

Ascent Solar Technologies, Inc.
Form 10-Q
May 11, 2018
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the Transition Period from _____ to _____

Commission File No. 001-32919

Ascent Solar Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware 20-3672603
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

12300 Grant Street, Thornton, CO 80241
(Address of principal executive offices) (Zip Code)
Registrant's telephone number including area code: 720-872-5000

Indicate by check mark whether the issuer (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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.

As of May 10, 2018, there were 18,994,480,144 shares of our common stock issued and outstanding.

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.
Quarterly Report on Form 10-Q
Quarterly Period Ended March 31, 2018
Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. <u>Condensed Consolidated Financial Statements (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets - For the Three Months Ended March 31, 2018 and the Year Ended December 31, 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations - For the Three Months Ended March 31, 2018 and March 31, 2017</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flow - For the Three Months Ended March 31, 2018 and March 31, 2017</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
Item 4. <u>Controls and Procedures</u>	<u>28</u>

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>29</u>
Item 1A. <u>Risk Factors</u>	<u>29</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>29</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>29</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>29</u>
Item 5. <u>Other Information</u>	<u>29</u>
Item 6. <u>Exhibits</u>	<u>29</u>
<u>SIGNATURES</u>	<u>30</u>
<u>EXHIBIT INDEX</u>	<u>29</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ASCENT SOLAR TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 88,111	\$ 89,618
Trade receivables, net of allowance for doubtful accounts of \$35,251 and \$48,201, respectively	13,984	6,658
Inventories, net	1,074,319	1,037,854
Prepaid expenses and other current assets	520,944	494,425
Total current assets	1,697,358	1,628,555
Property, Plant and Equipment	36,645,862	36,645,862
Less accumulated depreciation and amortization	(32,072,422)	(32,013,686)
	4,573,440	4,632,176
Other Assets:		
Patents, net of accumulated amortization of \$440,805 and \$430,071, respectively	1,376,785	1,470,796
Other non-current assets	42,875	49,813
	1,419,660	1,520,609
Total Assets	\$ 7,690,458	\$ 7,781,340
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	\$ 1,901,411	\$ 1,600,455
Related party payables	208,754	202,827
Accrued expenses	2,094,885	1,623,748
Notes payable	1,567,731	1,570,231
Current portion of long-term debt	349,092	343,395
Current portion of secured promissory note, net of discount of \$2,595,172 and \$1,934,304, respectively	822,978	253,590
Promissory Notes, net of discount of \$15,000 and \$20,626, respectively	984,437	948,811
October 2016 convertible notes	330,000	330,000
St. George convertible note, net of discount and cash payment premium of \$528,975 and \$673,241, respectively	1,101,858	1,032,592
BayBridge convertible note, net of discount of \$423,750 and \$565,000, respectively	36,250	—
Embedded derivative liabilities	8,109,081	6,406,833
Total current liabilities	17,506,477	14,312,482
Long-term debt, net of current portion	5,028,985	5,118,424
Long-term secured promissory note, net of current portion, and net of discount of \$1,454,595 and \$1,684,267, respectively	30,603	685,066
Accrued Warranty Liability	51,358	57,703
Commitments and Contingencies		

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Mezzanine Equity:

Series K preferred stock: 20,000 shares authorized; 2,810 issued and outstanding, respectively	2,810,000	2,810,000
--	-----------	-----------

Stockholders' Deficit:

Series A preferred stock, \$.0001 par value; 750,000 shares authorized; 60,756 shares issued and outstanding, respectively (\$776,845 and \$761,864 Liquidation Preference)	6	6
Common stock, \$0.0001 par value, 20,000,000,000 shares authorized; 12,738,048,718 and 9,606,597,777 shares issued and outstanding, respectively	1,273,809	960,660
Additional paid in capital	387,917,742	386,332,475
Accumulated deficit	(406,928,522)	(402,495,476)
Total stockholders' deficit	(17,736,965)	(15,202,335)
Total Liabilities, Mezzanine Equity and Stockholders' Deficit	\$7,690,458	\$7,781,340

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

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Revenues	\$377,511	\$280,603
Costs and Expenses:		
Cost of revenues (exclusive of depreciation shown below)	273,028	1,492,841
Research, development and manufacturing operations (exclusive of depreciation shown below)	1,173,035	1,276,865
Inventory impairment costs	—	363,758
Selling, general and administrative (exclusive of depreciation shown below)	934,591	1,764,230
Depreciation and amortization	101,712	371,653
Total Costs and Expenses	2,482,366	5,269,347
Loss from Operations	(2,104,855)	(4,988,744)
Other Income/(Expense)		
Other Income/(Expense), net	—	728,485
Interest expense	(1,343,730)	(1,991,352)
Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net	(984,461)	673,078
Total Other Income/(Expense)	(2,328,191)	(589,789)
Net Loss	\$(4,433,046)	\$(5,578,533)
Net Loss Per Share (Basic and diluted)	\$(0.0004)	\$(0.0033)
Weighted Average Common Shares Outstanding (Basic and diluted)	10,996,378,097	17,665,310,868

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

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	three months ended	
	March 31,	
	2018	2017
Operating Activities:		
Net loss	\$(4,433,046)	\$(5,578,533)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	101,712	371,653
Share based compensation	14,324	79,737
Realized gain on sale of assets	—	(1,205,663)
Amortization of financing costs to interest expense	3,333	35,164
Non-cash interest expense	222,648	575,015
Amortization of debt discount	1,011,109	1,474,135
Bad debt expense	—	4,082
Accrued litigation settlement	—	(143,266)
Write-down of inventory	—	363,758
Write down of patents	59,153	—
Warranty reserve	(6,345)	(7,489)
Change in fair value of derivatives and (gain)/loss on extinguishment of liabilities, net	984,461	(673,078)
Inducement conversion costs	—	407,974
Changes in operating assets and liabilities:		
Accounts receivable	(1,326)	533,822
Inventories	(36,465)	899,915
Prepaid expenses and other current assets	(29,852)	394,550
Accounts payable	244,975	(249,691)
Related party payable	5,927	—
Accrued expenses	364,648	56,721
Net cash used in operating activities	(1,494,744)	(2,661,194)
Investing Activities:		
Proceeds from the sale of assets	—	150,000
Patent activity costs	(6,502)	(19,275)
Net cash provided by/(used in) investing activities	(6,502)	130,725
Financing Activities:		
Proceeds from issuance of debt	1,530,000	2,340,000
Proceeds from issuance of stock	—	150,000
Payment of debt financing costs	—	(42,500)
Repayment of debt	(30,261)	—
Net cash provided by financing activities	1,499,739	2,447,500
Net change in cash and cash equivalents	(1,507)	(82,969)
Cash and cash equivalents at beginning of period	89,618	130,946
Cash and cash equivalents at end of period	\$88,111	\$47,977
Supplemental Cash Flow Information:		
Cash paid for interest	\$106,617	\$20,415
Cash paid for income taxes	—	—
Non-Cash Transactions:		
Non-cash conversions of convertible notes and preferred stock	\$1,430,000	\$1,699,731

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Interest converted to principal	\$96,120	\$—
Initial derivatives	\$1,151,162	\$—
Make-whole dividend	\$—	\$257,152
Accounts payable converted to notes payable	\$—	\$1,172,026

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

5

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ORGANIZATION

Ascent Solar Technologies, Inc. (“Ascent”) was incorporated on October 18, 2005 from the separation of ITN Energy Systems, Inc.'s (“ITN”) Advanced Photovoltaic Division and all of that division’s key personnel and core technologies. ITN, a private company incorporated in 1994, is an incubator dedicated to the development of thin-film, photovoltaic (“PV”), battery, fuel cell, and nano technologies. Through its work on research and development contracts for private and governmental entities, ITN developed proprietary processing and manufacturing know-how applicable to PV products generally, and to Copper-Indium-Gallium-diSelenide (“CIGS”) PV products in particular. ITN formed Ascent to commercialize its investment in CIGS PV technologies. In January 2006, in exchange for 5,140 shares of common stock of Ascent, ITN assigned to Ascent certain CIGS PV technologies and trade secrets and granted to Ascent a perpetual, exclusive, royalty-free worldwide license to use, in connection with the manufacture, development, marketing and commercialization of CIGS PV to produce solar power, certain of ITN’s existing and future proprietary and control technologies that, although non-specific to CIGS PV, Ascent believes will be useful in its production of PV modules for its target markets. Upon receipt of the necessary government approvals and pursuant to novation in early 2007, ITN assigned government-funded research and development contracts to Ascent and also transferred the key personnel working on the contracts to Ascent.

Currently, the Company is focusing on integrating its PV products into high value markets such as aerospace, satellites, near earth orbiting vehicles, fixed-wing unmanned aerial vehicles (UAV), military, and emergency preparedness. Ascent has the capability to design and develop finished products for end users in these areas as well as collaborate with strategic partners to design and develop custom integrated solutions for products like fixed-wing UAVs. Ascent sees significant overlap of the needs of end users across some of these industries and can achieve economies of scale in sourcing, development, and production in commercializing products for these customers.

Sale of EnerPlex Brand

In February 2017, Ascent announced the sale of our EnerPlex brand and related intellectual properties and trademarks associated with EnerPlex to our battery product supplier, Sun Pleasure Co. Limited (“SPCL”), in an effort to better allocate its resources and to continue to focus on its core strength in the high-value specialty PV market. Effective February 27, 2017, Ascent no longer produces or sells Enerplex-branded consumer products. Ascent will supply solar PV products to SPCL, supporting the continuous growth of EnerPlex™ with Ascent’s proprietary and award-winning thin-film solar technologies and products.

