 31, 2021, the Company's total outstanding debt obligations under the Amended and Restated Credit Agreement, the Second Shareholder's Loan Agreement and the Third Shareholder's Loan Agreement were $180.9 million in the aggregate, and its cash and cash equivalents were $6.3 million. See Item 8 *Financial Statements and Supplementary Data*, Note 6. *Debt*, for additional information.

On March 25, 2022, the Company amended and restated its $130.0 million Amended and Restated Credit Agreement by entering into the Second Amended and Restated Uncommitted Revolving Credit Agreement with Standard Chartered. The Second Amended and Restated Uncommitted Revolving Credit Agreement extends the maturity date of loans outstanding under its previous credit facility to the earlier of March 24, 2023 or the demand of Standard Chartered. As of the second amendment and restatement, Standard Chartered agreed to waive any existing event of default under the existing credit agreement, resulting from the breach of the financial covenants for the quarter ended December 31, 2021. No additional fee was incurred with this waiver. The Second Amended and Restated Uncommitted Revolving Credit Agreement is subject to customary events of default and covenants, including minimum consolidated EBITDA and Consolidated Interest Coverage Ratio covenants for the second and third quarters of 2022. Borrowings under the Second Amended and Restated Credit Agreement will incur interest at either the alternate base rate or the Secured Overnight Financing Rate ("SOFR") plus 2.95% per annum. In addition, the Company paid fees of $1.8 million related to the Second Amended and Restated Uncommitted Revolving Credit Agreement,

which will be deferred and amortized over the term of the Second Amended and Restated Uncommitted Revolving Credit Agreement. The Second Amended and Restated Uncommitted Revolving Credit Agreement continues to be secured by substantially all of the Company's assets and contains the same provisions as described above with respect to Standard Chartered's demand rights and its power of attorney (POA). As of March 25, 2022, the Company had $130.0 million outstanding under the Second Amended and Restated Credit Agreement.

In connection with the Second Amended and Restated Uncommitted Revolving Credit Agreement, on March 24, 2022, the Company also amended two of the three shareholder's loan agreements with Weichai, to among other things, extend the maturities thereof. The amended First Shareholder's Loan Agreement (the "Amended First Shareholder's Loan Agreement") continues to provide the Company with a $130.0 million subordinated loan under which Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the Second Amended and Restated Uncommitted Revolving Credit Agreement if the Company is unable to pay such borrowings. The amended second shareholder's loan agreement (the "Amended Second Shareholder's Loan Agreement") continues to provide the Company with a $25.0 million subordinated loan at the discretion of Weichai. The maturity of the Amended First Shareholder's Loan Agreement was extended to April 24, 2023 and the maturity of the Amended Second Shareholder's Loan Agreement was extended to May 20, 2023. Borrowings under both agreements will bear interest at an annual rate equal to SOFR plus 4.65% per annum. Further, if the applicable term SOFR is negative, the interest rate per annum shall be deemed as 4.65% per annum. If the interest rate for any loan is lower than Weichai's borrowing cost, the interest rate for such loan shall be equal to Weichai's borrowing cost plus 1%. Both of the agreements are subject to customary events of default and covenants. The Company has covenanted to secure any amounts borrowed under either of the agreements upon payment in full of all amounts outstanding under the Second Amended and Restated Uncommitted Revolving Credit Agreement. As of March 24, 2022, there were no borrowings under the Amended First Shareholder's Loan Agreement and $25.0 million under the Amended Second Shareholder's Loan Agreement.

The Company intends to work with Weichai to extend the Third Shareholder's Loan Agreement as the maturity date approaches. As of March 24, 2022, PSI had borrowed $35.7 million under the Third Shareholder's Loan Agreement.

As of December 31, 2021, Accounts Payable were approximately $93.3 million reflective of elevated inventory, costs incurred related to the Company's indemnification obligations and the management of timing of payables.

Significant uncertainties exist about the Company's ability to refinance, extend, or repay its outstanding indebtedness under its existing debt arrangements, maintain sufficient liquidity to fund its business activities, and maintain compliance with the covenants and other requirements under the Second Amended and Restated Credit Agreement or shareholder's loan agreements in the future. Without additional financing, the Company anticipates that it will not have sufficient cash and cash equivalents to repay the outstanding indebtedness under the Company's existing debt arrangements as they become due. Management currently plans to seek an extension and/or replacement of its existing debt arrangements or seek additional liquidity from its current or other lenders before the maturity dates in 2022 and 2023 as discussed above. There can be no assurance that the Company will be able to successfully complete a refinancing on acceptable terms or repay this outstanding indebtedness when required or if at all.

Additionally, during 2020, as a result of the COVID-19 pandemic, the global economy experienced substantial turmoil, which led to challenging market conditions across certain areas of the Company's business. In addition, due to unprecedented decreases in demand, an oil price war, and economic uncertainty resulting from the COVID-19 pandemic, average crude oil prices were considerably lower in 2020 as compared to prices at the end of 2019. At year-end 2021, crude oil prices were 55% above prices at year-end 2020, a meaningful improvement. However, U.S. rig counts have been slower to return as the average count for 2021 was up 10% versus 2020 and average rig counts remain significantly below the full year average during 2019. Meanwhile, the Company believes that capital spending within the U.S. oil markets during 2021 remained well below 2019 levels. These factors have contributed to a continued challenging environment for the sale of the Company's oil and gas related products during 2021. A significant portion of the Company's sales and profitability has historically been derived from the sale of products that are used within the oil and gas industry. In addition, the Company experienced delays in its supply chain during 2021 due to temporary shortages of raw materials and container delays of overseas materials as bottlenecks occurred at ports in Asia and North America. This, in turn, caused delivery delays to some of the Company's customers. The Company also experienced inflationary cost pressures for certain materials and shipping-related costs. Additionally, the Company experienced higher tariff costs as a result of the non-renewal of certain tariff exclusions. The Company is working to mitigate the impact of these matters through price increases and other measures, such as seeking certain tariff exclusions, where possible. The potential for continued disruptions, economic uncertainty, and unfavorable oil and gas market dynamics may have a material adverse impact on the timing of delivery of customer orders and the levels of future customer orders.

Lastly, during 2021, the Company incurred significantly higher legal costs due to its obligation to indemnify certain former officers and employees as a result of exhaustion of its directors and officers insurance during the early part of 2020. In particular, spending activity was elevated during the first nine months of 2021 as a result of the USAO trial involving former officers and employees of the Company. With a verdict reached in the USAO trial matter involving former officers and employees in September 2021, the Company believes its costs related to the matter will cease. However, at this time, the

Company is not able to estimate the potential future amount of its indemnity obligations related to the pending SEC matter involving prior officers and employees. See Note 10. *Commitments and Contingencies* for further discussion of the Company's indemnification obligations. Accordingly, the above challenges may continue to have a material adverse impact on the Company's future results of operations, financial position, and liquidity.

Due to uncertainties surrounding the Company's future ability to refinance, extend, or repay its outstanding indebtedness under its existing debt arrangements, maintain sufficient liquidity to fund its business activities, and maintain compliance with the covenants and other requirements under the Second Amended and Restated Credit Agreement or shareholder's loan agreements in the future, substantial doubt exists as to its ability to continue as a going concern within one year after the date that these financial statements are issued. If the Company does not have sufficient liquidity to fund its business activities, it may be forced to limit its business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition.

At December 31, 2021, the Company had five outstanding letters of credit totaling $2.1 million. See Item 8. *Financial Statements and Supplementary Data,* Note 10. *Commitments and Contingencies* for additional information related to the Company's off-balance sheet arrangements and the outstanding letters of credit.

Commitments and Contingencies

Legal matters are further discussed in Note 10. *Commitments and Contingencies*, included in Item 8. *Financial Statements and Supplementary Data*. See Part I. Item 1A. *Risk Factors* for further discussion of legal risks to the Company.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP. Preparation of these financial statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company's most critical accounting policies and estimates are those most important to the portrayal of its financial condition and results of operations and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. The Company has identified the following as its most critical accounting policies and judgments. Although management believes that its estimates and assumptions are reasonable, they are based on information available when they are made and, therefore, may differ from estimates made under different assumptions or conditions.

The Company's significant accounting policies are discussed in Note 1. *Summary of Significant Accounting Policies and Other Information*, included in Item 8. *Financial Statements and Supplementary Data*, and should be reviewed in connection with the following discussion of accounting policies that require difficult, subjective and complex judgments.

Revenue Recognition

The Company determines the amount of revenue to be recognized through the following steps:

- identification of the contract, or contracts with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies the performance obligations.

Revenue for the Company is generated from contracts that may include a single performance obligation or multiple performance obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. Revenue is measured at the transaction price which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company is required to estimate the total consideration expected to be received from contracts with customers. The consideration expected to be received may be variable based on the specific terms of the contract and the Company's past practices.

For contracts with multiple performance obligations, the Company allocates the total transaction price to distinct performance obligations based on directly observable data, if available, or the Company's best estimate of the stand-alone selling price of each distinct performance obligation. The primary method used to estimate the stand-alone selling price is the cost plus a margin approach.

The Company applies significant judgment in order to identify and determine the number of performance obligations, determine the total transaction price, allocate the transaction price to each performance obligation, and determine the appropriate timing of revenue recognition.

The Company's payment terms are less than one year, and its sales arrangements do not contain any significant financing components.

Timing of revenue recognition. The Company recognizes revenue related to performance obligations in its contracts with customers when control passes to the customer. Control passes to the customer when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. For the majority of the Company's products, revenue is recognized at a point in time when the products are shipped or delivered to the customer based on the shipping terms as that is the point in time when control passes to the customer.

The Company also recognizes revenue over time primarily when the Company's performance obligations include: enhancing a customer-controlled asset (generally when an engine is provided by the customer), constructing an asset with no alternative future use and the Company has an enforceable right to payment throughout the period as the services are performed or providing an extended warranty beyond the Company's standard warranty. The Company recognizes revenue throughout the manufacturing process when constructing an asset based on labor hours incurred because the customer receives the benefit of the asset as the product is constructed. The Company believes labor hours incurred relative to total estimated labor hours at completion faithfully depicts the transfer of control to the customer. The Company recognizes revenue related to extended warranty programs based on the passage of time over the extended warranty period.

Inventories

The Company's inventories consist primarily of engines and parts. Engines are valued at the lower of cost plus estimated freight-in or net realizable value. Parts are valued at the lower of cost (first-in, first out) or net realizable value. Net realizable value approximates replacement cost.

It is the Company's policy to review inventories on a continuous basis for obsolete, excess and slow-moving items and to record valuation adjustments for such items in order to eliminate non-recoverable costs from inventory. The Company writes down inventory for an estimated amount equal to the difference between the cost of the inventory and the estimated realizable value. Additionally, an inventory reserve is provided based upon the Company's estimate of future demand for the quantity of inventory on hand. In determining an estimate of future demand, multiple factors are taken into consideration, including (i) customer purchase orders and customer projected demand, (ii) historical sales/usage for each inventory item and (iii) utilization within a current or anticipated future power system. These factors are primarily based upon quantifiable information, and therefore the Company has not experienced significant differences in inventory valuation due to variances in the Company's estimation of future demand.

Goodwill Impairment

Goodwill represents the excess of purchase price and related costs over the values assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill is not amortized, but instead it is tested for impairment annually, or more frequently if circumstances indicate that a possible impairment may exist.

The Company performs its annual impairment test using the discounted cash flow method which involves the Company's management making estimates with respect to a variety of factors that will significantly impact the future performance of the business, including the following:

- future volume projections;
- estimated margins on sales;
- estimated growth rate for SG&A costs;
- future effective tax rate; and
- weighted-average cost of capital ("WACC") used to discount future performance of the Company.

Because these estimates form a basis for the determination of whether or not the impairment charge should be recorded, these estimates are considered to be critical accounting estimates. The Company completed its 2021 annual impairment test as of October 1, 2021 and concluded that there were no impairments. See Note 1. *Summary of Significant Accounting Policies and Other Information*, included in Item 8. *Financial Statements and Supplementary Data* for further discussion.

As of December 31, 2021, the Company has $29.8 million of goodwill. Significant adverse changes to the Company's business environment and future cash flows could cause the recognition of impairment charges, which could be material, in future periods. As a result of the ongoing COVID-19 pandemic and its impacts on the global economy, it is reasonably possible that the Company will continue to be adversely impacted which may result in the recognition of material goodwill impairment charges.

Impairment of Long-Lived Assets

Long-lived assets, other than goodwill which is separately tested for impairment, are evaluated for impairment whenever events indicate that the carrying amount of such assets may not be recoverable. Potential indicators of impairment may include a

deteriorating business climate, an asset remaining idle for more than a short period of time, advances in technology, or plans to discontinue use of, or change, in the business model for the operation in which a long-lived asset is used. The Company evaluates long-lived assets for impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. If the future net undiscounted cash flows are less than the carrying value, the Company then calculates an impairment loss. The impairment loss is calculated by comparing the long-lived asset's carrying value with its estimated fair value, which may be based on estimated future discounted cash flows. The Company also periodically reevaluates the useful lives of its long-lived assets due to advances and changes in its technologies.

The Company's impairment loss calculations contain critical estimates because they require the Company's management to make assumptions and to apply judgment to estimate future cash flows and long-lived asset fair values, including forecasting useful lives of the long-lived assets and selecting discount rates.

If actual results are not consistent with the assumptions used, the Company could experience an impairment triggering event and be exposed to losses that could be material. As a result of the ongoing COVID-19 pandemic and its impacts on the global economy, it is reasonably possible that the Company will continue to be adversely impacted which may result in the recognition of material impairment charges related to its long-lived assets.

Warranty

The Company offers a standard limited warranty on the workmanship of its products that in most cases covers defects for a defined period. Warranties for certified emission products are mandated by the EPA and/or the CARB and are generally longer than the Company's standard warranty on certain emission-related products. The Company's products may also carry limited warranties from suppliers. The Company's warranties generally apply to engines fully manufactured by the Company and to the modifications the Company makes to supplier base products. Costs related to supplier warranty claims are often times borne by the supplier and passed through to the end customer. The Company estimates and records a liability and related charges to income for its warranty program at the time products are sold to customers. Estimates are based on historical experience and reflect management's best estimates of expected costs at the time products are sold. The Company's warranty liability is generally affected by failure rates, repair costs and the timing of failures. Future events and circumstances related to these factors could materially change the estimates and require adjustments to the warranty liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available. As of December 31, 2021 and 2020, the Company had warranty reserves of $32.9 million and $31.5 million, respectively.

The Company records adjustments to preexisting warranties for changes in its estimate of warranty costs for products sold in prior fiscal years in the period in which it is determined that actual costs may differ from the Company's initial or previous estimates. Such adjustments typically occur when new information received by the Company indicates claims experience deviates from historical and expected trends. During 2021, the Company recognized a charge for adjustments to preexisting warranties of $9.4 million compared to a charge of $8.7 million in 2020. Warranty costs may differ from those estimated if actual claim rates are higher or lower than historical rates. For example if claims are 10% higher this would result in $3.3 million of additional warranty expense.

When the Company identifies cost effective opportunities to address issues in products sold or corrective actions for safety issues, it initiates product recalls or field campaigns. As a result of the uncertainty surrounding the nature and frequency of product recalls and field campaigns, the liability for such actions is generally recorded when the Company commits to a product recall or field campaign. In each subsequent quarter after a recall or field campaign is initiated, the recorded warranty liability balance is analyzed, reviewed and adjusted, if necessary, to reflect any changes in the anticipated average cost of repair or number of repairs to be completed prospectively.

When collection is reasonably assured, the Company also estimates the amount of warranty claim recoveries to be received from its suppliers. Warranty costs and recoveries are included in *Cost of sales* in the Consolidated Statements of Operations.

Impact of New Accounting Standards

For information about recently issued accounting pronouncements, see Note 1. *Summary of Significant Accounting Policies and Other Information*, included in Item 8. *Financial Statements and Supplementary Data*.

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

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information under this item.

Item 8. Financial Statements and Supplementary Data.

