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

FORM 10-Q

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

For the quarterly period ended March 31, 2022

or

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

For the transition period from ________to________
Commission file number 001-35944

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

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

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

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

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

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

As of May 9, 2022, there were 22,926,875 outstanding shares of the Common Stock of the registrant.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q for the three months ended March 31, 2022 (the "Quarterly 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2021, and from time to time in the Company's subsequent filings with the United States Securities and Exchange Commission (the "SEC"); 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 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 potential impact of higher 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 Quarterly Report on Form 10-Q. 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 – FINANCIAL INFORMATION

Item 1. Financial Statements.

POWER SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except par values)	As of March 31, 2022		As of December 31, 2021	
ASSETS				
Current assets:				
Cash and cash equivalents	$	2,267	$	6,255
Restricted cash		3,160		3,477
Accounts receivable, net of allowances of $3,623 and $3,420 as of March 31, 2022 and December 31, 2021, respectively		71,250		65,110
Income tax receivable		4,497		4,276
Inventories, net		139,061		142,192
Prepaid expenses and other current assets		11,255		8,918
Total current assets		231,490		230,228
Property, plant and equipment, net		15,985		17,344
Intangible assets, net		7,243		7,784
Goodwill		29,835		29,835
Other noncurrent assets		14,415		15,347
TOTAL ASSETS	$	298,968	$	300,538
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY				
Current liabilities:				
Accounts payable	$	82,603	$	93,256
Current maturities of long-term debt		223		254
Revolving line of credit		130,000		130,000
Other short-term financing		40,000		25,000
Other accrued liabilities		36,501		34,801
Total current liabilities		289,327		283,311
Deferred income taxes		1,388		1,016
Long-term debt, net of current maturities		25,586		25,636
Noncurrent contract liabilities		3,565		3,330
Other noncurrent liabilities		23,521		29,268
TOTAL LIABILITIES	$	343,387	$	342,561
STOCKHOLDERS' (DEFICIT) EQUITY				
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 shares issued; 22,927 and 22,926 shares outstanding at March 31, 2022 and December 31, 2021, respectively		23		23
Additional paid-in capital		157,639		157,436
Accumulated deficit		(200,965)		(198,366)
Treasury stock, at cost, 190 and 191 shares at March 31, 2022 and December 31, 2021, respectively		(1,116)		(1,116)
TOTAL STOCKHOLDERS' (DEFICIT) EQUITY		(44,419)		(42,023)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	$	298,968	$	300,538

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(in thousands, except per share amounts)	For the Three Months Ended March 31,	
	2022	**2021**
Net sales	$ 98,947	$ 100,171
Cost of sales	82,229	93,101
Gross profit	16,718	7,070
Operating expenses:		
Research, development and engineering expenses	4,560	6,224
Selling, general and administrative expenses	11,385	15,811
Amortization of intangible assets	541	634
Total operating expenses	16,486	22,669
Operating income (loss)	232	(15,599)
Other expense, net:		
Interest expense	2,445	2,161
Total other expense, net	2,445	2,161
Loss before income taxes	(2,213)	(17,760)
Income tax expense	386	390
Net loss	$ (2,599)	$ (18,150)
Weighted-average common shares outstanding:		
Basic	22,927	22,892
Diluted	22,927	22,892
Loss per common share:		
Basic	$ (0.11)	$ (0.79)
Diluted	$ (0.11)	$ (0.79)

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)

(in thousands)	For the Three Months Ended				
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' (Deficit) Equity
Balance at December 31, 2021	$ 23	$ 157,436	$ (198,366)	$ (1,116)	$ (42,023)
Net loss	—	—	(2,599)	—	(2,599)
Stock-based compensation expense	—	203	—	—	203
Balance at March 31, 2022	$ 23	$ 157,639	$ (200,965)	$ (1,116)	$ (44,419)
Balance at December 31, 2020	$ 23	$ 157,262	$ (149,894)	$ (1,294)	$ 6,097
Net loss	—	—	(18,150)	—	(18,150)
Stock-based compensation expense	—	109	—	—	109
Common stock issued for stock-based awards, net	—	—	—	(1)	(1)
Balance at March 31, 2021	$ 23	$ 157,371	$ (168,044)	$ (1,295)	$ (11,945)

See Notes to Consolidated Financial Statements

POWER SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
Cash (used in) provided by operating activities		
Net loss	$ (2,599)	$ (18,150)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of intangible assets	541	634
Depreciation	1,206	1,266
Stock-based compensation expense	203	109
Amortization of financing fees	837	1,158
Deferred income taxes	372	369
Other adjustments, net	343	574
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,140)	7,620
Inventory, net	3,182	(1,363)
Prepaid expenses and other assets	(739)	(84)
Accounts payable	(10,777)	24,287
Other current liabilities	1,706	(11,144)
Other noncurrent liabilities	(5,512)	405
Net cash (used in) provided by operating activities	(17,377)	5,681
Cash used in investing activities		
Capital expenditures	(116)	(617)
Other investing activities, net	—	10
Net cash used in investing activities	(116)	(607)
Cash provided by (used in) financing activities		
Repayments of long-term debt and lease liabilities	(87)	(102)
Proceeds from short-term financings	15,000	—
Payments of deferred financing costs	(1,725)	(2,536)
Net cash provided by (used in) financing activities	13,188	(2,638)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(4,305)	2,436
Cash, cash equivalents, and restricted cash at beginning of the period	9,732	24,267
Cash, cash equivalents, and restricted cash at end of the period	$ 5,427	$ 26,703

(in thousands)	As of March 31, 2022	As of March 31, 2021
Reconciliation of cash, cash equivalents, and restricted cash to the Consolidated Balance Sheets		
Cash and cash equivalents	$ 2,267	$ 23,404
Restricted cash	3,160	3,299
Total cash, cash equivalents, and restricted cash	$ 5,427	$ 26,703

See 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 par value $0.001 ("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 Certificate of Incorporation 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 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 Credit Agreement"). 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. The Second Amended and Restated 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. The Second Amended and Restated Credit Agreement continues to be secured by substantially all of the Company’s assets and provides Standard Chartered the right to demand payment of any and all of the outstanding borrowings and other amounts owed under the Second Amended and Restated Credit Agreement at any point in time prior to the maturity date at Standard Chartered’s discretion. Furthermore, the Second Amended and Restated Credit Agreement grants Standard Chartered a power of attorney (POA) to submit a borrowing request to Weichai under the amended first 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 March 31, 2022, the Company had $130.0 million outstanding under the Second Amended and Restated Credit Agreement.