Ascent continues to design and manufacture its own line of PV integrated consumer electronics, as well as portable power applications for commercial, military, and emergency management.

NOTE 2. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been derived from the accounting records of Ascent Solar Technologies, Inc., Ascent Solar (Asia) Pte. Ltd., and Ascent Solar (Shenzhen) Co., Ltd. (collectively, "the Company") as of March 31, 2018 and December 31, 2017, and the results of operations for the three months ended March 31, 2018 and 2017. Ascent Solar (Shenzhen) Co., Ltd. is wholly owned by Ascent Solar (Asia) Pte. Ltd., which is wholly owned by Ascent Solar Technologies, Inc. All significant inter-company balances and transactions have been eliminated in the accompanying condensed consolidated financial statements.

The accompanying, unaudited, condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, these interim financial statements do not include all of the information and footnotes typically found in U.S. GAAP audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. The Condensed Consolidated Balance Sheet at December 31, 2017 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. These condensed consolidated financial statements and notes should be read

Table of Contents

in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies were described in Note 3 to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to our accounting policies as of March 31, 2018.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The update will establish a comprehensive revenue recognition standard for virtually all industries in GAAP. ASU 2014-09 will change the amount and timing of revenue and cost recognition, implementation, disclosures and documentation. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. ASU 2014-09 is now effective for the Company in fiscal year 2018. The implementation of ASU 2014-09 did not have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize all leases, including operating leases, on the balance sheet as a lease asset or lease liability, unless the lease is a short-term lease. ASU 2016-02 also requires additional disclosures regarding leasing arrangements. ASU 2016-02 is effective for interim periods and fiscal years beginning after December 15, 2018, and early application is permitted. The Company continues to evaluate the impact, that the adoption of this guidance will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718). ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for interim periods and fiscal years beginning after December 15, 2017, and early application is permitted. The implementation of ASU 2017-09 did not have a material effect on the Company's consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11 Part I, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). ASU 2017-11 Part I changes the classification analysis of certain equity linked financial instruments with down round features. ASU 2017-11 Part I is effective, for public business entities, for interim periods and fiscal years beginning after December 15, 2018, and early application is permitted. The Company is currently evaluating the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

NOTE 4. LIQUIDITY AND CONTINUED OPERATIONS

During the three months ended March 31, 2018 and the year ended December 31, 2017, the Company entered into multiple financing agreements to fund operations. Further discussion of these transactions can be found in Notes 7 through 15, and Note 18 of the financial statements presented as of, and for, the three months ended, March 31, 2018, and in Notes 8 through 22 and Note 30 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company has continued PV production at its manufacturing facility. The Company does not expect that sales revenue and cash flows will be sufficient to support operations and cash requirements until it has fully implemented its product strategy. During the three months ended March 31, 2018 the Company used \$1.5 million in cash for operations. The Company's primary significant long term cash obligation consists of a note payable of \$5.4 million to a financial institution secured by a mortgage on its headquarters and manufacturing building in Thornton, Colorado. Total payments of approximately \$0.5 million, including principal and interest, will come due in the remainder of 2018.

Table of Contents

Additional projected product revenues are not anticipated to result in a positive cash flow position for the year 2018 overall and, as of March 31, 2018, the Company has negative working capital. As such, cash liquidity sufficient for the year ending December 31, 2018 will require additional financing.

The Company continues to accelerate sales and marketing efforts related to its consumer and military solar products and specialty PV application strategies through expansion of its sales and distribution channels. The Company has begun activities related to securing additional financing through strategic or financial investors, but there is no assurance the Company will be able to raise additional capital on acceptable terms or at all. If the Company's revenues do not increase rapidly, and/or additional financing is not obtained, the Company will be required to significantly curtail operations to reduce costs and/or sell assets. Such actions would likely have an adverse impact on the Company's future operations.

As a result of the Company's recurring losses from operations, and the need for additional financing to fund its operating and capital requirements, there is uncertainty regarding the Company's ability to maintain liquidity sufficient to operate its business effectively, which raises substantial doubt as to the Company's ability to continue as a going concern.

Management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. These condensed consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment as of March 31, 2018 and December 31, 2017:

	As of March 31, 2018	As of December 31, 2017
Building	\$5,828,960	\$ 5,828,960
Furniture, fixtures, computer hardware and computer software	489,421	489,421
Manufacturing machinery and equipment	30,327,481	30,327,481
Property, plant and equipment	36,645,862	36,645,862
Less: Accumulated depreciation and amortization	(32,072,422)	(32,013,686)
Net property, plant and equipment	\$4,573,440	\$ 4,632,176

The Company analyzes its long-lived assets for impairment, both individually and as a group, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No assets were impaired for the three months ended March 31, 2018 or for the year ended December 31, 2017.

Depreciation expense for the three months ended March 31, 2018 was \$58,736, compared to depreciation expense of \$334,624 for the three months ended March 31, 2017. Depreciation expense is recorded under "Depreciation and amortization expense" in the Condensed Consolidated Statements of Operations.

NOTE 6. INVENTORIES

Inventories consisted of the following at March 31, 2018 and December 31, 2017:

	As of March 31, 2018	As of December 31, 2017
Raw materials	\$695,474	\$688,904
Work in process	5,106	11,878
Finished goods	373,739	337,072

Total \$1,074,319 \$1,037,854

The Company analyzes its inventory for impairment, both categorically and as a group, whenever events or changes in circumstances indicate that the carrying amount of the inventory may not be recoverable. During the three months ended March 31, 2018, the Company did not impair inventory, compared to an impairment of \$363,758, for the three months ended March 31, 2017.

Inventory amounts are shown net of allowance of \$458,097 and \$562,140 for the three months ended March 31, 2018 and the year ended December 31, 2017, respectively.

8

Table of Contents

NOTE 7. NOTES PAYABLE

On February 24, 2017, the Company entered into an agreement with a vendor to convert the balance of their account into three notes payable in the aggregate amount of \$765,784. The notes bear interest of 6% per annum and matured on February 24, 2018; all outstanding principal and accrued interest is due and payable upon maturity. As of March 31, 2018, the Company had not made any payments on these notes, the accrued interest was \$51,052, and the note is due upon demand.

On March 23, 2017, the Company entered into an agreement with a vendor to convert the balance of their account into a note payable in the amount of \$356,742. The note bears interest of 5% per annum and matured on March 31, 2018; all outstanding principal and accrued interest is due and payable upon maturity. As of March 31, 2018, the Company had not made any payments on the note, the accrued interest was \$18,228, and the note is due upon demand.

On June 30, 2017, the Company entered into an agreement with a vendor to convert the balance of their account into a note payable in the amount of \$250,000. The note bears interest of 5% per annum and matured on February 28, 2018; all outstanding principal and accrued interest is due and payable upon maturity. As of March 31, 2018, the Company had not made any payments on these notes, the accrued interest was \$9,384, and the note is due upon demand.

On September 30, 2017, the Company entered into a settlement agreement with a customer to convert the credit balance of their account into a note payable in the amount of \$215,234. The note bears interest of 5% per annum and matures on September 30, 2018. The Company has not made the monthly payments of \$18,426 that were to commence on October 30, 2017; as of March 31, 2018 the company had paid principal of \$20,029 and interest of \$897. The remaining principal and interest balances, as of March 31, 2018, were \$195,205 and \$4,138, respectively.

NOTE 8. DEBT

On February 8, 2008, the Company acquired a manufacturing and office facility in Thornton, Colorado, for approximately \$5.5 million. The purchase was financed by a promissory note, deed of trust and construction loan agreement (the "Construction Loan") with the Colorado Housing and Finance Authority ("CHFA"), which provided the Company borrowing availability of up to \$7.5 million for the building and building improvements. In 2009, the Construction Loan was converted to a permanent loan pursuant to a Loan Modification Agreement between the Company and CHFA (the "Permanent Loan"). The Permanent Loan, collateralized by the building, has an interest rate of 6.6% and the principal will be amortized through its term to January 2028. Further, pursuant to certain negative covenants in the Permanent Loan, the Company may not, among other things, without CHFA's prior written consent (which by the terms of the deed of trust is subject to a reasonableness requirement): create or incur additional indebtedness (other than obligations created or incurred in the ordinary course of business); merge or consolidate with any other entity; or make loans or advances to the Company's officers, shareholders, directors or employees.

On November 1, 2016, the Company and the CFHA agreed to modify the original agreement described above with the addition of a forbearance period. Per the modification agreement, no payments of principal and interest shall be due under the note during the forbearance period commencing on November 1, 2016 and continuing through April 1, 2017. The amount of interest that should have been paid by the Company during the forbearance period in the total amount of \$180,043 shall be added to the outstanding principal balance of the note. As a result, on May 1, 2017, the principal balance of the note was \$5,704,932. Commencing on May 1, 2017, the monthly payments of principal and interest due under the note resumed at \$57,801, and the Company shall continue to make such monthly payments over the remaining term of the note ending on February 1, 2028.