The following consolidated financial statements are included in Item 8 of this Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Power Solutions International, Inc.
Wood Dale, Illinois

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Power Solutions International, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years then ended and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, significant uncertainties exist about the Company's ability to refinance, extend, or repay its outstanding indebtedness, maintain sufficient liquidity to fund its business activities and maintain compliance with the covenants and other requirements under the Second Amended and Restated Credit Agreement or shareholder's loan agreements in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

Critical Audit Matter

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

Accrued Product Warranty

As more fully described in Note 1 to the consolidated financial statements, the Company's consolidated accrued product warranty balance was $32.9 million as of December 31, 2021. The Company offers a standard limited warranty on the workmanship of its products. The Company estimates and records a liability and related charges to income for its warranty program at the time products are sold to customers. These estimates are established using historical warranty claims information including failure rates, repair costs and timing of failures. New product launches require a greater use of judgment in developing estimates, until historical experience becomes available. Previous estimates are adjusted as actual warranty claims data becomes available.

We identified the accrued product warranty liability as a critical audit matter. Auditing management's estimates and assumptions to determine the accrued product warranty liability involved especially challenging auditor judgment due to i) the significant judgment by management when determining the accrued product warranty liability estimate; ii) the high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence relating to the significant assumptions; specifically the comparability of new product launches to those of a similar product line for periods when historical claims are not available, and iii) the estimates in frequency and average cost of warranty claims.

The primary procedures we performed to address this critical audit matter included:

a. Evaluating the reasonableness of management's assumptions to estimate the future warranty claims for the recently developed and launched products by:

    i. Comparing assumptions used to estimate the accrued product warranty to those of a similar product line for periods when historical claims are not available, including assessing reasonableness of the similarity of such products by understanding their nature and intended use.

    ii. Comparing the current product warranty claims estimates to the prior year estimates, and investigating significant differences.

b. Testing the completeness and accuracy of the underlying historical warranty claims information used to estimate future warranty claims.

c. Testing the mathematical accuracy of management's calculation of the product warranty.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2018.
Chicago, Illinois

March 31, 2022

POWER SOLUTIONS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par values)	As of December 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,255	$ 20,968
Restricted cash	3,477	3,299
Accounts receivable, net of allowances of $3,420 and $3,701 as of December 31, 2021 and December 31, 2020, respectively	65,110	60,148
Income tax receivable	4,276	3,708
Inventories, net	142,192	108,213
Prepaid expenses and other current assets	8,918	6,351
Total current assets	230,228	202,687
Property, plant and equipment, net	17,344	20,181
Intangible assets, net	7,784	10,319
Goodwill	29,835	29,835
Other noncurrent assets	15,347	20,955
TOTAL ASSETS	$ 300,538	$ 283,977
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 93,256	$ 31,547
Current maturities of long-term debt	254	310
Revolving line of credit	130,000	130,000
Other short-term financing	25,000	—
Other accrued liabilities	34,801	77,619
Total current liabilities	283,311	239,476
Deferred income taxes	1,016	886
Long-term debt, net of current maturities	25,636	781
Noncurrent contract liabilities	3,330	3,181
Other noncurrent liabilities	29,268	33,556
TOTAL LIABILITIES	$ 342,561	$ 277,880
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock – $0.001 par value. Shares authorized: 5,000. No shares issued and outstanding at all dates.	$ —	$ —
Common stock – $0.001 par value; 50,000 shares authorized; 23,117 and 23,117 shares issued; 22,926 and 22,892 shares outstanding at December 31, 2021 and December 31, 2020, respectively	23	23
Additional paid-in capital	157,436	157,262
Accumulated deficit	(198,366)	(149,894)
Treasury stock, at cost, 191 and 225 shares at December 31, 2021 and December 31, 2020, respectively	(1,116)	(1,294)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(42,023)	6,097
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 300,538	$ 283,977

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	For the Year Ended December 31,	
	2021	2020
Net sales	$ 456,255	$ 417,639
Cost of sales	414,984	359,191
Gross profit	41,271	58,448
Operating expenses:		
Research, development and engineering expenses	22,435	25,375
Selling, general and administrative expenses	57,871	51,744
Amortization of intangible assets	2,535	3,053
Total operating expenses	82,841	80,172
Operating loss	(41,570)	(21,724)
Other expense, net:		
Interest expense	7,307	5,714
Loss on debt extinguishment and modifications	—	497
Other expense (income), net	1	(1,240)
Total other expense, net	7,308	4,971
Loss before income taxes	(48,878)	(26,695)
Income tax benefit	(406)	(3,713)
Net loss	$ (48,472)	$ (22,982)
Weighted-average common shares outstanding:		
Basic	22,908	22,872
Diluted	22,908	22,872
Loss per common share:		
Basic	$ (2.12)	$ (1.00)
Diluted	$ (2.12)	$ (1.00)

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
Balance at December 31, 2019	$ 23	$ 156,727	$ (126,912)	$ (1,341)	$ 28,497
Net loss	—	—	(22,982)	—	(22,982)
Stock-based compensation expense	—	535	—	72	607
Common stock issued for stock-based awards, net	—	—	—	(25)	(25)
Balance at December 31, 2020	$ 23	$ 157,262	$ (149,894)	$ (1,294)	$ 6,097
Net loss	—	—	(48,472)	—	(48,472)
Stock-based compensation expense	—	174	—	220	394
Common stock issued for stock-based awards, net	—	—	—	(42)	(42)
Balance at December 31, 2021	$ 23	$ 157,436	$ (198,366)	$ (1,116)	$ (42,023)

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Year Ended December 31,	
	2021	2020
Cash used in operating activities		
Net loss	$ (48,472)	$ (22,982)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of intangible assets	2,535	3,053
Depreciation	4,871	5,147
Stock-based compensation expense	394	607
Amortization of financing fees	2,819	1,594
Deferred income taxes	29	(1,452)
Loss on extinguishment of debt	—	497
Other adjustments, net	941	(209)
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,952)	44,611
Inventory	(34,840)	(382)
Prepaid expenses and other assets	(103)	3,958
Accounts payable	62,105	(44,161)
Accrued expenses	(42,759)	11,106
Other noncurrent liabilities	(4,046)	(8,981)
Net cash used in operating activities	(61,478)	(7,594)
Cash provided by (used in) investing activities		
Capital expenditures	(1,968)	(2,402)
Return of investment in joint venture	2,263	—
Proceeds from corporate-owned life insurance	—	930
Other investing activities, net	103	60
Net cash provided by (used in) investing activities	398	(1,412)
Cash provided by financing activities		
Repayments of long-term debt and lease liabilities	(380)	(55,290)
Proceeds from debt financings	51,309	—
Repayment of short-term financings	(1,180)	—
Proceeds from revolving line of credit	—	180,298
Repayments of revolving line of credit	—	(89,826)
Payments of deferred financing costs	(3,162)	(1,970)
Other financing activities, net	(42)	58
Net cash provided by financing activities	46,545	33,270
Net (decrease) increase in cash, cash equivalents, and restricted cash	(14,535)	24,264
Cash, cash equivalents, and restricted cash at beginning of the year	24,267	3
Cash, cash equivalents, and restricted cash at end of the year	$ 9,732	$ 24,267

(in thousands)	As of December 31,	
	2021	2020
Reconciliation of cash, cash equivalents, and restricted cash to the Consolidated Balance Sheets		
Cash and cash equivalents	6,255	20,968
Restricted cash	3,477	3,299
Total cash, cash equivalents, and restricted cash	$ 9,732	$ 24,267

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Other Information

Nature of Business Operations

Power Solutions International, Inc. ("Power Solutions," "PSI" or the "Company"), a Delaware corporation, is a global producer and distributor of a broad range of high-performance, certified, low-emission power systems, including alternative-fueled power systems for original equipment manufacturers ("OEMs") of off-highway industrial equipment and certain on-road vehicles and large custom-engineered integrated electrical power generation systems.

The Company's customers include large, industry-leading and multinational organizations. The Company's products and services are sold predominantly to customers throughout North America as well as to customers located throughout the Pacific Rim and Europe. The Company's power systems are highly engineered, comprehensive systems which, through the Company's technologically sophisticated development and manufacturing processes, including its in-house design, prototyping, testing and engineering capabilities and its analysis and determination of the specific components to be integrated into a given power system (driven in large part by emission standards and cost considerations), allow the Company to provide its customers with power systems customized to meet specific OEM application requirements, other technical customers' specifications and requirements imposed by environmental regulatory bodies.

The Company's power system configurations range from a basic engine integrated with appropriate fuel system components to completely packaged power systems that include any combination of cooling systems, electronic systems, air intake systems, fuel systems, housings, power takeoff systems, exhaust systems, hydraulic systems, enclosures, brackets, hoses, tubes and other assembled componentry. The Company also designs and manufactures large, custom-engineered integrated electrical power generation systems for both standby and prime power applications. The Company purchases engines from third-party suppliers and produces internally designed engines, all of which are then integrated into its power systems.

Of the other components that the Company integrates into its power systems, a substantial portion consist of internally designed components and components for which it coordinates significant design efforts with third-party suppliers, with the remainder consisting largely of parts that are sourced off-the-shelf from third-party suppliers. Some of the key components (including purchased engines) embody proprietary intellectual property of the Company's suppliers. As a result of its design and manufacturing capabilities, the Company is able to provide its customers with a power system that can be incorporated into a customer's specified application. In addition to the certified products described above, the Company sells diesel, gasoline and non-certified power systems and aftermarket components.

Stock Ownership and Control

In March 2017, the Company executed a share purchase agreement (the "SPA") with Weichai America Corp., a wholly owned subsidiary of Weichai Power Co., Ltd. (HK2338, SZ000338) (herein collectively referred to as "Weichai"). Under the terms of the SPA, Weichai invested $60.0 million in the Company purchasing a combination of newly issued Common and Preferred Stock as well as a stock purchase warrant (the "Weichai Warrant").

With the exercise of the Weichai Warrant in April 2019, Weichai owns a majority of the outstanding shares of the Company's Common Stock. As a result, Weichai is able to exercise control over matters requiring stockholders' approval, including the election of the directors, amendment of the Company's Charter and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of the Company or changes in management and will make the approval of certain transactions impractical without the support of Weichai.

Weichai also entered into an Investor Rights Agreement (the "Rights Agreement") with the Company upon execution of the SPA. The Rights Agreement provides Weichai with representation on the Company's Board of Directors (the "Board") and management representation rights. Weichai currently has four representatives on the Board, which constitutes the majority of the directors serving on the Board. According to the Rights Agreement, during any period when the Company is a "controlled company" within the meaning of the NASDAQ Stock Market ("NASDAQ") Listing Rules, it will take such measures as to avail itself of the "controlled company" exemptions available under Rule 5615 of the NASDAQ Listing Rules of Rules 5605(b), (d) and (e).

Going Concern Considerations

On March 26, 2021, the Company amended its $130.0 million uncommitted senior secured revolving credit agreement with Standard Chartered (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement allows the Company to borrow up to $130.0 million, is uncommitted, and was subject to maturity on March 25, 2022. The Amended and Restated Credit Agreement was secured by substantially all of the Company's assets and included financial covenants related to the Company's financial performance for the second, third, and fourth quarters of 2021. There were no financial covenants

applicable to the first quarter of 2021. The Amended and Restated Credit Agreement provided Standard Chartered the right to demand payment of any and all of the outstanding borrowings and other amounts owed under the Amended and Restated Credit Agreement at any point in time prior to the maturity date at Standard Chartered's discretion. Furthermore, the Amended and Restated Credit Agreement granted Standard Chartered a power of attorney (POA) to submit a borrowing request to Weichai under the amended Shareholder's Loan Agreement (see discussion below) if the Company did not submit a borrowing request to Weichai within five business days of receiving a request from Standard Chartered to submit said borrowing request. As of December 31, 2021, the Company had $130.0 million outstanding under the Amended and Restated Credit Agreement.

In connection with the Amended and Restated Credit Agreement, on March 26, 2021, the Company entered into the First Amended and Restated Shareholder's Loan Agreement with Weichai (the "First Shareholder's Loan Agreement.") The First Shareholder's Loan Agreement provided the Company with a $130.0 million secured subordinated loan facility that expires on April 25, 2022. Under the First Shareholder's Loan Agreement, Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the Amended and Restated Credit Agreement if the Company is unable to repay such borrowings. As of December 31, 2021, there were no borrowings under the First Shareholder's Loan Agreement.

See Note 6. *Debt* for further information regarding the terms and conditions of the Company's debt agreements.

As discussed above, the Amended and Restated Credit Agreement included financial covenants which were effective for the Company beginning with the three months ended June 30, 2021 and each of the third and fourth quarters of 2021. The financial covenants include an interest coverage ratio and a minimum EBITDA threshold as further defined in the Amended and Restated Credit Agreement. For the three months ended June 30, 2021 and September 30, 2021, the Company did not meet the defined minimum interest coverage nor EBITDA requirements. A breach of the financial covenants under the Amended and Restated Credit Agreement constitutes an event of default which, if not cured or waived, could result in the obligations under the Amended and Restated Uncommitted Revolving Credit Agreement being accelerated. On November 9, 2021, the Company entered into a waiver with Standard Chartered, which waived the financial covenant defaults for the quarters ended June 30 and September 30, 2021. In connection with the waiver, a waiver fee of $0.6 million was remitted to Standard Chartered in November 2021. Further, the Company breached the financial covenants for the three months ended December 31, 2021; however. it received a waiver from Standard Chartered for no additional fee as part of the March 25, 2022 second amendment and restatement of the Amended and Restated Credit Agreement as described below.

On July 14, 2021, the Company entered into an additional Shareholder's Loan Agreement (the "Second Shareholder's Loan Agreement") with Weichai. The Second Shareholder's Loan Agreement provided the Company with a $25.0 million uncommitted facility that is subordinated to the Amended and Restated Credit Agreement and any borrowing requests made under the Second Shareholder's Loan Agreement are subject to Weichai's discretionary approval. Borrowings under the Second Shareholder's Loan Agreement incurred interest at LIBOR plus 4.50% and were to be used for general corporate purposes, except for certain legal expenditures which required additional approval from Weichai. The Second Shareholder's Loan Agreement expires on May 20, 2022 with any outstanding principal and accrued interest due upon maturity. As of December 31, 2021, the Company had $25.0 million outstanding under the Second Shareholder's Loan Agreement.

On December 10, 2021, the Company entered into an additional Shareholder's Loan Agreement (the "Third Shareholder's Loan Agreement") with Weichai. The Third Shareholder's Loan Agreement provides the Company with a $50.0 million uncommitted facility that is subordinated to the Amended and Restated Credit Agreement and any borrowing requests made under the Third Shareholder's Loan Agreement are subject to Weichai's discretionary approval. Borrowings under the Third Shareholder's Loan Agreement bear interest at LIBOR plus 4.50% and can be used for general corporate purposes, except for certain legal expenditures which require additional approval from Weichai. The Third Shareholder's Loan Agreement expires on November 30, 2022 with any outstanding principal and accrued interest due upon maturity. As of December 31, 2021, the Company had $25.0 million outstanding under the Third Shareholder's Loan Agreement.

As of December 31, 2021, the Company's total outstanding debt obligations under the Amended and Restated Credit Agreement, the Second Shareholder's Loan Agreement and the Third Shareholder's Loan Agreement were $180.9 million in the aggregate, and its cash and cash equivalents were $6.3 million. See Item 8 Note 6. *Debt*, for additional information.

On March 25, 2022, the Company amended and restated its $130.0 million Amended and Restated Credit Agreement (the "Second Amended and Restated Uncommitted Revolving Credit Agreement") with Standard Chartered. The Second Amended and Restated Uncommitted Revolving Credit Agreement extends the maturity date of loans outstanding under its previous credit facility to the earlier of March 24, 2023 or the demand of Standard Chartered. As part of the amendment and restatement, Standard Chartered agreed to waive any existing event of default under the existing credit agreement, resulting from the breach of the financial covenants for the quarter ended December 31, 2021. The Second Amended and Restated Uncommitted Revolving Credit Agreement is subject to customary events of default and covenants, including minimum consolidated EBITDA and Consolidated Interest Coverage Ratio covenants for the second and third quarters of 2022. The Second Amended and Restated Uncommitted Revolving Credit Agreement continues to be secured by substantially all of the Company's assets and contains the same provisions as described above with respect to Standard Chartered's demand rights and its power of

attorney (POA). As of March 24, 2022, the Company had $130.0 million outstanding under the Second Amended and Restated Uncommitted Revolving Credit Agreement.