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

In connection with the Second Amended and Restated Credit Agreement, on March 25, 2022, the Company also amended two of its 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 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 Credit Agreement. As of March 31, 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 is also party to another shareholder’s loan agreement with Weichai, which was entered into on December 10, 2021 (the “Third Shareholder’s Loan Agreement”). The Third Shareholder’s Loan Agreement provides the Company with a $50.0 million uncommitted facility that is subordinated to the Second 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 March 31, 2022, the Company had $40.0 million outstanding under the Third Shareholder’s Loan Agreement.

On April 20, 2022, the Company entered into an additional shareholder’s loan agreement with Weichai (the “Fourth Shareholder’s Loan Agreement”). The Fourth Shareholder’s Loan Agreement, which matures on March 31, 2023, provides the Company with access to up to $30.0 million of credit at the discretion of Weichai to supplement the Company’s working capital. The Fourth Shareholder’s Loan Agreement is subordinated in all respects to the Second Amended and Restated Credit Agreement. Borrowings under the Amended First Shareholder’s Loan Agreement, the Amended Second Shareholder’s Loan Agreement and the Fourth Shareholder’s Loan Agreement will incur interest at the applicable 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%.

As of March 31, 2022, the Company’s total outstanding debt obligations under the Second Amended and Restated Credit Agreement, the Amended Second Shareholder’s Loan Agreement, the Third Shareholder’s Loan Agreement and for finance leases and other debt were $195.8 million in the aggregate, and its cash and cash equivalents were $2.3 million. See Note 6. *Debt*, for additional information.

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 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 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 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 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 but showed signs of improvement in 2021, and through the first quarter of 2022. However, although rig counts in the U.S. oil markets increased during 2021 and through the first quarter of 2022, average rig counts remained below pre-pandemic levels. The Company also believes that capital spending within the U.S. oil and gas industry remains well below pre-pandemic levels. While the Company saw an increase of sales to customers with traditional exposure to the oil and gas markets during the first quarter of 2022, as compared to the prior year, sales remain below 2019 levels. 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 continued to experience delays in its supply chain during the first quarter of 2022 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 continues to experience ongoing tariff costs for products that did not receive 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 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. Accordingly, the Company saw a substantial decline in these costs during the first quarter of 2022. 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 9. *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 Company is filing this Form 10-Q for the three months ended March 31, 2022, which contains unaudited consolidated financial statements as of March 31, 2022 and for the three months ended March 31, 2022 and 2021.

The consolidated financial statements include the accounts of Power Solutions International, Inc. and its wholly-owned subsidiaries and majority-owned subsidiaries in which the Company exercises control. The foregoing financial information was prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and rules and regulations of the SEC for interim financial reporting. All intercompany balances and transactions have been eliminated in consolidation.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with, and have been prepared in accordance with accounting policies reflected in, the consolidated financial statements and related notes, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 ("the 2021 Annual Report"). The Company's significant accounting policies are described in the aforementioned 2021 Annual Report. Included below are certain updates to those policies. The accompanying interim financial information is unaudited; however, the Company believes the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP. Operating results for interim periods are not necessarily indicative of annual operating results.

The Company operates as one business and geographic operating segment. Operating segments are defined as components of a business that can earn revenue 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 Three Months Ended March 31,	
	2022	2021
Customer A	15 %	15 %
Customer B	**	20 %

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

	As of March 31, 2022	As of December 31, 2021
Customer A	22 %	24 %

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

	For the Three Months Ended March 31,	
	2022	2021
Supplier A	12 %	10 %
Supplier B	**	14 %

** Less than 10% of the total

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, property, plant and equipment for impairment, and determination of useful lives of long-lived assets. Actual results could materially differ from those estimates.

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 $4.6 million and $6.0 million for the three months ended March 31, 2022 and 2021, respectively.

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 9. *Commitments and Contingencies*, the Company had outstanding letters of credit of $2.1 million March 31, 2022 and December 31, 2021, and restricted cash of $3.2 million and $3.5 million related to the letters of credit at March 31, 2022 and December 31, 2021, respectively.

As of March 31, 2022, the Company had restricted cash of $0.7 million related to a customer agreement executed in July 2021. The restricted cash is held in an escrow account and could be required to be refunded to the customer if conditions occur as defined in the agreement with the customer. The Company has not recognized revenue associated with the restricted cash and has recorded a liability in March 2022 within *Noncurrent Contract Liabilities* on the Consolidated Balance Sheet of $1.2 million.

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 consisted of the following:

(in thousands)

Inventories	**As of March 31, 2022**	**As of December 31, 2021**
Raw materials	$ 117,692	$ 120,130
Work in process	4,967	8,923
Finished goods	19,776	16,509
Total inventories	142,435	145,562
Inventory allowance	(3,374)	(3,370)
Inventories, net	$ 139,061	$ 142,192

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

(in thousands)	**For the Three Months Ended March 31,**	
Inventory Allowance	**2022**	**2021**
Balance at beginning of period	$ 3,370	$ 3,328
Charged to expense	49	553
Write-offs	(45)	(173)
Balance at end of period	$ 3,374	$ 3,708

Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)

Other Accrued Liabilities		As of March 31, 2022		As of December 31, 2021
Accrued product warranty	$	15,451	$	15,830
Litigation reserves *		1,165		894
Contract liabilities		2,702		1,819
Accrued compensation and benefits		4,793		4,397
Operating lease liabilities		4,049		3,978
Accrued interest expense		1,247		625
Other		7,094		7,258
Total	$	36,501	$	34,801

* As of March 31, 2022 and December 31, 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.