The outstanding principal balance of the Permanent Loan was \$5,378,077 and \$5,461,819 as of March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018, remaining future principal payments on long-term debt are due as follows:

2018	\$259,654
2019	366,757
2020	391,709
2021	418,358
2022	446,821
Thereafter	3,494,778
	\$5,378,077

Table of Contents

NOTE 9. SECURED PROMISSORY NOTE

On November 30, 2017, the Company, entered into a note purchase and exchange agreement (the “Note SPA”) with Global Ichiban Ltd (“Investor”), for the private placement of up to \$2,000,000 of the Company’s Secured Convertible Promissory Notes (“Notes”) in exchange for \$2,000,000 of gross proceeds in several tranches through June 2018, The closing of each tranche is conditioned upon the Company having an average daily trading volume for its Common Stock of at least \$50,000 for the 20 trading day period preceding such future tranche closing dates.

Pursuant to the terms of the Note SPA, the Company and the Investor also agreed to exchange certain outstanding securities held by the Investor for additional Notes. As of November 30, 2017, the Investor surrendered for cancellation (i) its outstanding promissory note dated September 13, 2017 (\$3,359,539 principal and accrued interest), (ii) its outstanding promissory note dated October 31, 2017 (\$252,466 principal and accrued interest), and (iii) its 400 shares of outstanding Series J Preferred Stock (\$445,222 of capital and accrued dividends). In exchange, the Company issued to the Investor \$4,057,227 aggregate principal amount of additional Notes. Please refer to Note 11 and Note 21 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for further discussion on the canceled promissory notes and the canceled Series J Preferred Stock shares.

All principal and accrued interest on the Notes are convertible at any time, in whole or in part, at the option of the Investor into shares of Common Stock at a variable conversion price equal to the lowest of (i) 85% of the average VWAP for the shares over the prior 5 trading days, (ii) the closing bid price for the shares on the prior trading day, or (iii) \$0.002 per share

The Notes may not be converted and shares of Common Stock may not be issued pursuant to the Notes if, after giving effect to the conversion or issuance, the holder together with its affiliates would beneficially own in excess of 9.99% of the outstanding shares of Common Stock.

Of the Notes issued on November 30, 2017, \$3,359,539 aggregate principal amount will mature on December 15, 2020. Principal and interest was originally to be payable in 36 equal monthly installments of \$111,585 beginning January 15, 2018. During the three months ended March 31, 2018, principal of \$1,250,000 was converted into 2,450,980,392 shares of common stock, and \$96,121 of interest was converted to principal. The remaining note is payable in 32 equal monthly installments of \$80,036 beginning May 15, 2018.

Of the Notes issued on November 30, 2017, \$697,688 aggregate principal amount will mature on November 30, 2018. Principal and interest will be payable upon maturity.

The \$2,000,000 aggregate principal amount of Notes, issued in eight tranches, will mature on the first anniversary of the respective issuance date. Principal and interest will be payable upon maturity. As of March 31, 2018, the closing dates, closing amounts, and maturity dates on completed Note SPA tranches are as follows:

Closing Date	Closing Amount	Maturity Date
11/30/2017	\$ 250,000	11/30/2018
12/28/2017	\$ 250,000	12/28/2018
1/11/2018	\$ 250,000	1/11/2019
1/25/2018	\$ 250,000	1/25/2019
2/8/2018	\$ 250,000	2/8/2019
2/21/2018	\$ 250,000	2/21/2019
3/7/2018	\$ 250,000	3/7/2019

3/21/2018 \$250,000 3/21/2019

The Notes will be secured by a security interest on substantially all of the Company's assets, bear interest at a rate of 12% per annum and contain standard and customary events of default including but not limited to: (i) failure to make payments when due under the Notes, and (ii) bankruptcy or insolvency of the Company. There are no registration rights applicable to the Notes.

As of March 31, 2018, the aggregate principal and interest balance of the Notes were \$4,903,348 and \$83,406, respectively.

Table of Contents

Pursuant to a number of factors outlined in ASC Topic 815, Derivatives and Hedging, the conversion option in the Notes were deemed to include an embedded derivative that required bifurcation and separate accounting. As such, the Company ascertained the value of the conversion option as if separate from the convertible issuance and appropriately recorded that value as a derivative liability. The fair value measurements rely primarily on Company-specific inputs and the Company's own assumptions. With the absence of observable inputs, the Company determined these recurring fair value measurements reside primarily within Level 3 of the fair value hierarchy. The derivative associated with the Notes approximates management's estimate of the fair value of the embedded derivative liability based on using a Monte Carlo simulation following a Geometric Brownian Motion with the following assumptions identified below.

Due to the varying terms and varying issue dates, the tranches of this instrument were broken into four separate instruments for valuation purposes.

1) The first valuation was done on the November 30, 2017 Note with term of three years. The derivative value of this note was \$3,742,002 as of December 31, 2017.

1) The second valuation was done on the group of Notes dated November 30, 2017, that had a term of one year. The derivative value of this group of notes was \$888,168 as of December 31, 2017.

2) The third valuation was done on the Note dated December 28, 2017, which had a term of one year. The derivative value of this note was \$267,008 on December 31, 2017.

For the Notes dated in the first quarter of 2018, we did a fourth valuation. Although the notes were entered into at various dates, we used a weighted average issuance date of February 15, 2018 for a combined valuation purpose. Management's analysis, using the following assumptions: annual volatility of 54% present value discount rate of 12% and a dividend yield of 0%, resulted in a fair value of the embedded derivative associated with these Notes of \$1,151,162 as of February 15, 2018. The value of the embedded derivative associated with these Notes was recorded as a debt discount.

The derivative liability associated with the Notes is subject to revaluation on a quarterly basis to reflect the market value change of the embedded conversion option. At March 31, 2018, the Company conducted a fair value assessment of the embedded derivative associated with the three valuation groups discussed above.

For the November 30, 2017 3yr Note: Management conducted a fair value assessment with the following assumptions: annual volatility of 64% present value discount rate of 12% and a dividend yield of 0% as of 1) March 31, 2018. As a result of the fair value assessment, the Company recorded a gain of \$612,155 as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Consolidated Statements of Operations to properly reflect the fair value of the embedded derivative of \$3,129,847 as of March 31, 2018.

For the November 30, 2017 1yr Notes: Management conducted a fair value assessment with the following assumptions: annual volatility of 52% present value discount rate of 12% and a dividend yield of 0% as of 2) March 31, 2018. As a result of the fair value assessment, the Company recorded a gain of \$174,989 as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Consolidated Statements of Operations to properly reflect the fair value of the embedded derivative of \$713,179 as of March 31, 2018.

3) For the December 28, 2017 1yr Note: Management conducted a fair value assessment with the following assumptions: annual volatility of 52% present value discount rate of 12% and a dividend yield of 0% as of March 31, 2018. As a result of the fair value assessment, the Company recorded a gain of \$78,871 as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Consolidated Statements of

Operations to properly reflect the fair value of the embedded derivative of \$188,137 as of March 31, 2018.

For the first quarter 2018 1yr Notes: Management conducted a fair value assessment with the following assumptions: annual volatility of 52% present value discount rate of 12% and a dividend yield of 0% as of 4)March 31, 2018. As a result of the fair value assessment, the Company recorded a loss of \$878,973 as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Consolidated Statements of Operations to properly reflect the fair value of the embedded derivative of \$2,030,135 as of March 31, 2018.

During the first quarter 2018, a net loss of \$12,958 had been recorded to reflect the total derivative liability of \$6,061,298 as of March 31, 2018.

Table of Contents

NOTE 10. PROMISSORY NOTES

Offering of Unsecured, Non-Convertible Notes

During October 2016, the Company received \$420,000 from a separate private investor. These funds, along with \$250,000 of additional funding, were rolled into a promissory note, executed on January 17, 2017, in the amount of \$700,000 issued with a discount of \$30,000 which will be charged to interest expense ratably over the term of the note. The note bears interest at 12% per annum and matures on July 17, 2017. Principal and interest on this note are payable at maturity. This note is not convertible into equity shares of the Company and is unsecured.

On June 30, 2017, the Company and the private investor agreed to a 12 month payment plan on the balance of this promissory note. Interest will continue to accrue on this note at 12% per annum and payments of approximately \$62,000 will be made monthly beginning in July 2017. The Company has not made all the payments according to this payment plan, and the note is payable upon demand.

As of March 31, 2018, \$205,563 of principal and \$45,414 of interest had been paid on this note. The outstanding principal and accrued interest balances on the note as of March 31, 2018 were \$494,437 and \$41,756, respectively.

On November 16, 2017, the Company initiated a non-convertible, unsecured promissory note with a private investor for \$275,000. The promissory note was issued with an original issue discount of \$25,000, resulting in proceeds to the company of \$250,000. The note does not have a stated interest rate and matured on December 18, 2017. As of March 31, 2018, no payments had been made on this note and the Company has accrued interest at an inferred rate of 12% resulting in an accrued interest balance of \$9,493, as of March 31, 2018. This note is payable upon demand.

On January 31, 2018, the Company initiated a non-convertible, unsecured promissory note with a private investor for an aggregate principal amount of \$200,000. The promissory note was issued with an original issue discount of \$22,500, resulting in proceeds to the company of \$177,500, which was received in December 2017. The note bears interest at 12% per annum and matures on December 29, 2018. All principal and interest is payable upon maturity. The Company received \$30,000 in additional proceeds from this investor during the three months ended March 31, 2018, and the Company has received further proceeds as of the date of this report (please refer to Note 18 for further information). As of the date of this report, the amended note has not been finalized. As of March 31, 2018, the principal and interest balances on this note were \$230,000 and \$6,473, respectively.