In connection with the Second Amended and Restated Uncommitted Revolving Credit Agreement, on March 25, 2022, the Company also amended two of the three shareholder's loan agreements with Weichai, to among other things, extend the maturities thereof. The amended First Shareholder's Loan Agreement (the "Amended First Shareholder's Loan Agreement") continues to provide the Company with a $130.0 million subordinated loan under which Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the Second Amended and Restated Uncommitted Revolving Credit Agreement if the Company is unable to pay such borrowings. The amended second shareholder's loan agreement (the "Amended Second Shareholder's Loan Agreement") continues to provide the Company with a $25.0 million subordinated loan at the discretion of Weichai. The maturity of the Amended First Shareholder's Loan Agreement was extended to April 24, 2023 and the maturity of the Amended Second Shareholder's Loan Agreement was extended to May 20, 2023. The Company has covenanted to secure any amounts borrowed under either of the agreements upon payment in full of all amounts outstanding under the Second Amended and Restated Uncommitted Revolving Credit Agreement. As of March 24, 2022, there were no borrowings under the Amended First Shareholder's Loan Agreement and $25.0 million under the Amended Second Shareholder's Loan Agreement.

The Company intends to work with Weichai to extend the Third Shareholder's Loan Agreement as the maturity date approaches. As of March 24, 2022, PSI had borrowed approximately $35.7 million under the Third Shareholder's Loan Agreement.

Significant uncertainties exist about the Company's ability to refinance, extend, or repay its outstanding indebtedness, maintain sufficient liquidity to fund its business activities, and maintain compliance with the covenants and other requirements under the Company's debt arrangements. Without additional financing, the Company anticipates that it will not have sufficient cash and cash equivalents to repay amounts owing under its existing debt arrangements as they become due. In order to provide the Company with a more permanent source of liquidity, management plans to seek an extension and amendment and/or replacement of its existing debt agreements or seek additional liquidity from its current or other lenders before the maturity dates in 2022 and 2023 as discussed above. There can be no assurance that the Company's management will be able to successfully complete an extension and amendment of its existing debt agreements or obtain new financing on acceptable terms, when required or if at all. These consolidated financial statements do not include any adjustments that might result from the outcome of the Company's efforts to address these issues.

Furthermore, if the Company cannot raise capital on acceptable terms, it may not, among other things, be able to do the following:

- continue to expand the Company's research and product investments and sales and marketing organization;
- continue to fund and expand operations both organically and through acquisitions; and
- respond to competitive pressures or unanticipated working capital requirements.

Additionally, as discussed further below, the global economy continues to be impacted by the outbreak of the coronavirus ("COVID-19") that was first declared a global pandemic (the "COVID-19 pandemic") in March 2020. The potential for continued disruptions, economic uncertainty, and unfavorable oil and gas market dynamics may continue to have a material adverse impact on the results of operations, financial position and liquidity of the Company.

The Company's management has concluded that, due to uncertainties surrounding the Company's future ability to refinance, extend and amend, or repay its outstanding indebtedness under its existing debt arrangements, maintain sufficient liquidity to fund its business activities, and maintain compliance with the covenants and other requirements under the Second Amended and Restated Uncommitted Revolving Credit Agreement in the future, substantial doubt exists as to its ability to continue as a going concern within one year after the date that these financial statements are issued. The Company's plans to alleviate the substantial doubt about its ability to continue as a going concern may not be successful, and it may be forced to limit its business activities or be unable to continue as a going concern, which would have a material adverse effect on its results of operations and financial condition.

The consolidated financial statements included herein have been prepared assuming that the Company will continue as a going concern and contemplating the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company's ability to continue as a going concern is dependent on generating profitable operating results, having sufficient liquidity, maintaining compliance with the covenants and other requirements under the Second Amended and Restated Uncommitted Revolving Credit Agreement in the future, and extending and amending, refinancing or repaying the indebtedness outstanding under the Company's existing debt arrangements.

COVID-19 and other Recent Business Impacts

The ongoing COVID-19 pandemic has resulted in the implementation of significant governmental measures to control the spread of the virus, including quarantines, travel restrictions, business shutdowns and restrictions on the movement of people in the United States and abroad.

During 2020, as a result of the COVID-19 pandemic, the global economy experienced substantial turmoil, which led to challenging market conditions across certain areas of the Company's business. In addition, due to unprecedented decreases in demand, an oil price war, and economic uncertainty resulting from the COVID-19 pandemic, average crude oil prices were considerably lower in 2020 as compared to prices at the end of 2019 but showed signs of improvement in 2021. However, capital spending and rig counts in U.S. oil markets remained below pre-pandemic levels in 2021. These factors have contributed to a continued challenging environment for the sale of the Company's oil and gas related products during 2021. A significant portion of the Company's sales and profitability has historically been derived from the sale of products that are used within the oil and gas industry. In addition, the Company experienced delays in its supply chain during 2021 due to temporary shortages of raw materials and container delays of overseas materials as bottlenecks occurred at ports in Asia and North America. This, in turn, caused delivery delays to some of the Company's customers. The Company also experienced inflationary cost pressures for certain materials and shipping-related costs. Additionally, the Company has also experienced higher tariff costs as a result of the non-renewal of certain tariff exclusions. The Company is working to mitigate the impact of these matters through price increases and other measures, such as seeking certain tariff exclusions, where possible. The potential for continued disruptions, economic uncertainty, and unfavorable oil and gas market dynamics may have a material adverse impact on the timing of delivery of customer orders and the levels of future customer orders.

The Company performs its annual goodwill impairment test as of October 1, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As further discussed in Item 8., Note 5., *Goodwill and Other Intangibles*, the Company completed its annual goodwill impairment assessment as of October 1, 2021 and concluded that goodwill was not impaired. It is reasonably possible that potential adverse impacts of the factors noted above could result in the recognition of material impairments of goodwill and other long-lived assets or other related charges in future periods.

Lastly, during 2021, the Company incurred significantly higher legal costs due to its obligation to indemnify certain former officers and employees as a result of exhaustion of its directors and officers insurance during the early part of 2020. In particular, spending activity was elevated during the first nine months of 2021 as a result of the United States Attorney's Office for the Northern District of Illinois (the "USAO") trial involving former officers and employees of the Company. With a verdict reached in the USAO trial matter involving former officers and employees in September 2021, the Company believes its costs related to the matter will cease. However, at this time, the Company is not able to estimate the potential future amount of its indemnity obligations related to the pending Securities and Exchange Commission (the "SEC") matter involving prior officers and employees. See Note 10., *Commitments and Contingencies* for further discussion of the Company's indemnification obligations. Accordingly, the above challenges may continue to have a material adverse impact on the Company's future results of operations, financial position, and liquidity.

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Power Solutions International, Inc. and its wholly owned subsidiaries. The Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and include the assets, liabilities, sales and expenses of all wholly owned subsidiaries and majority-owned subsidiaries in which the Company exercises control. All intercompany balances and transactions have been eliminated in consolidation.

The Company operates as one business and geographic operating segment. Operating segments are defined as components of a business that can earn revenues and incur expenses for which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker ("CODM"). The Company's CODM is its principal executive officer, who decides how to allocate resources and assess performance. A single management team reports to the CODM, who manages the entire business. The Company's CODM reviews consolidated statements of operations to make decisions, allocate resources and assess performance, and the CODM does not evaluate the profit or loss from any separate geography or product line.

Concentrations

The following table presents customers individually accounting for more than 10% of the Company's net sales:

	For the Year Ended December 31,	
	2021	2020
Customer A	17 %	14 %
Customer B	21 %	11 %

The following table presents customers individually accounting for more than 10% of the Company's trade accounts receivable:

	As of December 31,	
	2021	2020
Customer A	24 %	16 %
Customer C	**	22 %

** Less than 10% of the total

The following table presents suppliers individually accounting for more than 10% of the Company's purchases:

	For the Year Ended December 31,	
	2021	2020
Supplier A	**	22 %
Supplier B	12 %	**

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires that management 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions include the valuation of allowances for uncollectible receivables, inventory reserves, warranty reserves, stock-based compensation, evaluation of goodwill, other intangibles, plant and equipment for impairment, and determination of useful lives of long-lived assets. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that have original maturities of three months or less from the date of purchase. Such investments are stated at cost, which approximates fair value.

Restricted Cash

The Company is required to maintain minimum levels of cash collateral to support the letters of credit. The cash collateral is held in a separate bank account which the Company is restricted from accessing. As discussed in Note 10. *Commitments and Contingencies*, the Company had outstanding letters of credit of $2.1 million and $2.3 million at December 31, 2021 and 2020, respectively. The Company had restricted cash of $3.5 million and $3.3 million at December 31, 2021 and 2020, respectively.

Research and Development

R&D expenses are expensed when incurred. R&D expenses consist primarily of wages, materials, testing and consulting related to the development of new engines, parts and applications. These costs were $21.4 million and $24.3 million for 2021 and 2020, respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to be settled or realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent that it believes these assets will more likely than not be realized. In making such a 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 results of recent operations.

The Company records uncertain tax positions in accordance with accounting guidance, on the basis of a two-step process whereby (i) it determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority. Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more-likely-than-not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the appropriate taxing authority has completed its examination even though the statute of limitations remains open, or the statute of limitation has expired. Interest and penalties related to uncertain tax positions are

recognized as part of income tax expense and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable represent amounts billed to customers and not yet collected. Trade accounts receivable are recorded at the invoiced amount, which approximates net recoverable value, and generally do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable and is established through a charge to selling, general and administrative expenses. The allowance is primarily determined based on historical collection experience and reviews of customer creditworthiness. Trade accounts receivable and the allowance for doubtful accounts are reviewed on a regular basis. When necessary, an allowance for the full amount of specific accounts deemed uncollectible is recorded. Accounts receivable losses are deducted from the allowance and the account balance is written off when the customer receivable is deemed uncollectible. Recoveries of previously written off balances are recognized when received. An allowance associated with anticipated future sales returns is also included in the allowance for doubtful accounts.

Inventories

The Company's inventories consist primarily of engines and parts. Engines are valued at the lower of cost plus estimated freight-in or net realizable value. Parts are valued at the lower of cost or net realizable value. Net realizable value approximates replacement cost. Cost is principally determined using the first-in, first-out method and includes material, labor and manufacturing overhead. It is the Company's policy to review inventories on a continuing basis for obsolete, excess and slow-moving items and to record valuation adjustments for such items in order to eliminate non-recoverable costs from inventory. Valuation adjustments are recorded in an inventory reserve account and reduce the cost basis of the inventory in the period in which the reduced valuation is determined. Inventory reserves are established based on quantities on hand, usage and sales history, customer orders, projected demand and utilization within a current or future power system. Specific analysis of individual items or groups of items is performed based on these same criteria, as well as on changes in market conditions or any other identified conditions.

Inventories consist of the following:

(in thousands)	As of December 31,	
Inventories	**2021**	**2020**
Raw materials	$ 120,130	$ 89,684
Work in process	8,923	2,482
Finished goods	16,509	19,375
Total inventories	145,562	111,541
Inventory allowance	(3,370)	(3,328)
Inventories, net	$ 142,192	$ 108,213

Activity in the Company's inventory allowance was as follows:

(in thousands)	For the Year Ended December 31,	
Inventory Allowance	**2021**	**2020**
Balance at beginning of period	$ 3,328	$ 2,964
Charged to expense	1,035	1,436
Write-offs	(993)	(1,072)
Balance at end of period	$ 3,370	$ 3,328

Property, Plant and Equipment

Property, plant and equipment is carried at cost and presented net of accumulated depreciation and impairments. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property, plant and equipment is evaluated periodically to determine if an adjustment to depreciable lives is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets.

Repairs and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated.

Estimated useful lives by each type of asset category are as follows:

	Years
Buildings	Up to 39
Leasehold improvements	Lesser of (i) expected useful life of improvement or (ii) life of lease (including likely extension thereof)
Machinery and equipment	1 to 10

Intangible Assets

The Company's intangible assets include customer relationships, developed technology, trade names and trademarks. Intangible assets are amortized on an accelerated basis over a period of time that approximates the pattern over which the Company expects to gain the estimated economic benefits, and such period generally ranges between three years and 15 years.

Impairment of Long-Lived Assets

The Company assesses potential impairments to its long-lived assets or asset groups, excluding goodwill which is separately tested for impairment, whenever events indicate that the carrying amount of such assets may not be recoverable. Long-lived assets are evaluated for impairment by comparing the carrying value of the asset or asset group with the estimated future net undiscounted cash flows expected to result from the use of the asset or asset group, including cash flows from disposition. If the future net undiscounted cash flows are less than the carrying value, an impairment loss is calculated. An impairment loss is determined by the amount that the asset's or asset group's carrying value exceeds its estimated fair value. Estimated fair value is generally measured by discounting estimated future cash flows. If an impairment loss is recognized, the adjusted balance becomes the new cost basis and is depreciated (amortized) over the remaining useful life. The Company also periodically reassesses the useful lives of its long-lived assets due to advances and changes in technologies.

As a result of the recent COVID-19 pandemic and its impacts on the global economy, it is reasonably possible that the Company will be adversely impacted in future periods which may result in the recognition of material impairment charges related to its long-lived assets.

Goodwill

Goodwill represents the excess of the cost of an acquired business over the amounts assigned to the net acquired assets. Goodwill is not amortized but is tested for impairment at the reporting unit level, on an annual basis or more frequently, if events occur or circumstances change indicating potential impairment. The Company annually tests goodwill for impairment on October 1.

In evaluating goodwill for impairment, the Company may first assess qualitative factors to determine whether it is more likely than not (i.e., there is a likelihood of more than 50%) that the Company's fair value is less than its carrying amount. Qualitative factors that the Company considers include, but are not limited to, macroeconomic and industry conditions, overall financial performance and other relevant entity-specific events. If the Company bypasses the qualitative assessment, or if the Company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then the Company performs a quantitative goodwill impairment test to identify potential goodwill impairment and measures the amount of goodwill impairment it will recognize, if any.

In the quantitative goodwill impairment test, the Company compares the estimated fair value of the reporting unit with its related carrying value. If the estimated fair value exceeds the carrying amount, no further analysis is needed. If, however, the reporting unit's estimated fair value is less than its carrying amount, the Company records an impairment for the difference between the estimated fair value and the carrying value.

The Company calculates its estimated fair value using the income and market approaches when feasible, or an asset approach when neither the income nor the market approach has sufficient data. For the income approach, a discounted cash flow method, the Company uses internally developed discounted cash flow models that include the following assumptions, among others: projections of revenues, expenses and related cash flows based on assumed long-term growth rates and demand trends, expected future investments to grow new units, and estimated discount rates. The Company based these assumptions on its historical data and experience, industry projections, and micro and macro general economic condition projections and expectations. The market approach, also called the Guideline Public Company Approach, compares the value of an entity to similar publicly traded companies. The asset approach estimates the selling price the unit could achieve under assumed market conditions.

During the year ended December 31, 2021 and 2020, the Company performed a quantitative assessment and determined that the estimated fair value of the reporting unit exceeded the carrying value; as such, no impairment charges were recognized.

As a result of the recent COVID-19 pandemic and its impacts on the global economy, it is reasonably possible that the Company will be adversely impacted in future periods which may result in the recognition of material goodwill impairment charges.

Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)	As of December 31,	
Other Accrued Liabilities	**2021**	**2020**
Accrued product warranty	$ 15,830	$ 14,928
Litigation reserves *	894	3,128
Contract liabilities	1,819	47,960
Accrued compensation and benefits	4,397	3,124
Operating lease liabilities	3,978	3,793
Accrued interest expense	625	895
Other	7,258	3,791
Total	$ 34,801	$ 77,619

* As of December 31, 2020 and 2021, litigation reserves related to various ongoing legal matters including associated legal fees.

Warranty Costs

The Company offers a standard limited warranty on the workmanship of its products that in most cases covers defects for a defined period. Warranties for certified emission products are mandated by the U.S. Environmental Protection Agency (the "EPA") and / or the California Air Resources Board (the "CARB") and are longer than the Company's standard warranty on certain emission-related products. The Company's products also carry limited warranties from suppliers. The Company's warranties generally apply to engines fully manufactured by the Company and to the modifications the Company makes to supplier base products. Costs related to supplier warranty claims are generally borne by the supplier and passed through to the end customer.

Warranty estimates are based on historical experience and represent the projected cost associated with the product. A liability and related expense are recognized at the time products are sold. The Company adjusts estimates when it is determined that actual costs may differ from initial or previous estimates. The Company's warranty liability is generally affected by failure rates, repair costs and the timing of failures. Future events and circumstances related to these factors could materially change the estimates and require adjustments to the warranty liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available.