Accrued product warranty activities are presented below:

(in thousands)	For the Three Months Ended March 31,			
Accrued Product Warranty		**2022**		**2021**
Balance at beginning of period	$	32,947	$	31,542
Current year provision *		2,433		4,630
Changes in estimates for preexisting warranties **		(1,415)		4,119
Payments made during the period		(6,120)		(5,166)
Balance at end of period		27,845		35,125
Less: current portion		15,451		17,073
Noncurrent accrued product warranty	$	12,394	$	18,052

* Warranty (benefit)/costs, net of supplier recoveries, were a benefit of \$0.3 million and a cost of \$6.8 million for the three months ended March 31, 2022 and 2021, respectively. Supplier recoveries were \$1.3 million and \$1.9 million for the three months ended March 31, 2022 and 2021, respectively.

** Changes 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 historical and expected trends. During the three months ended March 31, 2022, the benefit was in part attributable to a contract revision. The Company recorded a benefit for changes in estimates of preexisting warranties of \$1.4 million, or \$0.06 per diluted share, for the three months ended March 31, 2022, and charges of \$4.1 million, or \$0.18 per diluted share, for the three months ended March 31, 2021.

Recently Issued Accounting Pronouncements – Adopted

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' (Deficit) Equity 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 consolidated financial statements.

Note 2. Revenue

Disaggregation of Revenue

The following table summarizes net sales by end market:

(in thousands)	For the Three Months Ended March 31,	
End Market	**2022**	**2021**
Power Systems	$ 38,230	$ 25,159
Industrial	45,803	34,320
Transportation	14,914	40,692
Total	$ 98,947	$ 100,171

The following table summarizes net sales by geographic area:

(in thousands)	For the Three Months Ended March 31,	
Geographic Area	**2022**	**2021**
United States	$ 74,410	$ 89,595
North America (outside of United States)	3,411	2,320
Pacific Rim	13,841	5,528
Europe	3,122	1,610
Other	4,163	1,118
Total	$ 98,947	$ 100,171

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 March 31, 2022		As of December 31, 2021
Short-term contract assets (included in *Prepaid expenses and other current assets*)	$	2,372	$	2,707
Short-term contract liabilities (included in *Other accrued liabilities*)		(2,702)		(1,819)
Long-term contract liabilities (included in *Noncurrent contract liabilities*)		(3,565)		(3,330)
Net contract liabilities	$	(3,895)	$	(2,442)

During the three months ended March 31, 2022 and 2021, the Company recognized $0.4 million and $14.9 million, respectively, of revenue upon satisfaction of performance obligations related to amounts that were included in the net contract liabilities balance as of December 31, 2021 and 2020, respectively. The decrease in the contract asset during the three months ended March 31, 2022 is related to the Company's right to consideration being conditional at the end of the period. The increase in the contract liabilities during the three months ended March 31, 2022 was primarily related to revenue deferred related to a storage agreement for completed engines.

Remaining Performance Obligations

For performance obligations that extend beyond one year, the Company had $5.7 million of remaining performance obligations as of March 31, 2022 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 $1.8 million in the remainder of 2022, $1.0 million in 2023, $1.0 million in 2024, $0.5 million in 2025, $0.2 million in 2026 and less than $1.2 million in 2027 and beyond.

Note 3. Weichai Transactions

Weichai Shareholder's Loan Agreements

The Company is party to four shareholder's loan agreements with Weichai, including the $130 million Amended First Shareholder's Loan Agreement, the $25 million Amended Second Shareholder's Loan Agreement, the $50 million Third Shareholder's Loan Agreement, and the $30 million Fourth Shareholder's Loan Agreement. See additional discussion of these debt agreements in Note 6. Debt.

Weichai Collaboration Arrangement and Related Party Transactions

The Company and Weichai executed a strategic collaboration agreement (the "Collaboration Agreement") in March 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 Agreement 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 Agreement 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 is set to expire in March 2023.

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 three months ended March 31, 2022 and 2021, the Company's sales to Weichai were immaterial in all periods. Purchases of inventory from Weichai were $4.3 million and $3.1 million for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022 and December 31, 2021, the Company had immaterial receivables from Weichai and outstanding accounts payables to Weichai of $16.8 million and $12.5 million, respectively.

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.

Note 4. Property, Plant and Equipment

Property, plant and equipment by type were as follows:

(in thousands)	As of March 31, 2022	As of December 31, 2021
Property, Plant and Equipment		
Leasehold improvements	$ 7,107	$ 7,107
Machinery and equipment	44,382	44,358
Construction in progress	887	1,125
Total property, plant and equipment, at cost	52,376	52,590
Accumulated depreciation	(36,391)	(35,246)
Property, plant and equipment, net	$ 15,985	$ 17,344

Note 5. Goodwill and Other Intangibles

Goodwill

The carrying amount of goodwill at both March 31, 2022 and December 31, 2021 was $29.8 million. Accumulated impairment losses at both March 31, 2022 and December 31, 2021 were $11.6 million.

Other Intangible Assets

Components of intangible assets are as follows:

(in thousands)	As of March 31, 2022		
	Gross Carrying Value	Accumulated Amortization	Net Book Value
Customer relationships	$ 34,940	$ (28,017)	$ 6,923
Developed technology	700	(695)	5
Trade names and trademarks	1,700	(1,385)	315
Total	$ 37,340	$ (30,097)	$ 7,243

(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

Note 6. Debt

The Company's outstanding debt consisted of the following:

(in thousands)	As of March 31, 2022	As of December 31, 2021
Short-term financing:		
Revolving credit facility *	$ 130,000	$ 130,000
Other short-term financing	40,000	25,000
Total Short-Term Debt	$ 170,000	$ 155,000
Long-term debt:		
Unsecured senior notes	$ 25,000	$ 25,000
Finance leases and other debt	809	890
Total long-term debt and finance leases	25,809	25,890
Less: Current maturities of long-term debt and finance leases	223	254
Long-term debt	$ 25,586	$ 25,636

* 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 Sheet. Unamortized debt issuance costs, were $1.7 million and $0.8 million as of March 31, 2022 and December 31, 2021, respectively.