NOTE 11. OCTOBER 2016 CONVERTIBLE NOTES AND EXCHANGE OF SERIES A PREFERRED STOCK

October 2016 Convertible Notes

On October 5, 2016, the Company entered into a securities purchase agreement with a private investor for the private placement of \$330,000 principal amount of October 2016 Convertible Notes. At Closing, the Company sold and issued \$330,000 principal amount of October 2016 Convertible Notes in exchange for \$330,000 of gross proceeds.

Unless earlier converted or prepaid, the October 2016 Convertible Notes matured on December 31, 2017. The October 2016 Convertible Notes bear interest at a rate of 6% per annum, subject to increase to 24% per annum upon the occurrence and continuance of an event of default (as described below). Principal and accrued interest on the October 2016 Convertible Notes is payable upon demand.

All principal and accrued interest on the October 2016 Convertible Notes are convertible at any time, in whole or in part, at the option of Adar Bays, into shares of common stock at a variable conversion price equal to 80% of the lowest closing bid price of the Company's common stock for the fifteen consecutive trading day period prior to the

conversion date. After the six month anniversary of the issuance of any October 2016 Convertible Note, the conversion price for such note shall thereafter be equal to 50% of the lowest closing bid price of the Company's common stock for the fifteen consecutive trading day period prior to the conversion date.

The October 2016 Convertible Notes contain standard and customary events of default including but not limited to: (i) failure to make payments when due under the October 2016 Convertible Notes; and (ii) bankruptcy or insolvency of the Company.

Outstanding principal and accrued interest on the October 2016 Convertible Notes were \$330,000 and \$29,810, respectively as of March 31, 2018.

Table of Contents

Pursuant to a number of factors outlined in ASC Topic 815, Derivatives and Hedging, the conversion option in the October 2016 Convertible Notes were deemed to include an embedded derivative that required bifurcation and separate accounting. As such, the Company ascertained the value of the conversion option as if separate from the convertible issuance and appropriately recorded that value as a derivative liability. At closing, a derivative liability and a corresponding debt discount in the amount of \$330,000 was recorded. The fair value of the derivative was greater than the face value at issuance and the difference of \$341,114 was charged to interest expense at issuance. The remaining debt discount will be charged to interest expense ratably over the life of the October 2016 Convertible Notes. As of December 31, 2017, the fair value of the derivative liability was \$572,643.

The derivative liability associated with the October 2016 Convertible Notes is subject to revaluation on a quarterly basis to reflect the market value change of the embedded conversion option. At March 31, 2018, the Company conducted a fair value assessment of the embedded derivative associated with the October 2016 Convertible Notes. As a result of the fair value assessment, the Company recorded a \$62,276 loss as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2018, to properly reflect the fair value of the embedded derivative of \$634,919 as of March 31, 2018.

The fair value measurements rely primarily on Company-specific inputs and the Company's own assumptions. With the absence of observable inputs, the Company determined these recurring fair value measurements reside primarily within Level 3 of the fair value hierarchy. The derivative associated with the October 2016 Convertible Notes approximates management's estimate of the fair value of the embedded derivative liability at March 31, 2018 based on using a Monte Carlo simulation following a Geometric Brownian Motion with the following assumptions: annual volatility of 53% present value discount rate of 12% and dividend yield of 0%.

Exchange of Outstanding Series A Preferred Stock for Convertible Notes

In 2013, the Company completed a private placement to one accredited investor (the "Series A Holder") of its Series A Convertible Preferred Stock. Prior to the exchange agreement described below the Company had 165,541 shares of Series A Preferred Stock that remained outstanding as of October 6, 2016.

On October 6, 2016, the Series A Holder entered into an exchange agreement with private investor. Pursuant to the exchange agreement, beginning December 5, 2016, the private investor has the option to exchange, from time to time, all or any portion of the October 2016 Convertible Notes for outstanding shares of Series A Preferred Stock from the Series A Holder.

As of March 31, 2017, the private investor had elected to exchange all outstanding October 2016 Convertible Notes, in accordance with the exchange agreement, and the Series A Holder held \$330,000 of the October 2016 Convertible Notes.

NOTE 12. ST. GEORGE CONVERTIBLE NOTE

On September 8, 2017, the Company entered into a securities purchase agreement with St. George Investments LLC ("Investor"), for the private placement of \$1,725,000 principal amount of the Company's Original Issue Discount Convertible Promissory Notes.

On September 11, 2017, the Company sold and issued \$1,725,000 principal amount of the convertible notes to the Investor in exchange for \$1,500,000 of gross proceeds, and paid \$20,000 in financing costs. The original issue discount of \$225,000, and the financing fee, will be charged to interest expense, ratably, over the life of the note.

Unless earlier converted or prepaid, the convertible notes will mature on March 11, 2019. The notes do not bear interest in the absence of an event of default.

For the first six months after the issuance of the notes, the Company will make a monthly cash repayment on the notes of approximately \$96,000. Thereafter, the Investor may request that the Company make monthly partial redemptions of the note up to \$150,000 per month. If the Investor does not request the full \$150,000 redemption amount in any one month, the unused portion of such monthly redemption amount can be added to future monthly redemption amounts. But in no event can the amount requested by the Investor for any one month exceed \$275,000.

Redemption amounts are payable by the Company in cash. Beginning ten months after the issuance of the convertible notes, cash redemption payments by the Company will be subject to a 15% redemption premium.

Table of Contents

Beginning six months after the issuance of the convertible notes, the Company also has the option (subject to customary equity conditions) to pay redemption amounts in the form of shares of common stock. Payments in the form of shares would be calculated using a variable conversion price equal to the lower of (i) 85% of the average VWAP for the shares over the prior five trading days or (ii) the closing bid price for the shares on the prior trading day.

All principal and accrued interest on the Notes are convertible at any time, in whole or in part, at the option of the Investor into shares of Common Stock at a fixed conversion price of \$0.004 per share.

The Notes contain standard and customary events of default including but not limited to: (i) failure to make payments when due under the Notes; and (ii) bankruptcy or insolvency of the Company. Upon the occurrence of an event of default, the Notes will begin to bear interest at the rate of 22% per annum. In addition, upon the occurrence of an event of default, the Investor has the option to increase the outstanding balance of the Notes by 25%.

In connection with the closing under the Note SPA, the Company issued 37,500,000 unregistered shares of common stock to the Investor as an origination fee. The closing stock price on the date of close was \$0.0017 resulting in an interest expense of \$63,750 being recorded as of the date of close.

The Notes may not be converted and shares of Common Stock may not be issued pursuant to the Notes if, after giving effect to the conversion or issuance, the holder together with its affiliates would beneficially own in excess of 4.99% of the outstanding shares of Common Stock.

As of March 31, 2018, cash payments of \$191,667 had been made on this note, and \$75,000 had been converted into 187,500,000 shares of the Company's common stock. The remaining balance on the note was \$1,458,333 as of March 31, 2018.

In lieu of making the December 2017 through March 2018 cash payments, the share reserve was increased by 5 billion shares, and the variable conversion price changed to the lower of (i) 60% of the average VWAP for the shares over the prior five trading days or (ii) the closing bid price for the shares on the prior trading day, please refer to Note 18 for more information on the change in VWAP discount.

Pursuant to a number of factors outlined in ASC Topic 815, Derivatives and Hedging, the conversion option in the Convertible Promissory Notes were deemed to include an embedded derivative that required bifurcation and separate accounting. As such, the Company ascertained the value of the conversion option as if separate from the convertible issuance and appropriately recorded that value as a derivative liability. As of December 31, 2017, the derivative liability was \$394,280.

The derivative liability associated with the Convertible Promissory Notes is subject to revaluation on a quarterly basis to reflect the market value change of the embedded conversion option. At March 31, 2018, the Company conducted a fair value assessment of the embedded derivative associated with the St. George Convertible Notes. As a result of the fair value assessment, the Company recorded a \$824,900 loss as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2018, to properly reflect the fair value of the embedded derivative of \$1,219,180 as of March 31, 2018.

The fair value measurements rely primarily on Company-specific inputs and the Company's own assumptions. With the absence of observable inputs, the Company determined these recurring fair value measurements reside primarily within Level 3 of the fair value hierarchy. The derivative associated with the Convertible Promissory Notes approximates management's estimate of the fair value of the embedded derivative liability at March 31, 2018 based on

using a Monte Carlo simulation following a Geometric Brownian Motion with the following assumptions: annual volatility of 56% present value discount rate of 12% and dividend yield of 0%.

NOTE 13. BAYBRIDGE CONVERTIBLE NOTE

On December 6, 2017, the Company entered into a securities exchange agreement (the “Exchange Agreement”) with BayBridge Capital Fund LP (“BayBridge”).

Pursuant to the terms of the Exchange Agreement, the Investor agreed to surrender and exchange 675 shares of outstanding Series J Preferred Stock (\$755,417 of capital and accrued dividends). In exchange, the Company issued to the Investor an unsecured promissory note with an aggregate principal amount of \$840,000 (the “Exchange Note”), with an original issue discount of \$84,583. Please refer to Note 21 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for further discussion on the Series J Preferred Stock.

Table of Contents

The Exchange Note is unsecured, has no applicable registration rights, bears interest at a rate of 12% per annum, matures on December 6, 2018, and contains standard and customary events of default including but not limited to: (i) failure to make payments when due under the Exchange Note, and (ii) bankruptcy or insolvency of the Company. Principal and interest are payable upon maturity.