The Company records adjustments to preexisting warranties for changes in its estimate of warranty costs for products sold in prior fiscal years in the period in which new information is received and the information indicates that actual costs may differ from the Company's initial or previous estimates. Such adjustments typically occur when claims experience deviates from historic and expected trends.

When the Company identifies cost effective opportunities to address issues in products sold or corrective actions for safety issues, it initiates product recalls or field campaigns. As a result of the uncertainty surrounding the nature and frequency of product recalls and field campaigns, the liability for such actions is generally recorded when the Company commits to a product recall or field campaign. In each subsequent quarter after a recall or field campaign is initiated, the recorded warranty liability balance is analyzed, reviewed and adjusted, if necessary, to reflect any changes in the anticipated average cost of repair or number of repairs to be completed prospectively.

When collection is reasonably assured, the Company also estimates the amount of warranty claim recoveries to be received from its suppliers. Warranty costs and recoveries are included in *Cost of sales* in the Consolidated Statements of Operations. Included in accounts receivable is approximately $4.5 million of reimbursements of warranty from a significant supplier.

Accrued product warranty activities are presented below:

(in thousands) Accrued Product Warranty	For the Year Ended December 31, 2021	2020
Balance at beginning of year	$ 31,542	$ 25,501
Current year provision *	18,242	18,272
Changes in estimates for preexisting warranties **	9,397	8,738
Payments made during the period	(26,233)	(20,969)
Balance at end of year	32,948	31,542
Less: Current portion	15,830	14,928
Noncurrent accrued product warranty	$ 17,118	$ 16,614

* Warranty costs, net of supplier recoveries, were $22.8 million and $19.5 million for the year ended December 31, 2021 and 2020, respectively. Supplier recoveries were $4.8 million and $7.5 million for the year ended December 31, 2021 and 2020, respectively.

** Change in estimates for preexisting warranties reflect changes in the Company's estimate of warranty costs for products sold in prior periods. Such adjustments typically occur when claims experience deviates from historic and expected trends. The Company's warranty liability is generally affected by failure rates, repair costs and the timing of failures. Future events and circumstances related to these factors could materially change the estimates and require adjustments to the warranty liability. In addition, new product launches require a greater use of judgment in developing estimates until historical experience becomes available. The Company recorded charges for changes in estimates for preexisting warranties of $9.4 million, or $0.41 per diluted share, and $8.7 million, or $0.38 per diluted share, for the years ended December 31, 2021 and 2020, respectively.

Revenue Recognition

See Note 2. *Revenue* for additional information the Company's policy related to revenue recognition.

Recently Issued Accounting Pronouncements – Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance requires the use of existing accounting guidance applicable to software developed for internal use to be applied to cloud computing service contracts' implementation costs. The costs capitalized would be amortized over the life of the agreement, including renewal option periods likely to be used. The Company adopted the standard effective January 1, 2020 on a prospective basis. There was no impact on the Company's financial statements including the related notes as a result of adopting the guidance.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,* which both reduces and expands selected disclosure requirements. The principal changes expected to impact the Company's disclosure are requirements to disclose the range and weighted average of each of the significant unobservable items and the way the weighted average of a range is calculated for items in the "table of significant unobservable inputs." The guidance also requires disclosure of changes in unrealized gains and losses in other comprehensive income and removes requirements regarding, among other items, disclosure of the valuation process for Level 3 measurements. The Company adopted the standard effective January 1, 2020. There was no impact on the Company's financial statements including the related notes as a result of adopting the guidance.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*, which eliminated the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The ASU is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019; early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company adopted the standard effective January 1, 2020 on a prospective basis. There was no impact on the Company's Consolidated Balance Sheets, Statements of Operations, Statements of Cash Flows or Statement of Stockholders' Equity (Deficit) as a result of the adoption.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting*, which provided optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendment allows entities to elect not to apply certain modification accounting requirements to contracts affected by reference rate reform if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. The guidance was effective upon issuance and expires after December 31, 2022. There was no impact on the Company's Consolidated Balance Sheets, Statements of Operations, Statements of Cash Flows or Statement of Stockholders' Equity (Deficit) as a result of this

guidance. The Company continues to monitor contracts potentially impacted by reference rate reform, including the Company's debt agreements, and will continue to assess the potential impacts of this guidance as reference rates are updated.

Recently Issued Accounting Pronouncements – **Not Yet Adopted**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments,* which applies primarily to the Company's accounts receivable impairment loss allowances. The guidance provides a revised model whereby the current expected credit losses are used to compute impairment of financial instruments. The new model requires evaluation of historical experience and various current and expected factors, which may affect the estimated amount of losses and requires determination of whether the affected financial instruments should be grouped in units of account. The guidance, as originally issued, was effective for fiscal years beginning after December 15, 2019. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates*, which deferred the effective dates of these standards for certain entities. Based on the guidance, the effective date of ASU 2016-13 is deferred for the Company until fiscal year 2023. The Company currently plans to adopt the guidance on January 1, 2023 when it becomes effective. The Company is continuing to assess the impact of the standard on its financial statements.

Note 2. Revenue

Revenue Recognition

The Company determines the amount of revenue to be recognized through the following steps:

- identification of the contract, or contracts with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies the performance obligations.

Revenue for the Company is generated from contracts that may include a single performance obligation (generally, a single type of engine) or multiple performance obligations (which may include an engine with aftermarket parts, different types of engines, etc.). A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. Revenue is measured at the transaction price which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company is required to estimate the total consideration expected to be received from contracts with customers. The consideration expected to be received may be variable based on the specific terms of the contract and the Company's past practices.

For contracts with multiple performance obligations, the Company allocates the total transaction price to distinct performance obligations based on directly observable data, if available, or the Company's best estimate of the stand-alone selling price of each distinct performance obligation. The primary method used to estimate stand-alone selling price is the cost plus a margin approach.

The Company applies significant judgment in order to identify and determine the number of performance obligations, determine the total transaction price, allocate the transaction price to each performance obligation, and determine the appropriate timing of revenue recognition.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis; that is, such taxes are excluded from revenues.

The Company's payment terms are generally 60 days or less and its sales arrangements do not contain any significant financing components.

Timing of revenue recognition. The Company recognizes revenue related to performance obligations in its contracts with customers when control passes to the customer. Control passes to the customer when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. For the majority of the Company's products, revenue is recognized at a point in time when the products are shipped or delivered to the customer based on the shipping terms as that is the point in time when control passes to the customer. For the years ended December 31, 2021 and 2020, the Company recognized revenue of $415.7 million and $370.7 million, respectively, related to products shipped or delivered at a point in time.

The Company also recognizes revenue over time primarily when the Company's performance obligations include enhancing a customer-controlled asset (generally when an engine is provided by the customer), constructing an asset with no alternative

future use and the Company has an enforceable right to payment throughout the period as the services are performed, or providing services over time such as an extended warranty beyond the Company's standard warranty. The Company recognizes revenue throughout the manufacturing process when constructing an asset based on labor hours incurred because the customer receives the benefit of the asset as the product is constructed. The Company believes labor hours incurred relative to total estimated labor hours at completion faithfully depicts the transfer of control to the customer. The Company recognizes revenue related to extended warranty programs based on the passage of time over the extended warranty period. For the years ended December 31, 2021 and 2020, the Company recognized revenue of $40.6 million and $46.9 million, respectively, for products manufactured and services provided over time.

Shipping and handling costs. The Company accounts for shipping and handling costs as fulfillment costs which are recorded in *Cost of sales* in the Consolidated Statements of Operations. This includes shipping and handling costs incurred after control of the asset has transferred to the customer as the Company has elected the practical expedient in ASC 606.

Principal vs. agent considerations. For transactions that involve more than one party when providing goods or services to a customer, the Company determines whether it is the principal or agent in these transactions by evaluating the nature of its promise to the customer. The analysis of whether the Company is a principal or an agent in a transaction is performed for each good or services provided to the customer. The Company determines whether it controls the good or service before it is transferred to the customer by considering the following factors:

a. Whether the Company is primarily responsible for fulfilling the promise to provide the specified good or service.
b. Whether the Company has inventory risk before the specified good or service has been transferred to the customer or after transfer of control to the customer.
c. Whether the Company has discretion in establishing the price for the specified good or service.

If the Company determines that it is the principal in the transaction, it recognizes revenues at the gross transaction price for the good or service. If the Company determines that is an agent in the transaction, it recognizes revenue at the net amount of the transaction price.

The Company has two significant supply agreements with multiple performance obligations related to the sale of 6.0L engines. As a result of the Weichai ownership change in April 2019 (see additional discussion in Note 3. *Weichai Transactions)*, the Company was required to be compliant with Phase 1 GHG standards beginning January 1, 2020 for its 6.0L and 8.8L engines. In order to address the impact of the transition of its emission regulation requirements in 2020 and 2021, the Company licensed its technology to a third-party small manufacturer to produce and certify the 6.0L gasoline engine and utilized averaging, banking, and trading compliance provisions for the sale of its 8.8L gasoline engine. As a result of outsourcing the production of the 6.0L gasoline engine, the Company considered whether it was the principal or agent in the transactions with its customers related to the 6.0L gasoline engine. With the exception of certain parts sold directly to customers, the Company concluded that it remained the principal in the transactions. The Company recognized revenue related to contracts with customers for 6.0L engines of $103.7 million in 2021.

Variable consideration. Variable consideration primarily includes rebates and discounts. The Company estimates the projected amount of rebates and discounts based on current assumptions, customer-specific information and historical experience. Variable consideration is recorded as a reduction of revenue to the extent that it is probable that there will not be significant changes to the Company's estimate of variable consideration when any uncertainties are settled.

Costs to obtain and fulfill a contract. The Company has elected the practical expedient to recognize incremental costs to obtain a contract (primarily commissions) as expense when incurred since the amortization period of the asset that the Company otherwise would have recognized is one year or less.

Disaggregation of Revenue

The following table summarizes net sales by end market:

(in thousands)	For the Year Ended December 31,	
End Market	**2021**	**2020**
Power Systems	$ 123,132	$ 149,282
Industrial	153,289	131,026
Transportation	179,834	137,331
Total	$ 456,255	$ 417,639

The following table summarizes net sales by geographic area:

(in thousands)	For the Year Ended December 31,	
Geographic Area	**2021**	**2020**
United States	$ 406,077	$ 366,445
North America	8,616	9,831
Pacific Rim	25,457	25,869
Europe	7,457	9,339
Other	8,648	6,155
Total	$ 456,255	$ 417,639

Contract Balances

Most of the Company's contracts are for a period of less than one year; however, certain long-term manufacturing and extended warranty contracts extend beyond one year. The timing of revenue recognition may differ from the time of invoicing to customers and these timing differences result in contract assets, or contract liabilities on the Company's Consolidated Balance Sheet. Contract assets include amounts related to the contractual right to consideration for completed performance when the right to consideration is conditional. The Company records contract liabilities when cash payments are received or due in advance of performance. Contract assets and contract liabilities are recognized at the contract level.

(in thousands)	As of December 31,	
	2021	**2020**
Short-term contract assets (included in *Prepaid expenses and other current assets*)	$ 2,707	$ 547
Short-term contract liabilities (included in *Other accrued liabilities*)	(1,819)	(47,960)
Long-term contract liabilities (included in *Noncurrent contract liabilities*)	(3,330)	(3,181)
Net contract liabilities	$ (2,442)	$ (50,594)

During the year ended December 31, 2021 and 2020, the Company recognized $47.2 million and $30.8 million of revenue upon satisfaction of performance obligations related to amounts that were included in the net contract liabilities balance as of December 31, 2020 and 2019, respectively. The decrease in the contract liabilities from December 31, 2020 to December 31, 2021 is primarily related to the prepayment for 6.0L gasoline engine by a customer under a long-term supply agreement. At December 31, 2021 the Company had no contract liability related to prepayments of 6.0L gasoline engines, and $46.4 million as of December 31, 2020.

Remaining Performance Obligations

The Company has elected the practical expedient to not disclose remaining performance obligations that have expected original durations of one year or less. For performance obligations that extend beyond one year, the Company had $4.1 million of remaining performance obligations as of December 31, 2021 primarily related to a long-term manufacturing contract with a customer and extended warranties. The Company expects to recognize revenue related to these remaining performance obligations of approximately $0.8 million in 2022, $0.8 million in 2023, $0.9 million in 2024, $0.5 million in 2025, $0.8 million in 2026 and $0.3 million in 2027 and beyond.

Note 3. Weichai Transactions

In March 2017, the Company and Weichai executed the SPA in which the Company issued stock and a warrant to Weichai for aggregate proceeds of $60.0 million (the "Weichai Transactions"), composed of the following:

- 2,728,752 shares of Common Stock;
- 2,385,624 shares of Series B Redeemable Convertible Preferred Stock ("Series B Convertible Preferred Stock") that was converted into 4,771,248 shares of Common Stock in November 2017; and
- the Weichai Warrant as discussed further below.

The Company used proceeds from the sale of the above securities pursuant to the SPA and borrowings under the Credit Agreement to pay off the outstanding TPG Term Loan (the "TPG Term Loan") with TPG Specialty Lending, Inc. ("TPG").

Weichai Shareholder's Loan Agreements

In December 2020, the Company entered into the $130 million First Shareholder's Loan Agreement with Weichai. The First Shareholder's Loan Agreement was amended and restated in March 2021 and again on March 25, 2022. On July 14, 2021, the Company entered into the $25 million Second Shareholder's Loan Agreement with Weichai, which was amended and restated on March 25, 2022. On December 10, 2021, the Company entered into the $50 million Third Shareholder's Loan Agreement with Weichai. See additional discussion of these debt agreements in Note 6. *Debt.*

Weichai Collaboration Arrangement and Other Related Party Transactions

The Company and Weichai executed a strategic collaboration agreement (the "Collaboration Agreement") on March 20, 2017, in order to achieve their respective strategic objectives and enhance the strategic cooperation alliance to share experiences, expertise and resources. Among other things, the collaboration arrangement established a joint steering committee, permitted Weichai to second a limited number of certain technical, marketing, sales, procurement and finance personnel to work at the Company and established several collaborations, related to stationary natural-gas applications and Weichai diesel engines. The collaboration arrangement provided for the steering committee to create various sub-committees with operating roles and otherwise governs the treatment of intellectual property of parties prior to the collaboration and the intellectual property developed during the collaboration. The Collaboration Agreement had a term of three years that was set to expire in March 2020. On March 26, 2020, the Collaboration Agreement was extended for an additional term of three years.

The Company evaluates whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. The Company also reevaluates whether an arrangement qualifies or continues to qualify as a collaborative arrangement whenever there is a change in either the roles of the participants or the participants' exposure to significant risks and rewards dependent on the ultimate commercial success of the endeavor. For those collaborative arrangements where it is determined that the Company is the principal participant, costs incurred and revenue generated from third parties are recorded on a gross basis in the financial statements. For the years ended December 31, 2021 and 2020, the Company's sales to and outstanding receivables from Weichai were immaterial. The Company purchased $12.4 million and $18.6 million of inventory from Weichai during 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Company had outstanding payables to Weichai of $12.5 million and $4.0 million, respectively.

Note 4. Property, Plant and Equipment

Property, plant and equipment by type were as follows:

(in thousands)	As of December 31,	
Property, Plant and Equipment	**2021**	**2020**
Leasehold improvements	$ 7,107	$ 6,725
Machinery and equipment	44,358	43,030
Construction in progress	1,125	1,670
Total property, plant and equipment, at cost	52,590	51,425
Accumulated depreciation	(35,246)	(31,244)
Property, plant and equipment, net	$ 17,344	$ 20,181

Note 5. Goodwill and Other Intangibles

Goodwill

The carrying amount of goodwill at both December 31, 2021 and 2020 was $29.8 million. Accumulated impairment losses at both December 31, 2021 and 2020 were $11.6 million.