Credit Agreement and Shareholders' Loan Agreements

On March 25, 2022, the Company amended and restated its $130.0 million uncommitted senior secured revolving credit agreement with Standard Chartered by entering into the Second Amended and Restated Credit Agreement. 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. The Second Amended and Restated 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 SOFR plus 2.95% per annum. The Second Amended and Restated Credit Agreement continues to be secured by substantially all of the Company's assets and provides Standard Chartered the right to demand payment of any and all of the outstanding borrowings and other amounts owed under the Second Amended and Restated Credit Agreement at any point in time prior to the maturity date at Standard Chartered's discretion. Furthermore, the Second Amended and Restated Credit Agreement grants Standard Chartered a power of attorney (POA) to submit a borrowing request to Weichai under the Amended First 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 March 31, 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 its 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. 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 Credit Agreement. As of March 31, 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 is also party to the Third Shareholder's Loan Agreement with Weichai, which was entered into on December 10, 2021. The Third Shareholder's Loan Agreement provides the Company with a $50.0 million uncommitted facility that is subordinated to the Second 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 March 31, 2022, the Company had $40.0 million outstanding under the Third Shareholder's Loan Agreement.

On April 20, 2022, the Company entered into the Fourth Shareholder's Loan Agreement with Weichai. The Fourth Shareholder's Loan Agreement, which matures on March 31, 2023, provides the Company with access to up to $30.0 million of credit at the discretion of Weichai to supplement the Company's working capital. The Fourth Shareholder's Loan Agreement is subordinated in all respects to the Second Amended and Restated Credit Agreement. Borrowings under the Amended First Shareholder's Loan Agreement, the Amended Second Shareholder's Loan Agreement and the Fourth Shareholder's Loan Agreement will incur interest at the applicable 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%.

As of March 31, 2022, the Company's total outstanding debt obligations under the Second Amended and Restated Credit Agreement, the Amended Second Shareholder's Loan Agreement, the Third Shareholder's Loan Agreement and for finance leases and other debt were $195.8 million in the aggregate, and its cash and cash equivalents were $2.3 million. See Note 6. *Debt*, for additional information.

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

Note 7. Leases

Leases

The Company has obligations under lease arrangements primarily for facilities, equipment and vehicles. These leases have original lease periods expiring between April 2022 and July 2034. For the three months ended March 31, 2022, the Company recorded lease expense of $1.6 million within *Cost of sales*, $0.1 million within *Research, development, and engineering expenses*, less than $0.1 million within *Selling, general and administrative expenses* and less than $0.1 million within *Interest expense* in the Consolidated Statements of Operations. For the three months ended March 31, 2021, the Company recorded lease expense of $1.5 million within *Cost of sales*, $0.1 million within *Research, development and engineering expenses*, less than $0.1 million within *Selling, general and administrative expenses* and less than $0.1 million within *Interest expense* in the Consolidated Statements of Operations.

The following table summarizes the components of lease expense:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Operating lease cost	$ 1,179	$ 1,242
Finance lease cost		
Amortization of right-of-use ("ROU") asset	48	52
Interest expense	6	10
Short-term lease cost	36	102
Variable lease cost	380	338
Sublease income	$ (265)	$ —
Total lease cost	$ 1,384	$ 1,744

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

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows paid for operating leases	$ 1,221	$ 1,257
Operating cash flows paid for interest portion of finance leases	6	10
Financing cash flows paid for principal portion of finance leases	51	51

As of March 31, 2022 and December 31, 2021, the weighted-average remaining lease term for both periods was 5.8 years for operating leases and 3.4 years for finance leases, respectively. The weighted-average discount rate was 7.0% for operating leases as of both March 31, 2022 and December 31, 2021, and 6.6% and 6.5% for finance leases as of March 31, 2022 and December 31, 2021, respectively.

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

(in thousands)		March 31, 2022		December 31, 2021
Operating lease ROU assets, net [1]	$	12,613	$	13,545
Operating lease liabilities, current [2]		4,049		3,978
Operating lease liabilities, non-current [3]		9,258		10,304
Total operating lease liabilities	$	13,307	$	14,282
Finance lease ROU assets, net [1]	$	316	$	364
Finance lease liabilities, current [2]		119		147
Finance lease liabilities, non-current [3]		238		260
Total finance lease liabilities	$	357	$	407

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 March 31, 2022:

(in thousands)		Operating Leases		Finance Leases
Nine months ending December 31, 2022	$	3,637	$	111
Year ending December 31, 2023		3,347		103
Year ending December 31, 2024		1,815		84
Year ending December 31, 2025		1,851		82
Year ending December 31, 2026		1,515		17
Thereafter		4,023		—
Total undiscounted lease payments		16,188		397
Less: imputed interest		2,881		40
Total lease liabilities	$	13,307	$	357

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 measured its revolving credit facility and other short-term financing at original carrying value. Unamortized financing costs and deferred fees on the revolving credit facility are classified in *Prepaid expenses and other current assets* on the Consolidated Balance Sheet. The fair value of the revolving credit facility and other short-term financing approximated carrying value, as it consisted primarily of short-term variable rate loans.

(in thousands)	As of March 31, 2022			
		Fair Value		
	Carrying Value	Level 1	Level 2	Level 3
Revolving credit facility	$ 130,000	$ —	$ 130,000	$ —
Other financing	65,000	—	65,000	—

(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	—

Note 9. 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. In April 2022, the SEC granted a further extension of time until March 31, 2023 to fully comply with the administrative order. 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 March 31, 2022 and December 31, 2021, the Company had recorded an estimated liability of $1.0 million and $0.3 million, respectively, 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. The Company fully paid the settlement and had no recognized liability as of March 31, 2022 and $0.5 million was outstanding as of December 31, 2021. *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 has been granted by the Court. 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 March 31, 2022.