Payments of principal and accrued interest on the Exchange Note are payable in cash or, at the option of the Company, in shares of Common Stock at a variable conversion price equal to the lowest of (i) 85% of the average VWAP for the shares over the prior 5 trading days, (ii) the closing bid price for the shares on the prior trading day, or (iii) \$0.003 per share. Payments in shares of Common Stock may not be issued pursuant to the Exchange Note if, after giving effect to the conversion or issuance, the holder together with its affiliates would beneficially own in excess of 9.99% of the outstanding shares of Common Stock.

Pursuant to a number of factors outlined in ASC Topic 815, Derivatives and Hedging, the conversion option in the Exchange Note was deemed to include an embedded derivative that required bifurcation and separate accounting. As such, the Company ascertained the value of the conversion option as if separate from the convertible issuance and appropriately recorded that value as a derivative liability. At December 31, 2017, the derivative liability associated with the promissory note was \$542,733.

The derivative liability associated with the Exchange Note is subject to revaluation on a quarterly basis to reflect the market value change of the embedded conversion option. At March 31, 2018, the Company conducted a fair value assessment of the embedded derivative associated with the Exchange Note. As a result of the fair value assessment, the Company recorded a \$349,048 gain as "Change in fair value of derivatives and gain/(loss) on extinguishment of liabilities, net" in the Condensed Consolidated Statements of Operations, to properly reflect the fair value of the embedded derivative of \$193,685 as of March 31, 2018.

The fair value measurements rely primarily on Company-specific inputs and the Company's own assumptions. With the absence of observable inputs, the Company determined these recurring fair value measurements reside primarily within Level 3 of the fair value hierarchy. The derivative associated with the Exchange Note approximates management's estimate of the fair value of the embedded derivative liability at March 31, 2018 based on using a Monte Carlo simulation following a Geometric Brownian Motion with the following assumptions: annual volatility of 50%, present value discount rate of 12% and dividend yield of 0%.

As of March 31, 2018, principal of \$380,000 and interest of \$20,717 had been converted into 897,418,314 shares of common stock and no cash payments of principal or interest had been made. The principal and accrued interest balances as of March 31, 2018 were \$460,000 and \$653, respectively.

NOTE 14. SERIES A PREFERRED STOCK

In June 2013, the Company entered into a Securities Purchase Agreement with an investor to sell an aggregate of 750,000 shares of Series A Preferred Stock at a price of \$8.00 per share, resulting in gross proceeds of \$6,000,000. This purchase agreement included warrants to purchase up to 13,125 shares of common stock of the Company. The transfer of cash and securities took place incrementally, the first closing occurring on June 17, 2013 with the transfer of 125,000 shares of Series A Preferred Stock and a warrant to purchase 2,187 shares of common stock for \$1,000,000. The final closings took place in August 2013, with the transfer of 625,000 shares of Series A Preferred Stock and a warrant to purchase 10,938 shares of common stock for \$5,000,000.

Holders of Series A Preferred Stock are entitled to cumulative dividends at a rate of 8% per annum when and if declared by the Board of Directors in its sole discretion. The dividends may be paid in cash or in the form of common stock (valued at 10% below market price, but not to exceed the lowest closing price during the applicable

measurement period), at the discretion of the Board of Directors. The dividend rate on the Series A Preferred Stock is indexed to the Company's stock price and subject to adjustment. In addition, the Series A Preferred Stock contains a make-whole provision whereby, conversion or redemption of the preferred stock within 4 years of issuance will require dividends for the full four year period to be paid by the Company in cash or common stock (valued at 10% below market price, but not to exceed the lowest closing price during the applicable measurement period). This make-whole provision expired in June 2017 and future conversions and redemptions will be paid out with accrued dividends per the holding period of the shares of Series A Preferred stock. Please see Note 23 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for more information.

Table of Contents

The Series A Preferred Stock may be converted into shares of common stock at the option of the Company if the closing price of the common stock exceeds \$232, as adjusted, for 20 consecutive trading days, or by the holder at any time. The Company has the right to redeem the Series A Preferred Stock at a price of \$8.00 per share, plus any accrued and unpaid dividends, plus the make-whole amount (if applicable). At March 31, 2018, the preferred shares were not eligible for conversion to common shares at the option of the Company. The holder of the preferred shares may convert to common shares at any time, at no cost, at a ratio of 1 preferred share into 1 common share (subject to standard ratable anti-dilution adjustments). Upon any conversion (whether at the option of the Company or the holder), the holder is entitled to receive any accrued but unpaid dividends.

On October 6, 2016, the Series A Holder entered into an exchange agreement with a private investor. Pursuant to the exchange agreement, beginning December 5, 2016, the investor has the option to exchange, from time to time, all or any portion of the October 2016 Convertible Notes (see Note 11) for outstanding shares of Series A Preferred Stock from the Series A Holder.

As of March 31, 2017, the investor had elected to exchange all outstanding October 2016 Convertible Notes, in accordance with the exchange agreement, resulting in the exchange of 104,785 shares of Series A Preferred Stock. As of March 31, 2017, the investor had also converted their 104,785 shares of Series A Preferred Stock, and the related make whole dividend, which resulted in the issuance of 173,946,250 shares of common stock.

Except as otherwise required by law (or with respect to approval of certain actions), the Series A Preferred Stock shall have no voting rights. Upon any liquidation, dissolution or winding up of the Company, after payment or provision for payment of debts and other liabilities of the Company, the holders of Series A Preferred Stock shall be entitled to receive, pari passu with any distribution to the holders of common stock of the Company, an amount equal to \$8.00 per share of Series A Preferred Stock plus any accrued and unpaid dividends.

As of March 31, 2018, there were 60,756 shares of Series A Preferred Stock outstanding and accrued and unpaid dividends of \$295,004.

NOTE 15. SERIES K PREFERRED STOCK

On February 8, 2017, the Company, entered into a securities purchase agreement (“Series K SPA”) with a private investor (“Investor”), for the private placement of up to \$20,000,000 of the Company’s newly designated Series K Convertible Preferred Stock (“Series K Preferred Stock”).

Per the terms of the Series K SPA, the Company was scheduled to sell 1,000 shares of Series K Preferred Stock to Investor in exchange for \$1,000,000 of gross proceeds on or before each of (i) February 24, 2017, (ii) March 27, 2017, (iii) April 27, 2017, (iv) May 27, 2017 and (v) June 27, 2017. The Company was also scheduled to sell 15,000 shares of Series K Preferred Stock to Investor in exchange for \$15,000,000 of gross proceeds on or before July 27, 2017. As of March 31, 2018, the Company had sold 9,010 shares of Series K Preferred Stock in exchange for \$9,010,000 in cash proceeds from the private investor. The Company does not expect to receive any more funding from this investor. The following summarizes the closings and proceeds received as of March 31, 2018:

Closing Period	Preferred	Closing Amount
	Series K Shares Purchased	
Q1 2017	150	\$ 150,000
Q2 2017	4,100	4,100,000
Q3 2017	4,760	\$4,760,000

9,010 \$9,010,000

The Series K Preferred Stock ranks senior to the Company's common stock in respect to dividends and rights upon liquidation. The Series K Preferred Stock will not have voting rights and the holders of the Series K Preferred Stock will not be entitled to any fixed rate of dividends.

The shares of the Series K Preferred Stock will be convertible at the option of the holder into common stock at a fixed conversion price equal to \$0.004. At no time may the Series K Preferred Stock be converted if the number of shares of common stock to be received by Investor pursuant to such conversion, when aggregated with all other shares of common stock then beneficially (or deemed beneficially) owned by Investor, would result in Investor beneficially owning more than 19.99% of all common stock then outstanding. The following table summarizes the conversion activity of Series K Preferred Stock:

16

Table of Contents

Conversion Period	Preferred Series K Shares	Value of Series K Preferred Shares	Common Shares Issued
Q2 2017	3,200	\$3,200,000	800,000,000
Q3 2017	3,000	\$3,000,000	750,000,000
	6,200	\$6,200,000	1,550,000,000

As of March 31, 2018, the investor owned approximately 12% of the Company's outstanding common stock and there are 2,810 shares of Series K Preferred Stock Outstanding, representing a value of \$2,810,000. Subsequent to March 31, 2018, the investor converted their remaining Series K Preferred Shares into common stock. Please refer to Note 18 for further information.

The Company is required to redeem for cash any outstanding shares of the Series K Preferred Stock at a price per share equal to \$1,000 plus any accrued but unpaid dividends (if any) thereon on the fifth anniversary of the date of the original issue of such shares.

Upon our liquidation, dissolution or winding up, holders of Series K Preferred Stock will be entitled to be paid out of our assets, prior to the holders of our common stock, an amount equal to \$1,000 per share plus any accrued but unpaid dividends (if any) thereon.

Upon issuance, in accordance with ASC 480-10, the Series K Preferred Stock was classified as a liability on the Consolidated Balance Sheets. Pursuant to a number of factors outlined in ASC Topic 815, the conversion option in the Series K Preferred Stock was deemed to not require bifurcation or separate accounting treatment.