Other Intangible Assets

Components of intangible assets are as follows:

(in thousands)	As of December 31, 2021		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Customer relationships	$ 34,940	$ (27,514)	$ 7,426
Developed technology	700	(680)	20
Trade names and trademarks	1,700	(1,362)	338
Total	$ 37,340	$ (29,556)	$ 7,784

(in thousands)	As of December 31, 2020		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Customer relationships	$ 34,940	$ (25,117)	$ 9,823
Developed technology	700	(650)	50
Trade names and trademarks	1,700	(1,254)	446
Total	$ 37,340	$ (27,021)	$ 10,319

Estimated future amortization expense for intangible assets as of December 31, 2021 is as follows:

(in thousands) **Year Ending December 31,**	**Estimated Amortization**
2022	$ 2,124
2023	1,746
2024	1,459
2025	1,219
2026	997
2027 and beyond	239
Total	$ 7,784

Note 6. Debt

The Company's outstanding debt consisted of the following:

(in thousands)	As of December 31,	
	2021	2020
Short-term financing:		
Revolving credit facility	$ 130,000	$ 130,000
Other short-term financing	25,000	—
Total Short-Term Debt	$ 155,000	$ 130,000
Long-term debt:		
Long-term financing	$ 25,000	$ —
Finance leases and other debt	$ 890	$ 1,091
Total long-term debt and finance leases	25,890	1,091
Less: Current maturities of long-term debt and finance leases	254	310
Long-term debt	$ 25,636	$ 781

* Unamortized financing costs and deferred fees on the Revolving Credit Facility are not presented in the above table as they are classified in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. Unamortized debt issuance costs, including gross waiver fees (primarily paid to the lenders), were $0.8 million and $1.1 million at December 31, 2021 and 2020, respectively.

The Company paid $3.7 million and $4.2 million in cash for interest in 2021 and 2020, respectively.

Credit Agreement and Shareholders' Loan Agreements

On March 26, 2021, the Company entered into the Amended and Restated Credit Agreement with Standard Chartered. The Amended and Restated Credit Agreement allows the Company to borrow up to $130.0 million, is uncommitted, and was subject to maturity on March 25, 2022. Borrowings under the Amended and Restated Credit Agreement incurred interest at either the alternate base rate or LIBOR plus 2.70%. In addition, the Company paid fees of $1.9 million related to the Amended and Restated Credit Agreement, which were deferred and amortized over the term of the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement was secured by substantially all of the Company's assets and included financial covenants related to the Company's financial performance for the second, third, and fourth quarters of 2021. There were no financial covenants applicable to the first quarter of 2021. The Amended and Restated Credit Agreement provided Standard Chartered the right to demand payment of any and all of the outstanding borrowings and other amounts owed under the Amended and Restated Credit Agreement at any point in time prior to the maturity date at Standard Chartered's discretion. Furthermore, the Amended and Restated Credit Agreement granted Standard Chartered a power of attorney (POA) to submit a borrowing request to Weichai under the amended Shareholder's Loan Agreement (see discussion below) if the Company did not submit a borrowing request to Weichai within five business days of receiving a request from Standard Chartered to submit said borrowing request. As of December 31, 2021, the Company had $130.0 million outstanding under the Amended and Restated Credit Agreement.

In connection with the Amended and Restated Credit Agreement, on March 26, 2021, the Company entered into the First Shareholder's Loan Agreement. The First Shareholder's Loan provided the Company with a $130.0 million secured subordinated loan facility that expires on April 25, 2022. Under the First Shareholder's Loan, Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the Amended and Restated Credit Agreement if the Company is unable to repay such borrowings. Any potential borrowings under the First Shareholder's Loan Agreement were to be at LIBOR plus 4.5% per annum. As of December 31, 2021, there were no borrowings under the First Shareholder's Loan Agreement.

As discussed above, the Amended and Restated Credit Agreement included financial covenants which were effective for the Company beginning with the three months ended June 30, 2021 and each of the third and fourth quarters of 2021. The financial covenants include an interest coverage ratio and a minimum EBITDA threshold as further defined in the Amended and Restated Credit Agreement. For the three months ended June 30, 2021 and September 30, 2021, the Company did not meet the defined minimum interest coverage nor EBITDA requirements. A breach of the financial covenants under the Amended and Restated Credit Agreement constitutes an event of default which, if not cured or waived, could result in the obligations under the Amended and Restated Uncommitted Revolving Credit Agreement being accelerated. On November 9, 2021, the Company entered into a waiver with Standard Chartered, which waived the financial covenant defaults for the quarters ended June 30 and September 30, 2021. In connection with the waiver, a waiver fee of $0.6 million was remitted to Standard Chartered in November 2021. Further, the Company breached the financial covenants for the three months ended December 31, 2021; however. it received a waiver from Standard Chartered for no additional fee as part of the March 25, 2022 amendment and restatement to the Amended and Restated Credit Agreement as described below.

On July 14, 2021, the Company entered into the Second Shareholder's Loan Agreement with Weichai. The Second Shareholder's Loan Agreement provided the Company with a $25.0 million uncommitted facility that is subordinated to the Amended and Restated Credit Agreement and any borrowing requests made under the Second Shareholder's Loan Agreement are subject to Weichai's discretionary approval. Borrowings under the Second Shareholder's Loan Agreement incurred interest at LIBOR plus 4.5% and were to be used for general corporate purposes, except for certain legal expenditures which required additional approval from Weichai. The Second Shareholder's Loan Agreement expires on May 20, 2022 with any outstanding principal and accrued interest due upon maturity. As of December 31, 2021, the Company had $25.0 million outstanding under the Second Shareholder's Loan Agreement.

On December 10, 2021, the Company entered into the Third Shareholder's Loan Agreement with Weichai. The Third Shareholder's Loan Agreement provides the Company with a $50.0 million uncommitted facility that is subordinated to the Amended and Restated Credit Agreement and any borrowing requests made under the Third Shareholder's Loan Agreement are subject to Weichai's discretionary approval. Borrowings under the Third Shareholder's Loan Agreement bear interest at LIBOR plus 4.5% and can be used for general corporate purposes, except for certain legal expenditures which require additional approval from Weichai. The Third Shareholder's Loan Agreement expires on November 30, 2022 with any outstanding principal and accrued interest due upon maturity. As of December 31, 2021, the Company had $25.0 million outstanding under the Second Shareholder's Loan Agreement.

As of December 31, 2021, the Company's total outstanding debt obligations under the Amended and Restated Credit Agreement, the Second Shareholder's Loan Agreement and the Third Shareholder's Loan Agreement were $180.9 million in the aggregate, and its cash and cash equivalents were $6.3 million. See Item 8 Note 6. *Debt*, for additional information.

On March 25, 2022, the Company amended and restated its $130.0 million Amended and Restated Uncommitted Revolving Credit Agreement with Standard Chartered. The Second Amended and Restated Credit Agreement extends the maturity date of loans outstanding under its previous credit facility to the earlier of March 24, 2023 or the demand of Standard Chartered. As

part of the amendment and restatement, Standard Chartered agreed to waive any existing event of default under the existing credit agreement, resulting from the breach of the financial covenants for the quarter ended December 31, 2021. No additional fee was incurred with this waiver. The Second Amended and Restated Uncommitted Revolving Credit Agreement is subject to customary events of default and covenants, including minimum consolidated EBITDA and Consolidated Interest Coverage Ratio covenants for the second and third quarters of 2022. Borrowings under the Second Amended and Restated Credit Agreement will incur interest at either the alternate base rate or the Secured Overnight Financing Rate ("SOFR") plus 2.95% per annum. In addition, the Company paid fees of $1.8 million related to the Second Amended and Restated Uncommitted Revolving Credit Agreement, which will be deferred and amortized over the term of the Second Amended and Restated Uncommitted Revolving Credit Agreement. The Second Amended and Restated Credit Agreement continues to be secured by substantially all of the Company's assets and contains the same provisions as described above with respect to Standard Chartered's demand rights and its power of attorney (POA). As of March 24, 2022, the Company had $130.0 million outstanding under the Second Amended and Restated Credit Agreement.

In connection with the Second Amended and Restated Credit Agreement, on March 25, 2022, the Company also amended two of the three shareholder's loan agreements with Weichai, to among other things, extend the maturities thereof. The Amended First Shareholder's Loan Agreement continues to provide the Company with a $130.0 million subordinated loan under which Weichai is obligated to advance funds solely for purposes of repaying outstanding borrowings under the Second Amended and Restated Credit Agreement if the Company is unable to pay such borrowings. The Amended Second Shareholder's Loan Agreement continues to provide the Company with a $25.0 million subordinated loan at the discretion of Weichai. The maturity of the Amended First Shareholder's Loan Agreement was extended to April 24, 2023 and the maturity of the Amended Second Shareholder's Loan Agreement was extended to May 20, 2023. Borrowings under both agreements will bear interest at an annual rate equal to SOFR plus 4.65% per annum. Further, if the applicable term SOFR is negative, the interest rate per annum shall be deemed as 4.65% per annum. If the interest rate for any loan is lower than Weichai's borrowing cost, the interest rate for such loan shall be equal to Weichai's borrowing cost plus 1%. Both of the agreements are subject to customary events of default and covenants. The Company has covenanted to secure any amounts borrowed under either of the agreements upon payment in full of all amounts outstanding under the Second Amended and Restated Uncommitted Revolving Credit Agreement. As of March 24, 2022, there were no borrowings under the Amended First Shareholder's Loan Agreement and $25.0 million under the Amended Second Shareholder's Loan Agreement.

As of March 24, 2022, PSI had borrowed $35.7 million under the Third Shareholder's Loan Agreement.

See Item 8., Note 1. *Summary of Significant Accounting Policies and Other Information* for further discussion of the Company's going concern considerations.

The below schedule of remaining maturities of long-term debt excludes finance leases (refer to Item 8., Note 7. *Leases*).

(in thousands)

Year Ending December 31,		**Maturities of Long-Term Debt**
2022	$	104
2023		112
2024		120
2025		33
2026		9
Total	$	378

Note 7. Leases

Lease Policies

The Company determines if an arrangement contains a lease in whole or in part at the inception of the contract. Right-of-use ("ROU") assets represent the right to use an underlying asset for the lease term while lease liabilities represent the obligation to make lease payments arising from the lease. All leases with an expected term greater than twelve months result in the recognition of a ROU asset and a liability at the lease commencement date based on the present value of the lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the lease commencement date to determine the present value of the lease payments unless the implicit rate in the lease is readily determinable. The incremental borrowing rate is determined considering factors such as the lease term, the Company's credit standing and the economic environment of the location of the lease.

The lease term includes all non-cancellable periods and may include options to extend (or to not terminate) the lease when it is reasonably certain that the Company will exercise the option. Leases that have a term of 12 months or less at the commencement date are expensed on a straight-line basis over the lease term and do not result in the recognition of a ROU asset or lease liability.

The Company classifies leases as finance leases when (i) there is a transfer of ownership of the underlying asset by the end of the lease term, (ii) the lease contains an option to purchase the asset that the Company is reasonably certain will be exercised, (iii) the lease term is for the majority of the remaining economic life of the asset, or (iv) the present value of the lease payments and any residual value guarantee equals or substantially exceeds the fair value of the asset.

Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is generally front-loaded as the finance lease ROU asset is depreciated on a straight-line basis, but interest expense on the lease liability is recognized using the interest method which results in more expense during the early years of the lease. Variable lease payments are expensed in the period in which the obligation for those payments is incurred. The Company has elected to combine lease and non-lease components, such as fixed maintenance costs, as a single lease component in calculating ROU assets and lease liabilities for all classes of leased assets.

Leases

The Company has obligations under lease arrangements primarily for facilities, equipment and vehicles. These leases have original lease periods expiring between January 2021 and August 2039. For the year ended December 31, 2021 and 2020, the Company recorded lease expense of $6.1 million and $6.6 million*,* respectively, within *Cost of sales,* $0.3 million and $0.7 million, respectively, within *Research, development and engineering expenses*, $0.2 million and $0.3 million, respectively, within *Selling, general and administrative expenses* and less than $0.1 million for both periods within *Interest expense* in the Consolidated Statement of Operations.

The following table summarizes the components of lease expense:

(in thousands)	For the Year Ended December 31,	
	2021	**2020**
Operating lease cost	$ 4,855	$ 5,452
Finance lease cost:		
Amortization of ROU asset	192	208
Interest expense	33	48
Short-term lease cost	267	410
Variable lease cost	1,276	1,493
Total lease cost	$ 6,623	$ 7,611

The following table presents supplemental cash flow information related to leases:

(in thousands)	For the Year Ended December 31,	
	2021	**2020**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows paid for operating leases	$ 4,959	$ 5,405
Operating cash flows paid for interest portion of finance leases	33	48
Financing cash flows paid for principal portion of finance leases	194	195
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	137	299
Finance leases	—	11

As of December 31, 2021 and 2020, the weighted-average remaining lease term was 5.8 years and 6.2 years for operating leases and 3.4 years and 3.8 years for finance leases, respectively. The weighted-average discount rate was 7.1% and 7.1% for operating leases as of December 31, 2021 and 2020, respectively, and 6.5% and 6.7% for finance leases as of December 31, 2021 and 2020, respectively.

The following table presents supplemental balance sheet information related to leases:

(in thousands)	As of December 31,	
	2021	2020
Operating lease ROU assets, net [1]	$ 13,545	$ 17,104
Operating lease liabilities, current [2]	3,978	3,793
Operating lease liabilities, non-current [3]	10,304	14,156
Total operating lease liabilities	$ 14,282	$ 17,949
Finance lease ROU assets, net [1]	$ 364	$ 568
Finance lease liabilities, current [2]	147	200
Finance lease liabilities, non-current [3]	260	413
Total finance lease liabilities	$ 407	$ 613

1. Included in *Other noncurrent assets* for operating leases and *Property, plant and equipment, net* for finance leases on the Consolidated Balance Sheets.
2. Included in *Other accrued liabilities* for operating leases and *Current maturities of long-term debt* for finance leases on the Consolidated Balance Sheets.
3. Included in *Other noncurrent liabilities* for operating leases and *Long-term debt, net of current maturities* for finance leases on the Consolidated Balance Sheets.

The following table presents maturity analysis of lease liabilities as of December 31, 2021:

(in thousands) **Year Ending December 31,**	**Operating Leases**	**Finance Leases**
2022	$ 4,859	$ 168
2023	3,347	103
2024	1,815	84
2025	1,851	82
2026	1,515	17
Thereafter	4,023	—
Total undiscounted lease payments	17,410	454
Less: imputed interest	3,128	47
Total lease liabilities	$ 14,282	$ 407

Note 8. Fair Value of Financial Instruments

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, the Company classifies each fair-value measurement as follows:

- Level 1 – based on quoted prices in active markets for identical assets or liabilities;
- Level 2 – based on other significant observable inputs for the assets or liabilities through corroborations with market data at the measurement date; and
- Level 3 – based on significant unobservable inputs that reflect management's best estimate of what market participants would use to price the assets or liabilities at the measurement date.

Financial Instruments Measured at Carrying Value

Current Assets

Cash and cash equivalents are measured at carrying value, which approximates fair value because of the short-term maturities of these instruments.

Debt

The Company measures the Revolving Credit Facility and Other financing at original carrying value including accrued interest, net of unamortized deferred financing costs and fees. The fair value of the revolving credit facility approximates carrying value, as it consists of short-term variable rate loans.

(in thousands)	As of December 31, 2021			
		Fair Value		
	Carrying Value	Level 1	Level 2	Level 3
Revolving credit facility	$ 130,000	$ —	$ 130,000	$ —
Other financing	50,000	—	50,000	

(in thousands)	As of December 31, 2020			
		Fair Value		
	Carrying Value	Level 1	Level 2	Level 3
Revolving credit facility	$ 130,000	$ —	$ 130,000	$ —

Other Financial Assets and Liabilities

In addition to the methods and assumptions used for the financial instruments discussed above, accounts receivable, net, income tax receivable, and accounts payable and certain accrued expenses are measured at carrying value, which approximates fair value because of the short-term maturities of these instruments.

Note 9. Defined Contribution Plans

As of December 31, 2020, the Company made contributions of $0.8 million to the plans (primarily related to the contributions for 2019). During 2021, the Company made contributions of $0.8 million. As a result of the COVID-19 pandemic, the Company implemented certain cost savings measures beginning in April 2020 which included, among other things, the discontinuation of the Company's 401(k) match through December 31, 2020. The 401(k) match was reimplemented effective January 1, 2021.