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 three months ended March 31, 2022 and 2021, the Company incurred $0.2 million and $3.2 million, respectively, of costs related to these indemnification obligations. Included in the total indemnification obligations incurred for the three months ended March 31, 2022 are no costs 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.

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 March 31, 2022, 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 $3.2 million as of March 31, 2022 related to these letters of credit.

The Company has arrangements with a certain supplier that requires it to purchase minimum volumes or be subject to monetary penalties. As of March 31, 2022, if the Company were to stop purchasing from this supplier, the aggregate amount of the penalty would be approximately $6.9 million. The Company does not currently anticipate any material penalties under this contract based on ongoing contractual discussions with the supplier.

Note 10. Income Taxes

On a quarterly basis, the Company computes an estimated annual effective tax rate considering ordinary income and related income tax expense. Ordinary income refers to income (loss) before income tax expense excluding significant, unusual or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs.

The Company has assessed 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. In assessing the realizability of the Company's deferred tax assets, the Company considered whether it is more likely than not that some or all of the deferred tax assets will be realized through the generation of future taxable income. In making this determination, the Company assessed all of the evidence available at the time, including recent earnings, forecasted income projections and historical performance. The Company determined that the negative evidence outweighed the objectively verifiable positive evidence and continues to maintain a full valuation allowance against deferred tax assets.

The effective tax rate for the three months ended March 31, 2022 was -17.4%, compared to an effective tax rate for the three months ended March 31, 2021 of -2.2%. The effective tax rates for all periods were significantly different than the applicable U.S. statutory tax rate. For the three months ended March 31, 2022 and March 31, 2021, the difference between the effective and statutory tax rates was primarily due to the Company's full valuation allowance.

Note 11. Stockholders' Equity

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 at December 31, 2021	23,117	191	22,926
Net shares issued for Stock awards	—	(1)	1
Balance as of March 31, 2022	23,117	190	22,927

Note 12. Loss Per Share

The Company computes basic loss per share by dividing net loss by the weighted-average common shares outstanding during the year. Diluted 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 loss per share for the three months ended March 31, 2022 and 2021.

The Company issued Stock Appreciation Rights ("SARs") and Restricted Stock Awards ("RSAs"), all of which have been evaluated for their potentially dilutive effect under the treasury stock method. See Note 13. *Stock-Based Compensation* in the Company's 2021 Annual Report for additional information on the SARs and the RSAs.

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

(in thousands, except per share basis)	For the Three Months Ended March 31,	
	2022	**2021**
Numerator:		
Net loss	$ (2,599)	$ (18,150)
Denominator:		
Shares used in computing net loss per share:		
Weighted-average common shares outstanding – basic	22,927	22,892
Effect of dilutive securities	—	—
Weighted-average common shares outstanding – diluted	22,927	22,892
Loss per common share:		
Loss per share of common stock – basic	$ (0.11)	$ (0.79)
Loss per share of common stock – diluted	$ (0.11)	$ (0.79)

The aggregate number of shares excluded from the diluted loss per share calculations, because they would have been anti-dilutive, were 0.2 million for the three months ended March 31, 2022 and 2021. For the three months ended March 31, 2022 and 2021, SARs and RSAs were not included in the diluted loss per share calculations as they would have been anti-dilutive (1) due to the losses reported in the Consolidated Statements of Operations or (2) the Company's average stock price was less than the exercise price of the SARs or the grant price of the RSAs.

Note 13. Related Party Transactions

Weichai Transactions

See Note 3. *Weichai Transactions* for information regarding the Amended First Shareholder's Loan Agreement, the Amended Second Shareholder's Loan Agreement, the Third Shareholder's Loan Agreement, the Fourth Shareholder's Loan Agreement and the Collaboration Agreement with Weichai**.**

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.

Other Related Party Transactions

See Note 9. *Commitments and Contingencies* for information regarding the Company’s indemnification obligations related to certain former directors and officers of the Company.

Item 2. 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 three months ended March 31, 2022 and 2021, 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 are made in light of recent events and trends. 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. See "Forward-Looking Statements." The following discussion should also be read in conjunction with the Company's unaudited consolidated financial statements and the related Notes included in this Quarterly 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, research and development ("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 U.S. Environment Protection Agency ("EPA"), the California Air Resource Board ("CARB") and the People's Republic of China's Ministry of Ecology and Environment ("MEE").

The Company's products are primarily used by global original equipment manufacturers ("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 the three months ended March 31, 2022, the Company's net sales decreased $1.2 million, or 1%, from the three months ended March 31, 2021 to $98.9 million, as a result of a sales decline of $25.8 million in the transportation end market, partly offset by increases of $13.1 million and $11.5 million in the power systems and industrial end markets, respectively. Gross margin for the three months ended March 31, 2022 was 16.9%, a improvement versus 7.1% in the comparable 2021 period. Gross profit increased $9.6 million for the three months ended March 31, 2022, while operating expenses decreased by $6.2 million, as compared to the comparable period in 2021. Interest expense increased by $0.3 million for the three months ended March 31, 2022 versus the comparable period in 2021. Also, the Company recorded income tax expense of $0.4 million for both the three months ended March 31, 2022 and March 31, 2021, respectively. Collectively, these factors contributed to a $15.6 million decrease in the net loss, which totaled $2.6 million in the 2022 period compared to a net loss of $18.2 million in the same period of 2021. Diluted loss per share was $0.11 in the 2022 period compared to a diluted loss per share of $0.79 in the comparable 2021 period. Adjusted net loss, which excludes certain items described below that the Company believes are not indicative of its ongoing operating performance, was $0.9 million in the 2022 period, an improvement of $12.1 million, compared to an Adjusted net loss of $13.0 million in 2021. Adjusted loss per share was $0.03 in 2022 compared to an Adjusted loss per share of $0.56 in 2021. Adjusted earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") was positive at $3.7 million in 2022 compared to an Adjusted EBITDA loss of $8.5 million in 2021. Adjusted net (loss) income, Adjusted earnings (loss) 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 2.