NOTE 16. STOCKHOLDERS' DEFICIT

Common Stock

At March 31, 2018, the Company had 20,000,000,000 shares of common stock, \$0.0001 par value, authorized for issuance. Each share of common stock has the right to one vote. As of March 31, 2018, the Company had 12,738,084,718 shares of common stock outstanding. The Company has not declared or paid any dividends related to the common stock through March 31, 2018.

Preferred Stock

At March 31, 2018, the Company had 750,000 shares of preferred stock, \$0.0001 par value, authorized for issuance. Preferred stock may be issued in classes or series. Designations, powers, preferences, rights, qualifications, limitations and restrictions are determined by the Company's Board of Directors.

The following table summarizes the designations, shares authorized, and shares outstanding for the Company's Preferred Stock:

Preferred Stock Series Designation	Shares Outstanding
Series A	60,756
Series K	2,810

Series A Preferred Stock

Refer to Note 14 descriptions of Series A Preferred Stock.

Series K Preferred Stock

Refer to Note 15 descriptions of Series K Preferred Stock.

Table of Contents

Warrants

As of March 31, 2018, the Company has three outstanding warrants for an aggregate of 700 million shares of common stock: i) a warrant for 250 million shares of common stock which is exercisable at a fixed strike price of \$0.004 and expires on July 24, 2018; ii) a warrant for 250 million shares of common stock which is exercisable at a fixed strike price of \$0.003 and expires on August 10, 2018; and iii) a warrant for 200 million shares of common stock which is exercisable at a fixed strike price of \$0.0018 and expires on June 30, 2018. None of the warrants may not be exercised if, after giving effect to the exercise, the holder, together with its affiliates, would beneficially own in excess of 9.99% of the Company's outstanding shares of common stock. Please refer to Note 24 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for further information about each warrant issuance.

The following table summarizes warrant activity:

	Warrant Shares	Warrant Weighted Average Exercise Price
Outstanding at December 31, 2016	—	\$ —
Granted	700,000,000	\$ 0.003
Exercised	—	\$ —
Canceled	—	\$ —
Outstanding at December 31, 2017	700,000,000	\$ 0.003
Granted	—	\$ —
Exercised	—	\$ —
Canceled	—	\$ —
Outstanding at March 31, 2018	700,000,000	\$ 0.003
Exercisable at March 31, 2018	700,000,000	\$ 0.003

NOTE 17. EQUITY PLANS AND SHARE-BASED COMPENSATION

Share-Based Compensation: The Company measures share-based compensation cost at the grant date based on the fair value of the award and recognizes this cost as an expense over the grant recipients' requisite service periods for all awards made to employees, officers, directors and consultants.

The share-based compensation expense recognized in the Condensed Consolidated Statements of Operations was as follows:

	For the three months ended March 31,	
	2018	2017
Share-based compensation cost included in:		
Research and development	\$ 454	\$ 16,610
Selling, general and administrative	13,870	63,127
Total share-based compensation cost	\$ 14,324	\$ 79,737

The following table presents share-based compensation expense by type:

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Type of Award:	For the three months ended	
	March 31, 2018	2017
Stock Options	\$ 14,324	\$ 53,408
Restricted Stock Units and Awards	—	26,329
Total share-based compensation cost	\$ 14,324	\$ 79,737

18

Table of Contents

Stock Options: The Company recognized share-based compensation expense for stock options of approximately \$14,324 to officers, directors and employees for the three months ended March 31, 2018 related to stock option awards ultimately expected to vest. There were no stock options granted during the three months ended March 31, 2018 or during the three months ended March 31, 2017.

As of March 31, 2018, total compensation cost related to non-vested stock options not yet recognized was approximately \$24,000 which is expected to be recognized over a weighted average period of approximately 1.2 years, 67,965 shares were vested or expected to vest in the future at a weighted average exercise price of \$31.82, and 195,883 shares remained available for future grants under the Option Plan.

Restricted Stock: The Company did not recognize share-based compensation expense related to restricted stock grants for the three months ended March 31, 2018. During the three months ended March 31, 2017, the Company recognized approximately \$26,000 in share-based compensation related to restricted stock grants. There were no restricted stock grants for the three months ended March 31, 2018 or the three months ended March 31, 2017.

As of March 31, 2018, there was no unrecognized share-based compensation expense from unvested restricted stock, no shares were expected to vest in the future, and 518,388 shares remained available for future grants under the Restricted Stock Plan.

NOTE 18. SUBSEQUENT EVENTS

Update on Promissory Notes

During April and May 2018, the Company received aggregate proceeds of \$255,000 from a private investor. As of the date of this report the funds had not been documented into a note agreement, the Company is imputing interest at 12% per annum.

Update on St. George Convertible Note

On May 1, 2018, effective as of April 3, 2018, the parties agreed to amend the variable conversion price formula outlined in the SPA. As amended, payments in the form of shares would be calculated using a variable conversion price equal to the lower of (i) 60% of the lowest VWAP for the shares during the prior five trading days or (ii) the closing bid price for the shares on the prior trading day.

On April 3, 2018, St. George requested a redemption of \$50,000 on their convertible note, in accordance with the Securities Purchase Agreement dated September 9, 2017 ("SPA"). Also in accordance with the SPA, the Company elected to fulfill this redemption through the issuance of common stock; as a result, 208,333,333 shares of common stock were issued to St. George.

On April 13, 2018, St. George requested a redemption of \$50,000 on their convertible note, in accordance with the SPA. Also in accordance with the SPA, the Company elected to fulfill this redemption through the issuance of common stock; as a result, 277,777,778 shares of common stock were issued to St. George.

On April 25, 2018, St. George requested a redemption of \$75,000 on their convertible note, in accordance with the SPA. Also in accordance with the SPA, the Company elected to fulfill this redemption through the issuance of common stock; as a result, 416,666,667 shares of common stock were issued to St. George.

On May 9, 2018, St. George requested a redemption of \$141,600 on their convertible note, in accordance with the SPA. Also in accordance with the SPA, the Company elected to fulfill this redemption through the issuance of common stock; as a result, 1,180,000,000 shares of common stock were issued to St. George.

As of the date of this report, the remaining principal balance on the St. George Convertible Note was \$1,141,733.

Update on BayBridge Convertible Note

On April 13, 2018, BayBridge requested a redemption of \$90,000 principal and \$2,760 interest on their convertible note, in accordance with the Securities Purchase Agreement dated December 6, 2017. Also in accordance with said securities purchase agreement, the Company elected to fulfill this redemption through the issuance of common stock; as a result, 545,647,059 shares of common stock were issued to BayBridge.

Table of Contents

On May 10, 2018, BayBridge requested a redemption of \$318,000 principal and \$3,330 interest on their convertible note, in accordance with the Securities Purchase Agreement dated December 6, 2017. Also in accordance with said securities purchase agreement, the Company elected to fulfill this redemption through the issuance of common stock; as a result, 1,890,176,471 shares of common stock were issued to BayBridge.

As of the date of this report, the principal balance on the BayBridge Convertible note was \$52,000.

Update on Series K Preferred Stock

On May 8, 2018, the holder of the Series K Preferred stock converted the remaining 2,810 outstanding shares of Series K Preferred Stock into common stock, in accordance with the Securities Purchase Agreement dated February 8, 2017. The conversion resulted in the issuance of 702,500,000 shares of common stock. After giving effect to the conversion, immediately following the conversion, the investor held approximately 15% of the outstanding shares of the Company's common stock.

Table of Contents

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

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and the notes to those financial statements appearing elsewhere in this Form 10-Q. This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Overview

We are a company formed to commercialize flexible photovoltaic modules using our proprietary technology. For the three months ended March 31, 2018, we generated \$377,511 of revenue from product sales.

In 2012, we evolved our business model to include B2C, solution based, PV integrated consumer electronics to our off grid high value solar power generation strategy. In June of 2012, we launched our new line of consumer products under the EnerPlex™ brand, and introduced our first product, the Surfr™, a battery and solar case for the Apple® iPhone® 4/4S smart phone, featuring our ultra-light CIGS thin film technology integrated directly into the case. The case incorporates our ultra-light and thin PV module into a sleek, protective iPhone 4/4S case, along with a thin, life extending, lithium-polymer battery. The case adds minimal weight and size to an iPhone smartphone, yet provides supplemental charging when needed. In August of 2012, we announced the launch of the second version of the Surfr for the Samsung® Galaxy S® III, which provides 85% additional battery life.

In December 2012, we launched the EnerPlex Kickr™ and EnerPlex Jumpr™ product series. The Kickr IV is an extremely portable, compact and durable solar charging device, approximately seven inches by seven inches when folded, and weighs less than half a pound. The Kickr IV provides 6.5 watts of regulated power that can help charge phones, digital cameras, and other small USB enabled devices. The Kickr IV is ideal for outdoor activities such as camping, hiking and mountain climbing as well as daily city use. To complement the Kickr IV, we also released the Jumpr series of portable power banks in December of 2012. The Jumpr series provides a compact power storage solution for those who need to recharge their portable electronics while on the go.