Note 10. Commitments and Contingencies

Legal Contingencies

The legal matters discussed below and others could result in losses, including damages, fines, civil penalties and criminal charges, which could be substantial. The Company records accruals for these contingencies to the extent the Company concludes that a loss is both probable and reasonably estimable. Regarding the matters disclosed below, unless otherwise disclosed, the Company has determined that liabilities associated with these legal matters are reasonably possible; however, unless otherwise stated, the possible loss or range of possible loss cannot be reasonably estimated. Given the nature of the litigation and investigations and the complexities involved, the Company is unable to reasonably estimate a possible loss for all such matters until the Company knows, among other factors the following:

- what claims, if any, will survive dispositive motion practice;
- the extent of the claims, particularly when damages are not specified or are indeterminate;
- how the discovery process will affect the litigation;
- the settlement posture of the other parties to the litigation; and
- any other factors that may have a material effect on the litigation or investigation.

However, the Company could incur judgments, enter into settlements or revise its expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on the Company's results of operations in the period in which the amounts are accrued and/or liquidity in the period in which the amounts are paid.

Securities and Exchange Commission and United States Attorney's Office for the Northern District of Illinois Investigations

In September 2020, the Company entered into agreements with the SEC and the USAO to resolve the investigations into the Company's past revenue recognition practices. Under the settled administrative order with the SEC, the Company committed to remediate the deficiencies in its internal control over financial reporting that constituted material weaknesses identified in its 2017 Form 10-K filed in May 2019 by April 30, 2021 unless an extension was provided by the SEC. On April 12, 2021, the SEC granted the Company's request for an extension of time until March 31, 2022 in which to comply with the requirements of

the administrative order to remediate the remaining outstanding material weaknesses. Due to the progress achieved in remediating the material weaknesses, in March 2022 the Company formally requested an additional extension from the SEC. To the extent that the Company's request for an extension from the SEC, or other actions are not successful and completed in accordance with the provisions of the settlement with the SEC and USAO, the Company may be required to incur additional time and expense towards further remediation efforts and incremental substantive procedures, which could have a material adverse effect on its results of operations. In addition, failure to comply with the provisions of the settlement agreements with the SEC and USAO could result in further actions by one or both governmental agencies which could have a material adverse effect on the Company's results of operations.

Jerome Treadwell v. the Company

In October 2018, a putative class-action complaint was filed against the Company and NOVAtime Technology, Inc. ("NOVAtime") in the Circuit Court of Cook County, Illinois. In December 2018, NOVAtime removed the case to the U.S. District Court for the Northern District of Illinois, Eastern Division under the Class Action Fairness Act. Plaintiff has since voluntarily dismissed NOVAtime from the lawsuit without prejudice and filed an amended complaint in April 2019. The operative, amended complaint asserts violations of the Illinois Biometric Information Privacy Act ("BIPA") in connection with employees' use of the time clock to clock in and clock out using a finger scan and seeks statutory damages, attorneys' fees, and injunctive and equitable relief. An aggrieved party under BIPA may recover (i) $1,000 per violation if the Company is found to have negligently violated BIPA or (ii) $5,000 per violation if the Company is found to have intentionally or recklessly violated BIPA plus reasonable attorneys' fees. In May 2019, the Company filed its motion to dismiss the plaintiff's amended complaint. In December 2019, the court denied the Company's motion to dismiss. In January 2020, the Company moved for reconsideration of the court's order denying the motion to dismiss, or in the alternative, to stay the case pending the Illinois Appellate Court's ruling in *McDonald v. Symphony Healthcare* on a legal question that would be potentially dispositive in this matter. In February 2020, the court denied the Company's motion for reconsideration, but required the parties to submit additional briefing on the Company's motion to stay. In April 2020, the court granted the Company's motion to stay and stayed the case pending the Illinois Appellate Court's ruling in *McDonald v. Symphony Healthcare*. In October 2020, after the *McDonald* ruling, the court granted the parties' joint request to continue the stay of the case for 60 days. The court also ordered the parties to schedule a settlement conference with the Magistrate Judge in May 2021 which went forward without a settlement being reached. The stay remains in place pending further guidance from the Court. As of December 31, 2021 and December 31, 2020, the Company had recorded an estimated liability of $0.3 million, recorded within *Other accrued liabilities* on the Consolidated Balance Sheet related to the settlement of this matter, related to the potential settlement of this matter.

Mast Powertrain v. the Company

In February 2020, the Company received a demand for arbitration from Mast Powertrain, LLC ("Mast") pursuant to a development agreement entered into in November 2011 (the "Development Agreement"). Mast claimed that it is owed more than $9.0 million in past royalties and other damages for products sold by the Company pursuant to the Development Agreement. The Company disputed Mast's damages, denied that any royalties are owed to Mast, denied any liability, and counterclaimed for overpayment on invoices paid to Mast. Mast subsequently clarified its claim for past royalties owed to be approximately $4.5 million. In July 2021, the Company reached a settlement with Mast to resolve past claims for royalties owed for $1.5 million which the Company had previously recorded within *Selling, general and administrative expenses* in the Statement of Operations for the year-ended December 31, 2020. As of December 31, 2021 and December 31, 2020, the Company had recognized a liability of $0.5 million and $1.5 million, respectively, within *Other accrued liabilities* on the Consolidated Balance Sheet related to the settlement of this matter. In addition, the Company entered into an agreement with Mast under which Mast will provide various technical services.

Gary Winemaster Litigation v. The Company

In August 2021, the Company's former Chairman of the Board and former Chief Executive Officer and President, Gary Winemaster ("Winemaster") filed suit in the Court of Chancery of the State of Delaware against the Company and Travelers Casualty and Surety Company of America ("Travelers") alleging the Company's breach of its advancement obligations under Winemaster's indemnification agreement and Travelers' breach of the side A policy between Traveler's and the Company of which Winemaster is a beneficiary. In his complaint, Winemaster is seeking reimbursement under his indemnification agreement in excess of $7.2 million of attorney's fees plus interest incurred by Winemaster in his defense of the Department of Justice ("DOJ") case, *U.S. v. Winemaster et al.*. Since the filing of the complaint, Travelers has paid approximately $7.5 million to Winemaster's attorneys, Latham and Watkins, under the Company's side A policy to settle existing outstanding attorney's fees. The Company expects Travelers to seek reimbursement from it for those costs pursuant to the terms of the side A policy. In October 2021, the Company and Gary Winemaster entered into a Stipulation and Advancement Order to handle all future attorney's fees relating to his DOJ case and his pending SEC case, *SEC v. Winemaster et al.* to the extent not reimbursed by Travelers under the side A policy.

Jeffrey Ehlers and Rick Lulloff Litigation

In September 2021 Jeffrey Ehlers and Rick Lulloff ("Lulloff"), former employees of the Company, made demand against the Company for approximately $2.4 million and $1.2 million, respectively, for alleged wages due and owing under each employee's employment contract related to "Incentive Bonuses" for revenues generated in the Company's transportation end market. In November 2021, Lulloff and Ehlers separately filed complaints against the Company in the Circuit Court of Cook County, Illinois, alleging breach of contract and violations of the Illinois Wage and Payment Collection Act incorporating their claims in the above referenced demand letter. The Company filed a notice of removal from the Circuit Court of Cook County, Illinois and have also moved to consolidate the cases which is still being considered. Given the preliminary stage of the matter, the Company cannot predict the outcome of this matter, the reasonable possibility or range of loss, or meaningfully quantify how the final resolution of this matter may impact its results of operations, financial condition or cash flow and therefore no accrual has been made as of December 31, 2021

Indemnification Agreements

Under the Company's bylaws and certain indemnification agreements, the Company has obligations to indemnify current and former officers and directors and certain current and former employees. As a result of cumulative legal fees and settlements previously paid, the Company fully exhausted its primary directors' and officers' insurance coverage of $30.0 million during the first quarter of 2020. Additional expenses currently expected to be incurred and that will occur in the future and/or liabilities that may be imposed in connection with actions against certain of the Company's past directors and officers and certain former employees who are entitled to indemnification will be funded by the Company with its existing cash resources. The Company accrues for such costs as incurred within *Selling, general and administrative expenses* in the Company's Consolidated Statements of Operations. For the year ended December 31, 2021, the Company incurred $15.7 million of costs related to these indemnification obligations and $7.1 million for the twelve months ended December 31, 2020. Included in the total indemnification obligations incurred for the year ended December 31, 2021 are costs of $9.8 million that the Company incurred on behalf of Gary Winemaster, former Chairman of the Board and former Chief Executive Officer and President, who is also a related party. For the year ended December 31, 2020 these costs were $3.6 million.

In June 2020, the Company entered into a new directors' and officers' liability insurance policy, which was renewed in June 2021. The insurance policy includes standard exclusions including for any ongoing or pending litigation such as the previously disclosed investigations by the SEC and USAO.

Other Commitments

At December 31, 2021, the Company had five outstanding letters of credit totaling $2.1 million. The letters of credit primarily serve as collateral for the Company for certain facility leases and insurance policies. As discussed in Note 1. *Summary of Significant Accounting Policies and Other Information*, the Company had restricted cash of $3.5 million at December 31, 2021 related to these letters of credit.

The Company has arrangements with certain suppliers that require it to purchase minimum volumes or be subject to monetary penalties. As discussed in Note 1. *Summary of Significant Accounting Policies and Other Information*, oil prices have increased from their lows reached in April 2020. However, U.S. rig counts have been slower to return and average rig counts remain significantly below the full year average during 2019. Meanwhile, capital spending within the U.S. oil markets remains well below 2019 levels. This has impacted the demand for the Company's products sold into the oil and gas market. Based on current and forecasted demand of the Company's products, and the significant lead time for the Company to order and acquire certain materials, the Company does not expect to meet the minimum purchase commitment for 2021 related to one of its supply agreements and recorded an expense of $1.6 million within *Cost of sales* in the Consolidated Statement of Operations for the twelve months ended December 31, 2021.

Note 11. Income Taxes

Income tax benefit was as follows:

(in thousands)	For the Year Ended December 31,	
	2021	2020
Current tax benefit		
Federal	$ (418)	$ (2,299)
State	(17)	25
Foreign	—	13
Total current tax benefit	$ (435)	$ (2,261)
Deferred tax expense (benefit)		
Federal	$ (106)	$ (1,710)
State	135	258
Total deferred tax expense (benefit)	29	(1,452)
Total tax benefit	$ (406)	$ (3,713)

The Company made net cash payments for income taxes of less than $0.1 million in 2021 while it received net cash refunds for income taxes of $0.2 million in 2020.

A reconciliation between the Company's effective tax rate on income (loss) before income taxes and the statutory tax rate is as follows:

(in thousands)	For the Year Ended December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
Income tax benefit at federal statutory rate	$ (10,264)	21.0 %	$ (5,606)	21.0 %
State income tax, net of federal benefit	(2,185)	4.5 %	(1,979)	7.4 %
Other permanent differences	1	— %	(185)	0.7 %
Research and development tax credits	(551)	1.1 %	(551)	2.1 %
Other tax credits	291	(0.6)%	(555)	2.1 %
Tax reserve reassessment	157	(0.3)%	(7)	— %
Impact of CARES Act	—	— %	(1,390)	5.2 %
Change in valuation allowance	12,361	(25.3)%	6,348	(23.8)%
Return adjustment	(278)	0.6 %	213	(0.8)%
Stock-based compensation	74	(0.2)%	104	(0.4)%
Other, net	(12)	— %	(105)	0.4 %
Income tax benefit	$ (406)	0.8 %	$ (3,713)	13.9 %

For the year ended December 31, 2021, the Company recognized a pretax loss of $48.9 million. For the year ended December 31, 2020, the Company recognized a pretax loss of $26.7 million.

The Company generates R&D tax credits as a result of its R&D activities, which reduce the Company's effective income tax rate. In general, these credits are general business credits and may be carried forward up to 20 years to be offset against future taxable income.

Significant components of deferred income tax assets and liabilities consisted of the following:

(in thousands)	As of December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss carryforwards	$ 30,967	$ 19,167
Research and development credits	5,168	4,982
Other state credits	3,090	3,372
Inventory	2,511	2,693
Allowances and bad debts	1,146	1,356
Accrued warranty	9,492	8,441
Accrued wages and benefits	107	240
Other accrued expenses	4,533	1,789
Stock-based compensation	182	223
Capitalized research and development costs	160	210
163(j) disallowed interest	1,634	2,305
Intangible amortization	668	1,357
Contract liabilities	1,005	3,307
Operating lease liability	3,862	4,934
Other	752	612
Total deferred tax assets	65,277	54,988
Valuation allowance	(60,177)	(48,056)
Total deferred tax assets, net of valuation allowance	$ 5,100	$ 6,932
Deferred tax liabilities:		
ROU operating lease asset	$ (3,537)	$ (4,545)
Tax depreciation in excess of book depreciation on property, plant and equipment	(2,579)	(3,273)
Total deferred tax liabilities	$ (6,116)	$ (7,818)
Net deferred tax liability	$ (1,016)	$ (886)

The Company's net deferred tax liability is presented as a separate line item in the Consolidated Balance Sheets.

A valuation allowance is required to be established or maintained when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The guidance on accounting for income taxes provides important factors in determining whether a deferred tax asset will be realized, including whether there has been sufficient taxable income in recent years and whether sufficient income can reasonably be expected in future years in order to utilize the deferred tax asset.

The Company evaluated the need to maintain a valuation allowance for deferred tax assets based on an assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. As a result of this evaluation, the Company concluded that the negative evidence outweighed the positive evidence and that a full valuation allowance should be maintained against its net deferred tax assets as of December 31, 2021 and 2020. The Company's net deferred tax liability of $1.0 million and $0.9 million as of December 31, 2021 and 2020, respectively, represents the deferred tax liability related to indefinite-lived assets which cannot serve as a source of income for the realization of deferred tax assets.

As of December 31, 2021, the Company has, on a tax-effected basis, $8.3 million in R&D and state tax credit carryforwards which begin to expire in 2022. The Company has $22.8 million and $8.2 million of federal and state (tax effected, net of federal tax benefit) net operating loss carryforwards that are available to offset taxable income in the future. The federal and state net operating loss carryforwards begin to expire in 2037 and 2026, respectively.

The change in unrecognized tax benefits excluding interest and penalties were as follows:

(in thousands)	For the Year Ended December 31,	
	2021	2020
Balance at beginning of year	$ 1,431	$ 1,430
Additions based on tax positions related to the current year	102	103
Additions (reductions) for tax positions of prior years	55	(102)
Balance at end of year	$ 1,588	$ 1,431

The Company recognizes interest and penalties related to unrecognized tax benefits in *Income tax expense*. As of December 31, 2021 and 2020, the amount accrued for interest and penalties was not material. The Company reflects the liability for unrecognized tax benefits as *Other noncurrent liabilities* in its Consolidated Balance Sheets. The amounts included in "reductions for tax positions of prior years" represent decreases in the unrecognized tax benefits relating to expiration of the statutes during each year shown.

As of December 31, 2021, the Company believes the liability for unrecognized tax benefits, excluding interest and penalties, could decrease by an immaterial amount in 2022 due to lapses in the statute of limitations. Due to the various jurisdictions in which the Company files tax returns, it is possible that there could be other significant changes in the amount of unrecognized tax benefits in 2022, but the amount cannot be estimated.

With few exceptions, the major jurisdictions subject to examination by the relevant tax authorities and open tax years, stated as the Company's fiscal years, are as follows:

Jurisdiction	Open Tax Years
U.S. Federal	2014 to 2021
U.S. States	2013 to 2021
Canada	2018 to 2020

The Company is currently under federal income tax audit for tax years 2014, 2015 and 2016. The Company is currently under Illinois income tax audit for tax years 2013, 2014, 2015 and 2016.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, President Trump signed into law the CARES Act. Among the changes to the U.S. federal income tax rules, the CARES Act modified net operating loss carryback rules that were eliminated by the 2017 *Tax Cuts and Jobs Act*, restored 100% bonus depreciation for qualified improvement property, increased the limit on the deduction for net interest expense and accelerated the time frame for refunds of alternative minimum tax credits. The Company's ability to carryback the net operating losses to earlier years is expected to result in a tax benefit of $0.6 million and $2.2 million in 2021 and 2020, respectively. There is no net impact to the Company's deferred tax assets due to the full valuation allowance.

Note 12. Stockholders' Equity (Deficit)

Common and Treasury Stock

The changes in shares of Common and Treasury Stock are as follows:

(in thousands)	Common Shares Issued	Treasury Stock Shares	Common Shares Outstanding
Balance as of December 31, 2019	23,117	260	22,857
Net shares issued for stock awards	—	(35)	35
Balance as of December 31, 2020	23,117	225	22,892
Net shares issued for stock awards	—	(34)	34
Balance as of December 31, 2021	23,117	191	22,926

Preferred Stock

The Company is authorized to issue 5,000,000 shares of Preferred stock, par value $0.001 per share. The Preferred stock may be designated into one or more series as determined by the Board. As of December 31, 2021, the Board had authorized two series of Preferred stock. At December 31, 2021 and 2020, there were no shares of Preferred stock outstanding.