Net sales by geographic area and by end market for the three months ended March 31, 2022 and 2021 are presented below:

(in thousands)	For the Three Months Ended March 31,			
	2022		2021	
Geographic Area		% of Total		% of Total
United States	$ 74,410	75 %	$ 89,595	90 %
North America (outside of United States)	3,411	4 %	2,320	2 %
Pacific Rim	13,841	14 %	5,528	5 %
Europe	3,122	3 %	1,610	2 %
Other	4,163	4 %	1,118	1 %
Total	$ 98,947	100 %	$ 100,171	100 %

(in thousands)	For the Three Months Ended March 31,			
	2022		2021	
End Market		% of Total		% of Total
Power Systems	$ 38,230	39 %	$ 25,159	25 %
Industrial	45,803	46 %	34,320	34 %
Transportation	14,914	15 %	40,692	41 %
Total	$ 98,947	100 %	$ 100,171	100 %

Recent Trends and Business Outlook

COVID-19 Update and Oil and Gas Market Volatility

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.

As of the date of this Form 10-Q, 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 Form 10-Q.

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 but showed signs of improvement in 2021 and through the first quarter of 2022. However, although rig counts in the U.S. oil markets increased during 2021 and through the first quarter of 2022, average rig counts remained below pre-pandemic levels. The Company also believes that capital spending within the U.S. oil and gas industry remains well below pre-pandemic levels. While the Company saw an increase of sales to customers with traditional exposure to the oil and gas markets during the first quarter of 2022, as compared to the prior year, sales remain below 2019 levels. 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 continued to experience delays in its supply chain during the first quarter of 2022 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 continues to experience ongoing tariff costs for products that did not receive 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. Accordingly, the Company saw a substantial decline in these costs during the first quarter of 2022. 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 9. *Commitments and Contingencies*, included in Part 1, Item 1. *Financial Statements*, 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.

Results of Operations

Results of operations for the three months ended March 31, 2022 compared with the three months ended March 31, 2021:

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2022	2021	Change	% Change
Net sales	$ 98,947	$ 100,171	$ (1,224)	(1)%
Cost of sales	82,229	93,101	(10,872)	(12)%
Gross profit	16,718	7,070	9,648	136 %
Gross margin %	*16.9 %*	*7.1 %*	*9.8 %*	
Operating expenses:				
Research, development and engineering expenses	4,560	6,224	(1,664)	(27)%
Research, development and engineering expenses as a % of sales	*4.6 %*	*6.2 %*	*(1.6)%*	
Selling, general and administrative expenses	11,385	15,811	(4,426)	(28)%
Selling, general and administrative expenses as a % of sales	*11.5 %*	*15.8 %*	*(4.3)%*	
Amortization of intangible assets	541	634	(93)	(15)%
Total operating expenses	16,486	22,669	(6,183)	(27)%
Operating income (loss)	232	(15,599)	15,831	(101)%
Other expense, net:				
Interest expense	2,445	2,161	284	13 %
Other expense, net	—	—	—	— %
Total other expense, net	2,445	2,161	284	13 %
Loss before income taxes	(2,213)	(17,760)	15,547	(88)%
Income tax expense	386	390	(4)	(1)%
Net loss	$ (2,599)	$ (18,150)	$ 15,551	(86)%
Loss per common share:				
Basic	$ (0.11)	$ (0.79)	$ 0.68	(86)%
Diluted	$ (0.11)	$ (0.79)	$ 0.68	(86)%
Non-GAAP Financial Measures:				
Adjusted net loss *	$ (879)	$ (12,956)	$ 12,077	93 %
Adjusted loss per share *	$ (0.03)	$ (0.56)	0.53	95 %
EBITDA *	$ 1,979	$ (13,699)	$ 15,678	114 %
Adjusted EBITDA *	$ 3,699	$ (8,505)	$ 12,204	143 %

NM Not meaningful
* See reconciliation of non-GAAP financial measures to GAAP results below

Net Sales

Net sales decreased $1.2 million, or 1%, during the three months ended March 31, 2022 compared to the three months ended March 31, 2021, as a result of a sales decline of $25.8 million in the transportation end market, partly offset by increases of $13.1 million and $11.5 million in the power systems and industrial end markets, respectively. Further, overall sales in the first quarter of 2022 continued to reflect supply chain challenges that impacted the Company's ability to timely meet certain orders. The decreased sales within the transportation end market were primarily attributable to lower sales in the medium duty truck market, coupled with lower demand for school bus products. Higher power systems end market sales were primarily due to increased sales of power generation products, particularly to customers serving the demand response markets and to customers with traditional exposure to the oil and gas markets. Higher industrial end market sales are primarily due to increased demand for products across various applications, with the largest increase attributable to products used within the material handling/forklift market.

Gross Profit

Gross profit increased by $9.6 million, or 136%, during the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. Gross margin was 16.9% during the three months ended March 31, 2022, an increase of 9.8 percentage points compared to 7.1% for the three months ended March 31, 2021, primarily due to lower warranty expense, among other items. For the three months ended March 31, 2022, warranty costs were a benefit of $0.3 million, a change of $7.1 million compared to warranty costs of $6.8 million last year, due largely to favorable adjustments to preexisting warranties during the first quarter of 2022. A majority of the warranty activity is attributable to products sold within the transportation end market.

Research, Development and Engineering Expenses

Research, development and engineering expenses during the three months ended March 31, 2022 were $4.6 million, a decrease of $1.7 million, or 27%, from the three months ended March 31, 2021, due to lower wages and benefits driven by reduced headcount and lower project activity in the current quarter versus the prior year.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses decreased during the three months ended March 31, 2022 by $4.4 million, or 28%, compared to the three months ended March 31, 2021, primarily due to lower legal costs related to the Company's indemnification obligations of former officers and employees driven largely by the conclusion of the USAO trial involving former officers and employees during September 2021. (see additional discussion in Note 9. *Commitments and Contingencies* in Part I. Item 1. Financial Statements for further discussion). The Company also experienced lower wages and benefits expense, due in part to reduced incentive compensation expense, and also had lower financial reporting fees.