During 2013, the EnerPlex brand rapidly expanded with the addition of two new product series as well as over fifteen new products. In 2013, we introduced further additions to the Jumpr line of portable power banks; releasing the Jumpr Mini and Jumpr Stack in August and the Jumpr Max in September. The latest additions to the Kickr line of portable solar chargers, the Kickr I and Kickr II, were introduced in August at the Outdoor Retailer show. Furthermore, in October 2013, we released our first series of solar integrated backpacks, the EnerPlex Packr™. The Packr is a functional backpack ideal for charging mobile electronic devices while on the go. Also in October of 2013, we introduced the Surfr battery and solar case for the Samsung Galaxy S® 4, and in December, we introduced the Surfr battery and solar case for Apple's iPhone® 5. To complement our flagship product lines, we added an assortment of accessories, all of which can be integrated into the EnerPlex ecosystem of products; such as the LED wand which can be easily plugged into a Jumpr power bank to provide hours of light, or the Travel Adaptor, which enables consumers to charge up their Jumpr power banks from a traditional outlet anywhere in the world.

Beginning in 2013, we aggressively pursued new distribution channels for the EnerPlex brand; these activities have led to placement in a variety of high-traffic ecommerce venues such as www.amazon.com, www.walmart.com, www.brookstone.com, www.newegg.com, as well as many others including our own e-commerce platform at www.goenerplex.com. The April 2013 placement of EnerPlex products at Fry's Electronics, a US West Coast consumer electronics retailer, represented the company's first domestic retail presence; EnerPlex products were carried

in all of Fry's 34 superstores across 9 states.

Throughout 2014, EnerPlex released multiple additions to the Jumpr line of products: including the Jumpr Stack 3, 6 and 9; innovative batteries equipped with tethered micro-USB and Apple Lightning cables with a revolutionary Stack and Charge design, enabling batteries to be charged simultaneously when they are placed on top of one another. Also released in 2014 were the Jumpr Slate series, products which push the boundaries of how thin batteries can be; the Jumpr Slate 10k, at less than 7mm thick was the thinnest lithium polymer battery available when it was released. The Jumpr Slate 5k and 5k Lightning each come with a tethered micro-USB and Lightning cable respectively; freeing consumers from worrying about toting extra cables with them while on the move.

Table of Contents

At Outdoor Retailer 2014, EnerPlex debuted the Generatr Series. The Generatr 1200 and Generatr 100 are lithium-ion based, large format batteries. Lighter and smaller than competitors, the Generatr Series are targeted for consumers who require high-capacity, high-output batteries which remain ultra-portable. Also debuted at Outdoor Retailer was the Commandr 20, a high output solar charger designed specifically to integrate with and charge the Generatr series, allowing consumers to stay out longer without needing to charge their Generatr batteries from a traditional power source. In August 2014, the Kickr II+ and IV+ were also announced, these products represent another evolution in EnerPlex's line of solar products; integrated with a 500mAh battery the Kickr II+ and IV+ are able to provide a constant flow of power even when there are intermittent disruptions in sunlight.

During 2015, we reached an agreement with EVINE Live, one of the premier home shopping networks with TV programming that reaches over 87 million US homes to begin selling EnerPlex products during their broadcasts. EnerPlex launched the Generatr S100 and select other products exclusively with EVINE, EnerPlex also launched the Generatr 1200 launched exclusively with EVINE for a limited period. Also during 2015, EnerPlex expanded its relationship with The Cellular Connection to include over 450 Verizon Wireless Premium Retail Stores; launched its products with two world recognized retailers; The Sports Authority and Cabela's; and launched its products with GovX; the premier online shopping destination for Military, Law Enforcement and Government agencies. Internationally, EnerPlex products became available in the United Kingdom via the brand's launch with 172 Maplin's stores throughout the country.

In 2016, EnerPlex launched the new emergency sales vertical, partnering with Emergency Preparedness eCommerce leader, Emergency Essentials, and we announced new breakthroughs in the Company's line of high-voltage solar products, designed specifically for high-altitude and space markets. Also during the first quarter of 2016, the Company announced the launch of select products on the GSA Advantage website; allowing Federal employees, including members of all branches of the US Military, to directly purchase Ascent and EnerPlex products including: the MilPak E, Commandr 20, Kickr 4 and WaveSol solar modules.

In January 2017, Ascent was awarded a contract to supply high-voltage SuperLight thin-film CIGS PV blankets. These 50W, fully laminated, flexible blankets were manufactured using a new process that was optimized for high performance in near-space conditions at elevated temperatures, and are custom designed for easy modular integration into series and parallel configurations to achieve the desired voltage and current required for such application.

In February 2017 Ascent announced the discontinuation of our EnerPlex consumer business by disposing of the EnerPlex brand, and related intellectual properties and trademarks, to our battery product supplier, Sun Pleasure Co. Limited ("SPCL"). This transaction was completed in an effort to better allocate our resources and to continue to focus on our core strength in the high-value specialty PV market. Following the transfer, Ascent will no longer be producing or selling Enerplex-branded consumer products. Ascent will focus on its photovoltaic business and will supply solar PV products to SPCL, supporting the continuous growth of EnerPlex™ with Ascent's proprietary and award-winning thin-film solar technologies and products.

During the third quarter of 2017, Ascent Solar was selected by Energizer to develop and supply solar panels for their PowerKeep line of solar products, and in November 2017, Ascent introduced the next generation of our USB-based portable power systems with the XD™ series. The first product to be introduced was the XD-12 which, like previous products, is a folding, lightweight, easily stowable, PV system with USB power regulation. Unique to this generation of PV portable power is more PV power (12 Watts) and a 2.0 Amp smart USB output to enable the XD-12 to charge most smartphones, tablets, and USB-enabled devices as fast as a wall outlet. The enhanced smart USB circuit determines the maximum power the device is able to receive, and ensures the best possible charging performance directly from the sun.

Also in 2017, for a space customer, Ascent manufactured a new micro-module, approximately 12.8mm x 50mm (0.5in x 2.0in) in size that is ideal for both laboratory-scale environmental testing, and for subsequent integration into flight experiments.

In February 2018, the Company introduced the second product in our XD™ series. Delivering up to 48 Watts of solar power, the durable and compact Ascent XD-48 Solar Charger is the ideal solution for charging many portable electronics and off-grid power systems. The XD-48's versatility allows it to charge both military and consumer electronics directly from the sun wherever needed. Like the XD-12, the XD-48 has a compact and portable design, and its rugged, weather-resistant construction withstands shocks, drops, damage and even minor punctures to power through the harshest conditions.

We continue to design and manufacture PV integrated consumer electronics as well as portable power applications for commercial and military users. Due to the high durability enabled by the monolithic integration employed by our technology, the capability to customize modules into different form factors and the industry leading light weight and flexibility provided by our modules, we believe that the potential applications for our products are numerous.

Table of Contents

Commercialization and Manufacturing Strategy

Our proprietary manufacturing process deposits multiple layers of materials, including a thin film of highly efficient Copper-Indium-Gallium-diSelenide (“CIGS”) semiconductor material, on a flexible, lightweight, plastic substrate using a roll-to-roll manufacturing process and then laser patterns the layers to create interconnected PV cells, or PV modules, in a process known as monolithic integration. Our monolithic integration techniques enable us to form complete PV modules with less or no costly back end assembly of intercell connections. Traditional PV manufacturers assemble PV modules by bonding or soldering discrete PV cells together. This manufacturing step typically increases manufacturing costs and at times proves detrimental to the overall yield and reliability of the finished product. By reducing or eliminating this added step using our proprietary monolithic integration techniques, we believe we can achieve cost savings in, and increase the reliability of, our PV modules. We believe our technology and manufacturing process, which results in a lighter, flexible module package, provides us with unique market opportunities relative to both the crystalline silicon (“c-Si”) based PV manufacturers that currently lead the PV market, as well as other thin-film PV manufacturers that use substrate materials such as glass, stainless steel or other metals that can be heavier and more rigid than plastics.

Currently, we are producing OEM and consumer oriented products focusing on charging devices powered by our solar modules. Products in these markets are priced based on the overall value proposition rather than a commodity-style price per watt basis. We continue to develop new consumer products and we have adjusted our utilization of our equipment to meet our near term forecast sales. We plan to continue the development of our current PV technology to increase module efficiency, improve our manufacturing tooling and process capabilities and reduce manufacturing costs. We also plan to continue to take advantage of research and development contracts to fund a portion of this development.

Related Party Activity

On February 2, 2012, we announced the appointment of Victor Lee as President and Chief Executive Officer. Mr. Lee had served on our Board of Directors since November 2011 and is currently the managing director of Tertius Financial Group Pte Ltd (TFG), an investment firm located in Singapore.

As of March 31, 2018, TFG owns 333,333,333 shares of the Company's common stock, which represents less than 3% of the outstanding shares of common stock of the Company as of March 31, 2018. There are no registration rights relating to these shares.

Significant Trends, Uncertainties and Challenges

We believe the significant trends, uncertainties and challenges that directly or indirectly affect our financial performance and results of operations include:

- Our ability to generate customer acceptance of and demand for our products;
- Successful ramping up of commercial production on the equipment installed;
- Our products are successfully and timely certified for use in our target markets;
- Successful operating of production tools to achieve the efficiencies, throughput and yield necessary to reach our cost targets;
- The products we design are saleable at a price sufficient to generate profits;
- Our ability to raise sufficient capital to enable us to reach a level of sales sufficient to achieve profitability on terms favorable to us;
- Effective management of the planned ramp up of our domestic and international operations;
- Our ability to successfully develop and maintain strategic relationships with key partners, including OEMs, system integrators, distributors, retailers and e-commerce companies, who deal directly with end users in our target markets;
- Our ability to maintain the listing of our common stock on the OTC Market;

- Our ability to implement remediation measures to address material weaknesses in internal control;
- Our ability to achieve projected operational performance and cost metrics;
- Our ability to enter into commercially viable licensing, joint venture, or other commercial arrangements; and
- ▲ Availability of raw materials.