Note 13. Stock-Based Compensation

The Company has an incentive compensation plan (the "2012 Plan"), which authorizes the granting of a variety of different types of awards including, but not limited to, non-qualified stock options, incentive stock options, Stock Appreciation Rights ("SARs"), Restricted Stock Awards ("RSAs"), deferred stock and performance units to its executive officers, employees, consultants and Directors. The 2012 Plan is administered by the Compensation Committee of the Board.

Under the 2012 Plan, 830,925 shares were initially made available for awards, with 700,000 additional shares added to the 2012 Plan in 2013. Forfeited shares are added back to the pool of shares available for future awards.

As of December 31, 2021, the Company had 417,024 shares available for issuance of future awards. To date, the Company's granted awards have generally been either RSAs or SARs.

SAR awards entitle the recipients to receive, upon exercise, a number of shares of Common Stock equal to (i) the number of shares for which the SAR is being exercised multiplied by the value of one share of Common Stock on the date of exercise (determined as provided in the SAR award agreement), less (ii) the number of shares for which the SAR is being exercised multiplied by the applicable exercise price, divided by (iii) the value of one share of Common Stock on the date of exercise (determined as provided in the SAR award agreement). The exercised SAR is to be settled only in whole shares of Common Stock, and the value of any fractional share of Common Stock is forfeited.

RSA grants represent Common Stock issued subject to forfeiture or other restrictions that will lapse upon satisfaction of specified conditions.

Both SAR awards and RSA grants are time-based awards that generally vest over a 2 to 3-year vesting schedule (except grants to members of the Board which have a 1-year vesting schedule). SAR awards generally have a term of 10 years. Compensation expense for recipients of these time-based awards is recognized on a straight-line basis over the vesting period from the date of grant. The Company accounts for forfeitures as they occur rather than apply an estimated forfeiture rate. Stock-based compensation expense is primarily recorded is *Selling, general and administrative expenses* in the Consolidated Statements of Operations.

RSAs are valued based on the fair value of the common stock at grant date.

For all SAR award assumptions, the Company used rates on the grant date of zero-coupon government bonds with maturities over periods covering the term of the awards. The Company considered the historical volatility of its stock price over a term similar to the expected life of the awards in determining expected volatility. The expected term is the period that the awards granted are expected to remain outstanding. The Company has never declared or paid a cash dividend on its Common Stock and has no plans to pay cash dividends in the foreseeable future.

The following table represents stock-based compensation expense and the related income tax benefits:

(in thousands)	For the Year Ended December 31,	
	2021	2020
Stock-based compensation expense	$ 394	$ 607
Income tax benefit	$ 74	$ 104

SAR Awards

The Company did not grant SAR awards in 2021, and granted 50,000 SAR awards in 2020. The assumptions used for determining the fair value of the SARs included the following:

	For the Year Ended December 31,	
	2021	2020
Market closing price of the Common Stock	$ —	$ 4.83
Exercise price	$ —	$ 4.83
Risk-free interest rate	— %	1.8 %
Estimated price volatility	— %	71.9 %
Expected term	0.00 years	7.00 years
Dividend yield	— %	— %
Weighted average fair value	$ —	$ 3.28

SAR activity consisted of the following:

Number of Shares under SARs	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2019	130,070	$ 9.41	7.21	$ 11
Granted	50,000	4.83		—
Exercised	—	—		—
Forfeited	—	—		—
Expired	(4,500)	11.25		—
Outstanding at December 31, 2020	175,570	8.06	7.04	—
Granted	—	4.83		—
Exercised	—	—		—
Forfeited	—	—		—
Expired	(45,050)	8.60		—
Outstanding at December 31, 2021	130,520	7.87	6.18	—
Exercisable at December 31, 2020	119,569	$ 9.00	6.46	$ —
Exercisable at December 31, 2021	111,853	$ 8.32	5.91	$ —

The total fair value of SARs that vested during 2021 and 2020 was $0.1 million and $0.2 million, respectively. Unrecognized compensation expense related to SARs as of December 31, 2021 and 2020 was $0.1 million and $0.1 million, respectively. As of December 31, 2021, the weighted-average period over which the unrecognized compensation cost is expected to be recognized was approximately 1.0 year.

Restricted Stock Awards

Restricted stock activity consisted of the following:

	Shares	Weighted-Average Grant Date Fair Value
December 31, 2019	65,686	$ 18.58
Granted	12,500	4.49
Forfeited	—	—
Vested	(40,814)	12.92
Balance as of December 31, 2020	37,372	$ 20.05
Granted	38,263	3.45
Forfeited	(1,503)	36.00
Vested	(40,886)	9.70
Balance as of December 31, 2021	33,246	$ 12.96

The total grant date fair value of restricted stock that vested during 2021 and 2020 was $0.4 million and $0.5 million, respectively. Unrecognized compensation expense related to RSAs as of December 31, 2021 and 2020 was $0.3 million and $0.5 million, respectively. As of December 31, 2021, the weighted-average period over which the unrecognized compensation cost is expected to be recognized was approximately 1.4 years.

Note 14. Earnings (Loss) Per Share

The Company computes basic earnings (loss) per share by dividing net loss by the weighted-average common shares outstanding during the year. Diluted earnings (loss) per share is calculated to give effect to all potentially dilutive common shares that were outstanding during the year. Weighted-average diluted common shares outstanding primarily reflect the additional shares that would be issued upon the assumed exercise of stock options and the assumed vesting of unvested share awards. The treasury stock method has been used to compute diluted earnings (loss) per share for 2021 and 2020.

The computations of basic and diluted earnings (loss) per share are as follows:

(in thousands, except per share basis)	For the Year Ended December 31,	
	2021	2020
Numerator:		
Net loss – basic and diluted	$ (48,472)	$ (22,982)
Denominator:		
Shares used in computing net loss per share		
Weighted-average common shares outstanding - basic	22,908	22,872
Effect of dilutive securities	—	—
Weighted-average common shares outstanding – diluted	22,908	22,872
Loss per common share		
Loss per share of common stock – basic	$ (2.12)	$ (1.00)
Loss per share of common stock – diluted	$ (2.12)	$ (1.00)

The aggregate number of shares excluded from the diluted earnings (loss) per share calculations because they would have been anti-dilutive were 0.2 million and 0.2 million shares in 2021 and 2020, respectively.

Note 15. Related Party Transactions

Weichai Transactions

See Note 3. *Weichai Transactions* for information regarding the Weichai SPA, Shareholder's Loan Agreement and Collaboration Agreement**.**

Transactions with Joint Ventures

MAT-PSI Holdings, LLC

In December 2012, the Company and MAT Holdings, Inc. ("MAT") entered into an agreement to create MAT-PSI Holdings, LLC ("MAT-PSI"), which was intended to be a holding company of its 100% Chinese wholly-owned foreign entity, referred to as Green Power. The Company invested $0.9 million for its 50% share of MAT-PSI, which was formed to manufacture, assemble and supply natural gas, gas and alternative-fueled power systems to Chinese and Asian forklift customers. The venture established a production facility in Dalian and also sourced base engines from a local Chinese factory. As MAT-PSI was not profitable, the venture was closed in 2017; however, the Company had previously been in dispute with Green Power related to the wind up of the joint venture and outstanding receivables. On March 29, 2021, the Company executed a settlement agreement with MAT and Green Power which resolved the dispute. The final settlement agreement did not have a material impact on the Company's consolidated financial statements.

Doosan-PSI, LLC

In 2015, the Company and Doosan Infracore Co., Ltd. ("Doosan"), a subsidiary of Doosan Group, entered into an agreement to form Doosan-PSI, LLC. The Company invested $1.0 million to acquire 50% of the venture, which was formed to operate in the field of developing, designing, testing, manufacturing, assembling, branding, marketing, selling, distributing and providing support for industrial gas engines and all components and materials required for assembly of the gas engines to the global power generation market outside of North America and South Korea. In the fourth quarter of 2019, Doosan and the Company agreed to wind down and dissolve the joint venture. In the second quarter of 2021, the Company received a cash distribution from the joint venture of $2.2 million as a result of the final wind down and dissolution of the joint venture.

Joint Venture Operating Results

The Company's investments in joint ventures are accounted for under the equity method of accounting. Expense from this investment for the twelve months ended December 31, 2021 was less than $0.1 million. Income from this investment $0.3 million for the twelve months ended December 31, 2020 The joint venture operating results are presented in *Other income, net* in the Company's Consolidated Statements of Operations.

Other Related Party Transactions

See Note 10. *Commitments and Contingencies* for information regarding the Company's indemnification obligations related to certain former directors and officers of the Company.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rule 13a-15(e) of the Exchange Act, as "controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act are recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms." The Company's disclosure controls and procedures are designed to ensure that material information relating to the Company and its consolidated subsidiaries is accumulated and communicated to its management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures as of December 31, 2021. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2021, because of the previously reported material weaknesses in internal control over financial reporting described below.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rules 13a-15(f) and 15d(f) under the Exchange Act, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal control can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or a combination of control deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021 based on the criteria established by the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework").

As a result of management's review of the Company's financial and accounting records and the other work completed by the management team and its advisers, management concluded that, as of December 31, 2021, the Company had material weaknesses relating to certain internal controls. These material weaknesses are summarized below, and remediation efforts completed or underway are outlined in the "Ongoing Remediation of Material Weaknesses in Internal Control over Financial Reporting" section below. These material weaknesses were previously reported in the Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and have been updated, as necessary, to reflect the control environment as of December 31, 2021.

In September 2020, the Company settled the investigations by the SEC and USAO into the Company's past revenue recognition practices. As part of the settlement, among other undertakings, the Company committed to remediate the deficiencies in its internal control over financial reporting that constituted material weaknesses by April 30, 2021. On April 12, 2021 the SEC granted the Company's request for an extension of time until March 31, 2022 in which to comply with the requirements of the administrative order to remediate the remaining material weaknesses. Due to the progress achieved in remediating the material weaknesses as noted in Changes in Internal Control over Financial Reporting below, the Company formally requested an additional extension from the SEC to remediate the three remaining material weaknesses below.

As of December 31, 2021, the Company did not maintain an effective control environment, primarily attributable to the following identified material weaknesses:

Information Technology Skillset and Competency: The Company did not have sufficient resources with appropriate levels of information technology ("IT") knowledge to adequately support the organization including, but not limited to, the design and implementation of robust IT general controls ("ITGC") to support internal control over financial reporting, the oversight of the Company's applications, systems and related training to the IT system user group.

Information Technology: The Company continues to make progress on the design of ITGCs. However, IT General Controls were not consistently operating effectively.

Warranty Reserves: The Company did not have sufficiently defined and implemented procedures or controls to ensure the completeness and accuracy of the warranty accrual. Specifically, during 2021, the Company identified an issue where certain warranty claims were not processed timely which impacted the estimation of the Company's warranty reserve. Warranty reserves have been included in the previously reported Reserves and Accruals material weakness.

Ongoing Remediation of Material Weaknesses in Internal Control over Financial Reporting

Management is committed to the continued implementation of remediation efforts to address the material weaknesses. The remediation efforts summarized below, which have been or will be implemented, are intended to both address the identified material weaknesses and to enhance the Company's overall internal control environment.

Skillset and Competency:

The Company continues to assess the level of and technical skills in its IT function to support the design and implementation of ITGCs. The IT function has been reorganized under the leadership of the Chief Information Officer who reports to the Chief Executive Officer. The Company also hired an IT Security lead and is actively recruiting for certain technical IT positions. The Company has continued to experience turnover in its IT function. The IT function will continue to receive control related training, consider additional hiring, and supplement with temporary resources. The Company will continue to assess IT skillset and competency during 2022.

Information Technology:

- The Company has reconstructed its ITGC framework to focus on controls that mitigate key financial reporting risks.
- The Company has designed and is implementing controls over access, change management and IT operations to ensure that access rights are restricted to appropriate individuals, and that data integrity is maintained via effective change management controls over system updates and the transfer of data between systems.
- The Company continues to adjust its Enterprise Resource Planning ("ERP") System to work towards improvement and automation of ITGC's as well as other business process application controls.
- The Company also continues to enhance procedures to validate the information produced by the entity and end user computing to compensate while the ITGC controls are being improved.

Warranty Reserves:

To reduce the risk of untimely warranty claims processing, the Company is implementing improvements to centrally receive and monitor incoming claims including transitioning customers to the use of a warranty claims submission portal. The organization is in the process of onboarding customers on the portal platform.

When fully implemented and operational, the Company believes the measures described above will remediate the control deficiencies that have led to the material weaknesses it has identified and will strengthen its internal control over financial reporting. The Company is committed to continuing to improve its internal control processes and it will continue to review its financial reporting controls and procedures. As the Company continues to evaluate and work to improve its internal control over financial reporting, it may determine that a need exists to take additional measures to address control deficiencies or modify certain remediation measures described above.

Conclusion

As a result of the material weaknesses described above, management has concluded that, as of December 31, 2021, the Company's internal control over financial reporting was ineffective.

In light of the material weaknesses in internal control over financial reporting, prior to filing this Annual Report on Form 10-K, the Company completed substantive procedures, including extensive temporary manual procedures and other measures as needed, to assist with meeting the objectives otherwise fulfilled by effective internal control over financial reporting. These procedures included, but were not limited to, conducting additional analysis and substantive procedures. These additional procedures have allowed the Company to conclude that, notwithstanding the material weaknesses in its internal control over financial reporting described above, the consolidated financial statements included herein fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

Changes in Internal Control over Financial Reporting

As previously disclosed under “Item 9A – Controls and Procedures” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020, management concluded that its internal control over financial reporting was not effective based on the material weaknesses identified.

As of December 31, 2021, the Company has completed remediation of the following previously reported material weaknesses: (i) Control Environment, (ii) Segregation of Duties, (iii) Revenue Accounting, (iv) Reserves and Accruals (other than Warranty Reserves), (v) Period-End Close/Accounting Documentation, and (vi)Data Maintenance:

Control Environment:

Since 2017, the Company has either replaced or appointed new Board and Audit Committee members, a Chief Executive Officer, a Chief Financial Officer, a Chief Commercial Officer, a Chief Information Officer and a Vice President, Internal Audit. These changes, along with the actions of these individuals and other senior management, have collectively improved the tone of integrity, transparency and support of the Company’s updated Code of Business Conduct and Ethics.

The Company updates its Code of Business Conduct and Ethics annually and implemented an ongoing training and certification program to help ensure employees understand and comply with the Code. The Company has also implemented a new case management application and formally documented its complaint reporting and investigative protocols. The Company continues to enhance the program to provide communications and training to employees across the entire organization regarding the importance of integrity and accountability.

The Company has established a process to timely identify and address internal control weaknesses throughout the control environment.

Segregation of Duties:

- The Company has established standards governing the segregation of incompatible duties across the organization.
- The Company has implemented a technical upgrade to its ERP and revised system access across the Company to improve the segregation of incompatible duties.
- The Company has designed various processes and controls to adequately segregate job responsibilities and system access throughout the organization and implemented applicable mitigating internal controls.

Revenue Accounting:

- The Company has designed and implemented policies and procedures to ensure that critical inputs affecting the accuracy and timeliness of revenue recognition and related reserves and sales allowances are communicated to the accounting department on a timely basis.
- The Company has established and implemented improved review and approval controls across the Company to ensure that revenue, including that of nonroutine revenue transactions, is recognized consistently in accordance with the terms of the contracts with customers and U.S. GAAP.
- The Company has developed and implemented sales transaction review procedures to ensure key transactions are appropriately reviewed and evaluated by the accounting department.

Reserves and Accruals:

The Company has enhanced controls over the review and approval of key reserves and accruals, including sales allowances and excess and obsolete inventory. While the Company has also enhanced controls over warranty reserves (which were included in the previously reported Reserves and Accruals material weakness), it is still in the process of improving the warranty claim processing process. The Company has disclosed a separate Warranty Reserves material weakness in the current filing.