Interest Expense

Interest expense increased $0.3 million to $2.4 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, due in part to higher outstanding debt levels during the current quarter versus the prior year. See Note 6. *Debt*, included in Part 1, Item 1. *Financial Statements*, for additional information.

Income Tax Expense

The Company recorded income tax expense of $0.4 million for both the three months ended March 31, 2022 and 2021, respectively. The Company's pretax loss was $2.2 million for the three months ended March 31, 2022, compared to a pretax loss of $17.8 million for the three months ended March 31, 2021. The Company continues to record a full valuation allowance against deferred tax assets which offsets the tax benefits otherwise associated with the pre-tax losses for the three months ended March 31, 2022 and 2021. See Note 10. *Income Taxes*, included in Part 1, Item 1. *Financial Statements*, 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 *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 income (loss), Adjusted earnings (loss) 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 income (loss) is defined as net income (loss) as adjusted for certain items that the Company believes are not indicative of its ongoing operating performance. Adjusted earnings (loss) per share is a measure of the Company's diluted earnings (loss) per common 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 charges and certain other items that do not reflect the ordinary earnings of the Company's operations.

Adjusted net income (loss), Adjusted earnings (loss) 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 income (loss), Adjusted earnings (loss) 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 alternative measures 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 or the three months ended March 31, 2022 and 2021:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Net loss	$ (2,599)	$ (18,150)
Stock-based compensation [1]	203	109
Severance [2]	12	460
Internal control remediation [3]	471	393
Government investigations and other legal matters [4]	1,034	4,232
Adjusted net loss	$ (879)	$ (12,956)

The following table presents a reconciliation from Loss per common share – diluted to Adjusted loss per share for the three months ended March 31, 2022 and 2021:

	For the Three Months Ended March 31,	
	2022	2021
Loss per common share – diluted	$ (0.11)	$ (0.79)
Stock-based compensation [1]	0.01	0.01
Severance [2]	—	0.02
Internal control remediation [3]	0.02	0.02
Government investigations and other legal matters [4]	0.05	0.18
Adjusted loss per share – diluted	$ (0.03)	$ (0.56)
Diluted shares (in thousands)	22,927	22,893

The following table presents a reconciliation from Net loss to EBITDA and Adjusted EBITDA for the three months ended March 31, 2022 and 2021:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Net loss	$ (2,599)	$ (18,150)
Interest expense	2,445	2,161
Income tax expense	386	390
Depreciation	1,206	1,266
Amortization of intangible assets	541	634
EBITDA	1,979	(13,699)
Stock-based compensation [1]	203	109
Severance [2]	12	460
Internal control remediation [3]	471	393
Government investigations and other legal matters [4]	1,034	4,232
Adjusted EBITDA	$ 3,699	$ (8,505)

1. Amounts reflect non-cash stock-based compensation expense.
2. Amounts represent severance and other post-employment costs for certain former employees of the Company.
3. Amounts represent professional services fees related to the Company's efforts to remediate internal control material weaknesses including certain costs to upgrade IT systems.
4. Amounts include professional services fees for the three months ended March 31, 2022 of $0.2 million, and $3.2 million for the three months ended March 31, 2021, related to costs to indemnify certain former officers and employees 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 9. *Commitments and Contingencies* of Part I, Item 1. *Financial Statements*, 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.

Cash Flows

Cash was impacted as follows:

(in thousands)	For the Three Months Ended March 31,			
	2022	2021	Change	% Change
Net cash (used in) provided by operating activities	$ (17,377)	$ 5,681	$ (23,058)	*NM
Net cash used in investing activities	(116)	(607)	491	81 %
Net cash provided by (used in) financing activities	13,188	(2,638)	15,826	*NM
Net (decrease) increase in cash, cash equivalents, and restricted cash	$ (4,305)	$ 2,436	$ (6,741)	*NM
Capital expenditures	$ (116)	$ (617)	$ 501	81 %

*NM Not meaningful

Cash Flows for the Three Months Ended March 31, 2022

Cash Flow from Operating Activities

Net cash used in operating activities was $17.4 million in the three months ended March 31, 2022 compared to net cash provided by operating activities of $5.7 million in the three months ended March 31, 2021, resulting in an increase of $23.1 million in cash used in operating activities year-over-year. The increase in cash used by operating activities was primarily related to a decrease in the net loss of $15.6 million, offset by a $38.0 million decrease in cash generated from working capital accounts, and a $0.6 million decline in non-cash adjustments. The decrease in cash generated from working capital in the three months ended March 31, 2022 compared to the three months ended March 31, 2021 was primarily related to lower accounts receivable collections and a net decrease in liabilities, partly offset by a decrease in cash outflows associated with inventory purchases. The net decrease in liabilities was largely due to decreased accounts payable due to the timing of management of payables and a decrease in other non current liabilities, partly offset by an increase in other current liabilities. The decrease in non-cash adjustments was primarily due to decreased amortization of deferred financing fees.

Cash Flow from Investing Activities

Net cash used in investing activities was $0.1 million for the three months ended March 31, 2022 compared to cash used in investing activities of $0.6 million for the three months ended March 31, 2021. For the three months ended March 31, 2022 and 2021, cash used in investing activities primarily related to capital expenditures associated with normal maintenance of the Company's facilities.

Cash Flow from Financing Activities

The Company generated $13.2 million in cash from financing activities in the three months ended March 31, 2022 compared to $2.6 million in cash used by financing activities in the three months ended March 31, 2021. The cash generated by financing activities for the three months ended March 31, 2022 was primarily attributable to cash received under the shareholder's loan agreement with Weichai, compared to no new borrowings for the three months ended March 31, 2021. See additional discussion below and in Note 6. *Debt*, included in Part I, Item 1. *Financial Statements* related to the amendments of the Company's debt arrangements.