Period-End Close/Accounting Documentation:

The Company has designed and implemented procedures and controls over the period-end close process and related documentation including, but not limited to, period-end checklists, review and approval of journal entries, taxes, inventory in-transit, account roll forwards and reconciliations, general-ledger account maintenance and financial statement analysis / thresholds.

Data Maintenance:

- The Company has designed and implemented procedures and controls to appropriately identify and assess changes made to data repositories that could significantly impact data integrity and the internal control framework, including, but not limited to, (i) creating centralized, complete and accurate data repositories, (ii) maintaining customer and vendor master files, employee data files, perpetual inventory records, inventory physical and cycle counts, and stock compensation agreements, and (iii) communicating an enterprise data management policy and record retention policy.

- The Company has developed procedures to ensure the completeness and accuracy of the data used in the design and operation of internal controls.

As part of the overall remediation plan, the Company designed and implemented review and approval controls over data utilized in various accounting processes. These controls address the accuracy, timely recording and completeness of data used in the determination of significant accounting estimates, reserves and valuations as well as impacted presentation and disclosures in accordance with U.S. GAAP.

Other than the remediation of the material weaknesses and ongoing remediation efforts described above, there have been no further changes in the Company's internal control over financial reporting during the year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Item 9B. Other Information.

None.

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

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference herein from the 2022 Proxy Statement to be filed with the SEC no later than 120 days after December 31, 2021. If the Proxy Statement is not filed with the SEC by such time, such information will be included in an amendment to this Annual Report by such time.

See also *Information about the Company's Executive Officers* in Part I of this Annual Report on Form 10-K.

The Company has adopted a code of business conduct and ethics that is applicable to its directors, officers and employees and is available on its website under the "Governance Documents/Committee Charters" tab within the "Governance" subsection of the "Investors" section of its website at *https://investors.psiengines.com/committee-chartersgovernance-documents.* The Company intends to include on its website any amendments to, or waivers from, a provision of the code of ethics that applies to its principal executive officer, principal financial officer or controller that relates to any element of the code of ethics definition contained in Item 406(b) of Regulation S-K.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference herein from the 2022 Proxy Statement to be filed with the SEC no later than 120 days after December 31, 2021. If the Proxy Statement is not filed with the SEC by such time, such information will be included in an amendment to this Annual Report by such time.

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

The information required by this item is incorporated by reference herein from the 2022 Proxy Statement to be filed with the SEC no later than 120 days after December 31, 2021. If the Proxy Statement is not filed with the SEC by such time, such information will be included in an amendment to this Annual Report by such time.

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

The information required by this item is incorporated by reference herein from the 2022 Proxy Statement to be filed with the SEC no later than 120 days after December 31, 2021. If the Proxy Statement is not filed with the SEC by such time, such information will be included in an amendment to this Annual Report by such time.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference herein from the 2022 Proxy Statement to be filed with the SEC no later than 120 days after December 31, 2021. If the Proxy Statement is not filed with the SEC by such time, such information will be included in an amendment to this Annual Report by such time.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following Financial Statements are filed as a part of this report:	Page
Report of Independent Registered Public Accounting Firm	41
Consolidated Balance Sheets as of December 31, 2021 and 2020	43
Consolidated Statements of Operations for 2021 and 2020	44
Consolidated Statements of Stockholders' Equity (Deficit) for 2021 and 2020	45
Consolidated Statements of Cash Flows for 2021 and 2020	46
Notes to Consolidated Financial Statements	47

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

EXHIBIT INDEX

The following documents listed below that have been previously filed with the SEC (1934 Act File No. 001-35944) are incorporated herein by reference:

			Incorporated by Reference Herein			
Exhibit No.		Exhibit Description	Form	Exhibit	Filing Date	File No.
2.1	†	Agreement and Plan of Merger dated April 29, 2011, by and among Format, Inc., PSI Merger Sub, Inc. and The W Group, Inc.	8-K	2.1	05/05/2011	000-52213
2.2		Stock Purchase Agreement, dated as of April 1, 2014, by and among Power Solutions International, Inc., Carl L. Trent, Kenneth C. Trent and CKT Holdings, Inc.	8-K	10.1	04/02/2014	001-35944
3.1		Certificate of Incorporation of Power Solutions International, Inc., a Delaware corporation, originally filed with the Secretary of State of the State of Delaware on August 12, 2011.	S-1/A	3.4	08/19/2011	333-174543
3.2		Amended and Restated Bylaws of Power Solutions International, Inc.	8-K	3.1	08/18/2015	001-35944
3.3		Form of Certificate of Designation of Series B Convertible Perpetual Preferred Stock of Power Solutions International, Inc.	8-K	3.1	03/27/2017	001-35944
3.4		Second Amended and Restated Bylaws of Power Solutions International, Inc., dated as of December 23, 2020.	8-K	3.1	12/31/2020	001-35944
4.1		Description of the registrant's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.	10-K	4.11	05/04/2020	001-35944
10.1	††	Power Solutions International, Inc. 2012 Incentive Compensation Plan.	8-K	10.3	06/07/2012	000-52213
10.2	††	Amendment No. 1 to the Power Solutions International, Inc. 2012 Incentive Compensation Plan.	DEF14A	Appendix A	08/02/2013	001-35944
10.3	††	Form of Restricted Stock Agreement by and between Power Solutions International, Inc. and each eligible employee.	8-K	10.1	06/20/2013	001-35944
10.4	††	Form of Indemnification Agreement by and between Power Solutions International, Inc. and certain Indemnitees.	8-K	10.1	01/09/2014	001-35944
10.5		Amended and Restated Lease Agreement, dated as of April 1, 2014, by and between Professional Power Products, Inc. and 448 W. Madison LLC.	8-K	10.2	04/02/2014	001-35944
10.6		Lease Agreement, dated as of October 1, 2014, by and between Power Solutions International, Inc. and Hamilton Lakes Commerce Center #4 Limited Partnership.	8-K	10.2	10/01/2014	001-35944
10.7		Lease Agreement, dated as of December 1, 2017, by and between Power Solutions International, Inc. and James Campbell Company LLC.	10-K	10.26	05/16/2019	001-35944
10.8		First Lease Amendment, dated as of July 11, 2018, by and between Power Solutions International, Inc. and Centerpoint Properties Trust, in connection with that certain Industrial Building Lease dated as of March 13, 2012, with respect to that certain premises located at 101 Mittel Drive (formerly 801 EC Drive) in Wood Dale, Illinois.	8-K	10.1	07/18/2018	001-35944

Exhibit No.		Exhibit Description	Incorporated by Reference Herein Form	Exhibit	Filing Date	File No.
10.9		Second Lease Amendment, dated as of July 11, 2018, by and between Power Solutions International, Inc. and CenterPoint Properties Trust, in connection with that certain Industrial Building Lease dated as of February 28, 2012, as further amended by that certain First Lease Amendment dated June 1, 2012, with respect to that certain premises located at 201 Mittel Drive, Wood Dale, Illinois.	8-K	10.2	07/18/2018	001-35944
10.10	†††	Addendum dated as of July 31, 2014, to Supply Agreement dated December 11, 2007, by and between Power Solutions International, Inc. and Doosan Infracore Co., Ltd., as amended.	8-K	10.1	08/06/2014	001-35944
10.11		Asset Purchase Agreement dated as of May 4, 2015 by and among Power Solutions International, Inc., Powertrain Integration Acquisition, LLC, as the Buyer, and Powertrain Integration, LLC and its principals, as the Seller.	8-K	10.1	05/06/2015	001-35944
10.12		Form of Investor Rights Agreement between Power Solutions International, Inc. and Weichai America Corp.	8-K	10.3	03/27/2017	001-35944
10.13		Shareholders Agreement by and among Power Solutions International, Inc., Weichai America Corp. and the Founding Stockholders, dated as of March 20, 2017.	8-K	10.4	03/27/2017	001-35944
10.14	†††	Strategic Collaboration Agreement between Weichai Power Co. Ltd. and Power Solutions International, Inc., dated March 20, 2017.	8-K	10.5	03/27/2017	001-35944
10.15		Securities Exchange Agreement, dated as of November 30, 2017, by and among Power Solutions International, Inc., and Weichai America Corp.	8-K	10.1	12/05/2017	001-35944
10.16	††	Employment Agreement, dated June 15, 2017, by and between Power Solutions International, Inc. and John P. Miller.	8-K/A	10.1	06/21/2017	001-35944
10.17	††	Employment Agreement, dated November 28, 2017, by and between Power Solutions International, Inc. and Kenneth Winemaster.	8-K	10.1	12/04/2017	001-35944
10.18		Amendment to the Power Solutions International, Inc. 2012 Incentive Compensation Plan (As Amended July 31, 2013).	10-K	10.40	05/16/2019	001-35944
10.19		Addendum #10, dated as of September 16, 2019, to Supply Agreement, dated as of December 11, 2007, by and between Power Solutions International, Inc. and Doosan Infracore Co., Ltd., as amended.	8-K	10.1	10/02/2019	001-35944
10.20		First Amendment to Strategic Collaboration Agreement, dated as of March 26, 2020, by and between the Company and Weichai Power.	8-K	10.1	04/01/2020	001-35944
10.21		Credit Agreement, dated as of March 27, 2020, between the Company and Standard Chartered Bank, as administrative agent.	8-K	10.1	04/06/2020	001-35944
10.22	††	Confidential Consulting Agreement	10-Q	10.1	05/04/2019	001-35944
10.23		First Amendment to Credit Agreement and Limited Waiver, dated as of December 28, 2020, among the Company, certain subsidiaries of the Company party thereto, the lenders party thereto and Standard Chartered Bank, as administrative agent.	8-K	10.1	12/31/2020	001-35944
10.24		Shareholder's Loan Agreement, dated as of December 28, 2020, between the Company and Weichai America Corp.	8-K	10.2	12/31/2020	001-35944
10.25		Employment Agreement, dated as of February 15, 2021, between the Company and Lance Arnett	8-K	10.1	02/16/2021	001-35944
10.26		Separation Agreement and Release, dated as of February 15, 2021, between the Company and John P. Miller	8-K	10.2	02/16/2021	001-35944
10.27		Retirement Agreement and Release, dated as of December 14, 2021, between the Company and Kenneth Winemaster	8-K	10.1	12/17/2021	001-35944
10.28		Shareholder's Loan Agreement, dated as of December 10, 2021, between the Company and Weichai America Corp.	8-K	10.1	12/16/2021	001-35944
10.29		Second Amended and Restated Uncommitted Revolving Credit Agreement, dated as of March 25, 2022, among the Company, certain subsidiaries of the Company party thereto, the lenders party thereto and Standard Chartered Bank, as administrative agent.	8-K	10.1	03/28/2022	001-35944
10.30		Second Amended and Restated Shareholder's Loan Agreement, dated as of March 25, 2022, between the Company and Weichai America Corp.	8-K	10.2	03/28/2022	001-35944
10.31		First Amended and Restated Shareholder's Loan Agreement, dated as of March 25, 2022, between the Company and Weichai America Corp.	8-K	10.3	03/28/2022	001-35944
10.35	* ††	Description of Long-Term Incentive Plan				
21.1	*	Subsidiaries of Power Solutions International, Inc.				
23.1	*	Consent of BDO USA, LLP				

Exhibit No.		Exhibit Description	Incorporated by Reference Herein Form	Exhibit	Filing Date	File No.
31.1	*	Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	*	Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1	**	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2	**	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	*	XBRL Instance Document.				
101.SCH	*	XBRL Taxonomy Extension Schema Document.				
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.LAB	*	XBRL Taxonomy Extension Labels Linkbase Document.				
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document.				
101.DEF	*	XBRL Taxonomy Definition Linkbase Document.				

* Filed with this Report.

** This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

† Exhibits and schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant agrees to furnish a supplemental copy of an omitted exhibit or schedule to the SEC upon request.

†† Management contract or compensatory plan or arrangement.

††† Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been separately filed with the SEC.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of March, 2021.

POWER SOLUTIONS INTERNATIONAL, INC.

By: /s/ Donald P. Klein
Name: **Donald P. Klein**
Title: Chief Financial Officer (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 31st day of March, 2021.

Signature	Title
/s/ Lance Arnett **Lance Arnett**	Chief Executive Officer (Principal Executive Officer)
/s/ Donald P. Klein **Donald P. Klein**	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Fabrizio Mozzi **Fabrizio Mozzi**	Chairman of the Board and Director
/s/ Shaojun Sun **Shaojun Sun**	Vice Chairman of the Board and Director
/s/ Lei Lei **Lei Lei**	Director
/s/ Sidong Shao **Sidong Shao**	Director
/s/ Kenneth W. Landini **Kenneth W. Landini**	Director
/s/ Frank P. Simpkins **Frank P. Simpkins**	Director
/s/ Hong He **Hong He**	Director

Description of Material Terms of Power Solutions International, Inc. LTI Plan for the period January 1, 2020 to December 31, 2022

Item	**Explanation**
Purpose	The primary objectives of this plan are to retain employees and align employees' incentives with the Company's long-term goals.
Eligibility	Vice President and above or high strategic value. The participants are subject to Board approval.
Target Incentive (TI)	The TI is calculated by multiplying each qualifying individual's Base Salary x LTI level related %. LTI Level — TI as % of Base Executive — 60% All others — 45%
Payout %	Payout % spans from 50% to 150% of TI. 50% is the guaranteed payout % and 150% is the maximum payout %. Payout % is determined by ROA over the three-year performance period.
Total Bonus	Total bonus is calculated by multiplying TI and payout %. The guaranteed payout % is 50%. The guaranteed bonus is 50% of TI after three years (guaranteed bonus).
Vesting Period and Time	1. 1/3 of guaranteed bonus will be vested on December 31, 2020 and paid out at first quarter of 2021. 2. 1/3 of guaranteed bonus will be vested on December 31, 2021 and paid out at first quarter of 2022. 3. 1/3 of guaranteed bonus and any other performance related bonus will be vested on December 31, 2022. The bonus will be paid out 30 days after 2022 audit results are approved by audit directors.
Funding	At the Company's discretion, payouts under the plan will be made in shares of stock based on the-then market price or in cash.
ROA	ROA (return on assets). Formula for ROA, ROA=Net profit/Average monthly Total Asset.

Total Bonus performance table:

Performance Indicator	Performance Range		
	Guaranteed	Plan (100%)	Maximum
ROA			
Payout %	50%	100%	150%

Exhibit 21.1

Power Solutions International, Inc.

and Consolidated Subsidiaries

100% Owned Subsidiaries of the Registrant

Name	Jurisdiction of Organization
Professional Power Products, Inc	An Illinois Corporation
Bi-Phase Technologies, LLC	A Minnesota Limited Liability Company
Powertrain Integration Acquisition, LLC	An Illinois Limited Liability Company
The W Group, Inc.	A Delaware Corporation

*Corporate joint ventures not shown by name in the above listing, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

100% Owned Subsidiaries of The W Group, Inc.

Name	Jurisdiction of Organization
Power Great Lakes, Inc.	An Illinois Corporation
PSI International, LLC	An Illinois Limited Liability Company

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Power Solutions International, Inc.
Wood Dale, Illinois

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-185096 and 333-191166) of Power Solutions International, Inc. of our report dated March 31, 2022, relating to the consolidated financial statements, which appears in this Form 10-K. Our report contains an explanatory paragraph regarding the Company’s ability to continue as a going concern.

/s/ BDO USA, LLP
Chicago, Illinois

March 31, 2022

Exhibit 31.1

CERTIFICATION PURSUANT TO 17 CFR 240.13a-14 PROMULGATED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lance Arnett, certify that:

1. I have reviewed this annual report on Form 10-K of Power Solutions International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March , 2022

By:	/s/ Lance Arnett
Name:	**Lance Arnett**
Title:	Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO 17 CFR 240.13a-14 PROMULGATED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donald P. Klein, certify that:

1. I have reviewed this annual report on Form 10-K of Power Solutions International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March , 2022

By: /s/ Donald P. Klein
Name: **Donald P. Klein**
Title: Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Power Solutions International, Inc. (the "Company") on Form 10-K for the twelve months ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lance Arnett, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March , 2022	By:	/s/ Lance Arnett
	Name:	**Lance Arnett**
	Title:	Chief Executive Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

Exhibit 32.2

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

In connection with the Quarterly Report of Power Solutions International, Inc. (the “Company”) on Form 10-K for the twelve months ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald P. Klein, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March , 2022	By:	/s/ Donald P. Klein
	Name:	**Donald P. Klein**
	Title:	Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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