Liquidity and Capital Resources

On March 25, 2022, the Company amended and restated its $130.0 million uncommitted senior secured revolving credit agreement with Standard Chartered by entering (the "Second Amended and Restated Credit Agreement"). 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. The Second Amended and Restated 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 SOFR plus 2.95% per annum. The Second Amended and Restated Credit Agreement continues to be secured by substantially all of the Company's assets and provides Standard Chartered the right to demand payment of any and all of the outstanding borrowings and other amounts owed under the Second Amended and Restated Credit Agreement at any point in time prior to the maturity date at Standard Chartered's discretion. Furthermore, the Second Amended and Restated Credit Agreement grants Standard Chartered a power of attorney (POA) to submit a borrowing request to Weichai under the Amended First 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 March 31, 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 its 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 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 Credit Agreement. As of March 31, 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 is also party to the third shareholder's loan agreement with Weichai, which was entered into on December 10, 2021 (the "Third Shareholder's Loan Agreement"). The Third Shareholder's Loan Agreement provides the Company with a $50.0 million uncommitted facility that is subordinated to the Second 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 March 31, 2022, the Company had $40.0 million outstanding under the Third Shareholder's Loan Agreement.

On April 20, 2022, the Company entered into an additional shareholder's loan agreement with Weichai (the "Fourth Shareholder's Loan Agreement"). The Fourth Shareholder's Loan Agreement, which matures on March 31, 2023, provides the Company with access to up to $30.0 million of credit at the discretion of Weichai to supplement the Company's working capital. The Fourth Shareholder's Loan Agreement is subordinated in all respects to the Second Amended and Restated Credit Agreement. Borrowings under the Amended First Shareholder's Loan Agreement, the Amended Second Shareholder's Loan Agreement and the Fourth Shareholder's Loan Agreement will incur interest at the applicable 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%.

As of March 31, 2022, the Company's total outstanding debt obligations under the Second Amended and Restated Credit Agreement, the Amended Second Shareholder's Loan Agreement, the Third Shareholder's Loan Agreement and for finance leases and other debt were $195.8 million in the aggregate, and its cash and cash equivalents were $2.3 million. See Item 1. *Financial Statements and Supplementary Data*, Note 6. *Debt,* for additional information.

As of March 31, 2022, Accounts Payable were approximately $82.6 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.

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 but showed signs of improvement in 2021 and through the first quarter of 2022. However, although rig counts in the U.S. oil markets increased during 2021 and through the first quarter of 2022, average rig counts remained below pre-pandemic levels. The Company also believes that capital spending within the U.S. oil and gas industry remains well below pre-pandemic levels. While the Company saw an increase of sales to customers with traditional exposure to the oil and gas markets during the first quarter of 2022, as compared to the prior year, sales remain below 2019 levels. 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 continued to experience delays in its supply chain during the first quarter of 2022 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 continues to experience ongoing tariff costs for products that did not receive 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. Accordingly, the Company saw a substantial decline in these costs during the first quarter of 2022. 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 Item 1. *Financial Statements and Supplementary Data,* Note 9. *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 March 31, 2022, the Company had five outstanding letters of credit totaling $2.1 million. See Item 1. *Financial Statements and Supplementary Data,* Note 9. *Commitments and Contingencies* for additional information related to the Company's off-balance sheet arrangements and the outstanding letters of credit.

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, revenue 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. 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 consistent with those discussed in Note 1. *Summary of Significant Accounting Policies and Other Information*, to the consolidated financial statements and the MD&A section of the Company's 2021 Annual Report on Form 10-K (the "2021 Annual Report"). During the three months ended March 31, 2022, there were no significant changes in the application of critical accounting policies.

The Company has identified the following accounting policies as its most critical because they require the Company to make difficult, subjective, and complex judgments:

- Revenue Recognition
- Inventories
- Impairment of Long-Lived Assets
- Warranty
- Deferred Tax Asset Valuation Allowance

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 Part 1, Item 1.

Item 3. 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 4. 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 Exchange 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 Interim 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 Interim Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2022. Based upon that evaluation, the Company’s Chief Executive Officer and Interim Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were not effective as of March 31, 2022, because of the previously reported material weaknesses in internal control over financial reporting, as described below.

Ongoing Remediation of Material Weaknesses in Internal Control over Financial Reporting

As previously disclosed under Item 9A. *Controls and Procedures* in the 2021 Annual Report, the Company’s management concluded that its internal control over financial reporting was not effective based on the material weaknesses identified. 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 both to address the identified material weaknesses and to enhance the Company’s overall internal control environment.

As further discussed in Part II. Item 8. *Financial Statements and Supplementary Data*., Note 10. *Commitments and Contingencies* of the Company’s 2020 Annual Report, 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. In April 2022, the SEC granted a further extension of time until March 31, 2023 to fully comply with the administrative order.

IT Skillset and Competency:

The Company continues to assess the level of technical skills in its information technology (“IT”) function to support the design and implementation of IT general controls (“ITGCs”). The IT function has been reorganized under the leadership of a 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 functions. The IT function will continue to receive control related training, consider additional hiring, and supplement with temporary resources.

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 over 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.

Changes in Internal Control over Financial Reporting

Other than the ongoing remediation efforts described above, there have been no changes in the Company’s internal control over financial reporting during the three months ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 9. *Commitments and Contingencies*, included in Part I, Item 1. *Financial Statements*, for a discussion of legal proceedings, which are incorporated herein by reference.

Item 1A. Risk Factors.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

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.**
10.1		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
10.2		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
10.3		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
31.1	*	Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	*	Certification of Interim 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 Interim 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.				
104	*	Cover Page Interactive Data File (embedded within the Inline XBRL 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.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of May 2022.

POWER SOLUTIONS INTERNATIONAL, INC.

By: /s/ Matt Thomas

Name: **Matt Thomas**

Title: Interim Chief Financial Officer (Principal Financial Officer)

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 quarterly report on Form 10-Q 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: May 16, 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, Matthew Thomas, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 16, 2022	By:	/s/ Matthew Thomas
	Name:	**Matthew Thomas**
	Title:	Interim 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-Q for the three months ended March 31, 2022, 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: May 16, 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-Q for the three months ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew Thomas, Interim 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: May 16, 2022	By:	/s/ Matthew Thomas
	Name:	**Matthew Thomas**
	Title:	Interim 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.