Table of Contents

Critical Accounting Policies and Estimates

Critical accounting policies used in reporting our financial results are reviewed by management on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Processes used to develop these estimates are evaluated on an ongoing basis. Estimates are based on historical experience and various other assumptions that are believed to be reasonable for making judgments about the carrying value of assets and liabilities. Actual results may differ as outcomes from assumptions may change. The Company's significant accounting policies were described in Note 3 to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to our accounting policies as of March 31, 2018.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The update will establish a comprehensive revenue recognition standard for virtually all industries in GAAP. ASU 2014-09 will change the amount and timing of revenue and cost recognition, implementation, disclosures and documentation. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. ASU 2014-09 is now effective for the Company in fiscal year 2018. The implementation of ASU 2014-09 did not have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize all leases, including operating leases, on the balance sheet as a lease asset or lease liability, unless the lease is a short-term lease. ASU 2016-02 also requires additional disclosures regarding leasing arrangements. ASU 2016-02 is effective for interim periods and fiscal years beginning after December 15, 2018, and early application is permitted. The Company continues to evaluate the impact, that the adoption of this guidance will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718). ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for interim periods and fiscal years beginning after December 15, 2017, and early application is permitted. The implementation of ASU 2017-09 did not have a material effect on the Company's consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11 Part I, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). ASU 2017-11 Part I changes the classification analysis of certain equity linked financial instruments with down round features. ASU 2017-11 Part I is effective, for public business entities, for interim periods and fiscal years beginning after December 15, 2018, and early application is permitted. The Company is currently evaluating the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

Results of Operations

Comparison of the Three Months Ended March 31, 2018 and 2017

Revenues. Our net revenues were \$378,000 for the three months ended March 31, 2018, compared to \$281,000 for the three months ended March 31, 2017, an increase of \$97,000. The increase is due to the increased sales of our PV products.

Cost of revenues. Our Cost of revenues for the three months ended March 31, 2018 was approximately \$273,000, compared to \$1,493,000 for the three months ended March 31, 2017, a decrease of \$1,220,000. The decrease is primarily attributed to a decrease in materials and labor costs as a result of a decrease in production as compared to the first quarter in the prior year. Cost of revenues for the first quarter of 2018 is comprised of materials and freight of \$35,000, direct labor of \$6,000, and overhead of \$232,000. Management believes our factory is currently significantly under-utilized, and a substantial increase in revenue would result in marginal increases to overhead.

Table of Contents

Research, development and manufacturing operations. Research, development and manufacturing operations costs were approximately \$1,173,000 for the three months ended March 31, 2018, compared to approximately \$1,277,000 for the three months ended March 31, 2017, a decrease of approximately \$104,000. Research, development and manufacturing operations costs include costs incurred for product development, pre-production and production activities in our manufacturing facility. Research, development and manufacturing operations costs also include costs related to technology development and governmental contracts. The following factors contributed to the decrease in research, development, and manufacturing operations expenses during the three months ended March 31, 2018:

1. Personnel and facility related expenses decreased approximately \$83,000, as compared to the first quarter of 2017. The decrease in personnel and facility related costs was primarily due to a reduction in headcount.

2. Consulting and contract services decreased approximately \$11,000, as compared to the first quarter of 2017. The decrease in expense as compared to the first quarter of 2017 was primarily attributed to the reduced number of contractors during the quarter ended March 31, 2018.

3. Materials and equipment related expenses, decreased approximately \$9,000, as compared to the first quarter of 2017. The decrease was due to a decrease in production of research and development products.

Inventory impairment costs. Due to the sale of the EnerPlex brand and the re-purposing of our work-in-process inventory, we are unable to estimate the recoverability of all of our work-in process inventory values, resulting in a lower-cost-to-market analysis and reserve for impairment of \$363,758 during the first quarter of 2017. No adjustment was recorded to inventory impairment costs for the three months ended March 31, 2018.

Selling, general and administrative. Selling, general and administrative expenses were approximately \$935,000 for the three months ended March 31, 2018, compared to \$1,764,000 for the three months ended March 31, 2017, a decrease of approximately \$830,000. The following factors contributed to the decrease in selling, general, and administrative expenses during the three months ended March 31, 2018:

1. Personnel and facility related costs decreased approximately \$361,000 during the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The overall decrease in personnel related costs was primarily due a lower headcount for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017.

2. Marketing and related expenses decreased approximately \$83,000 during the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The decrease in Marketing and related expenses is due to reduced marketing, advertising, and promotional activities during the three months ended March 31, 2018, compared to the first quarter of 2017, which is the direct result of changing our main focus from the retail consumer electronics market to higher-value PV markets.

3. Consulting and contract services decreased approximately \$354,000 during the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The decrease was a result of decreased use of consultants and contractors.

4. Legal expenses increased approximately \$92,000 during the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The primary reasons for the increase is due increased and general legal expenses related to financing efforts as compared to the quarter ended March 31, 2017, offset by decreases in legal expenses related to our patent activity as compared to the first quarter of 2017.

5. Bad debt and settlement expenses decreased approximately \$45,000 during the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. During the first quarter of 2017 we recorded payments and

settlements against existing reserves which were offset by additional reserves for customers whose accounts were greater than 120 days overdue.

Public company expenses decreased approximately \$78,000 during the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The decrease is mostly due to reduced SEC filings and a decrease in public relations expense.

Table of Contents

Other Expense, net. Other income/expense was approximately \$2,328,000 for the three months ended March 31, 2018, compared to approximately \$590,000 for the three months ended March 31, 2017, an increase of approximately \$1,738,000. The following factors contributed to the increase in other expense during the three months ended March 31, 2018:

1. Interest expense decreased approximately \$648,000, as compared the first quarter of 2017. The decrease is primarily due to an decrease of non-cash interest expense related to convertible debt, promissory notes, and Preferred Stock.

2. Gains and losses on change in fair value of derivatives and on extinguishment of liabilities, net was a loss of approximately \$984,000 during the first quarter of 2018, as compared to an approximate gain of \$673,000 for the first quarter of 2017. The increased expense of approximately \$1,658,000 in this non-cash item is attributable to a loss of approximately \$551,000 on the change in fair value of our embedded derivative instruments during the three months ended March 31, 2018, compared to an approximate gain \$3,256,000 in 2017, offset by a reduction in the loss from extinguishment of liabilities of approximately \$2,149,000, related to conversions and redemptions of certain convertible notes and preferred stock, for the three months ended March 31, 2018, as compared to the the three months ended March 31, 2017

Net Loss. Our Net Loss was approximately \$4,433,000 for the three months ended March 31, 2018, compared to a Net Loss of approximately \$5,579,000 for the three months ended March 31, 2017, an improvement of approximately \$1,145,000.

The decrease in Net Loss for the three months ended March 31, 2018 can be summarized in variances in significant account activity as follows:

	Decrease (Increase) to Net Loss For the Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017
Revenues	97,000
Cost of Revenue	1,220,000
Research, development and manufacturing operations	
Materials and Equipment Related Expenses	9,000
Personnel and Facility Related Expenses	83,000
Consulting and Contract Services	11,000
Inventory Impairment Costs	364,000
Selling, general and administrative expenses	
Personnel, administrative, and facility Related Expenses	361,000
Marketing Related Expenses	83,000
Legal Expenses	(92,000)
Public Company Costs	78,000
Consulting and Contract Services	354,000
Bad debt and Settlement expense	45,000
Depreciation and Amortization Expense	270,000
Other Income / (Expense)	
Other income	728,000

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Interest Expense	(648,000)
Non-Cash Change in Fair Value of Derivatives and Gain/Loss on Extinguishment of Liabilities, net	1,658,000	
Decrease (Increase) to Net Loss	\$ 1,145,000	

Liquidity and Capital Resources

As of March 31, 2018, we had approximately \$88,000 in cash and cash equivalents.

Table of Contents

During the three months ended March 31, 2018 and the year ended December 31, 2017, the Company entered into multiple financing agreements to fund operations. Further discussion of these transactions can be found in Notes 7 through 15, and Note 18 of the financial statements presented as of, and for, the three months ended, March 31, 2018, and in Notes 8 through 22 and Note 30 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

We have continued PV production at our manufacturing facility. We do not expect sales revenue and cash flows will be sufficient to support operations and cash requirements until we have fully implemented our new consumer products strategy. Changes in the level of expected operating losses, the timing of planned capital expenditures or other factors may negatively impact cash flows and reduce current cash and investments faster than anticipated. During the three months ended March 31, 2018, we used approximately \$1,495,000 in cash for operations. Our primary significant long term cash obligation consists of a note payable of approximately \$5,378,000 to a financial institution secured by a mortgage on its headquarters and manufacturing building in Thornton, Colorado. Total payments of approximately \$520,000, including principal and interest, will come due in the remainder of 2017.

Additional projected product revenues are not anticipated to result in a positive cash flow position for the year 2018 overall and, as of March 31, 2018, we have negative working capital. As such, cash liquidity sufficient for the year ending December 31, 2018 will require additional financing.

The Company continues to accelerate sales and marketing efforts related to its PV strategy by focusing on the Company's propriety technology. The Company has begun activities related to securing additional financing through strategic or financial investors, but there is no assurance the Company will be able to raise additional capital on acceptable terms or at all. If the Company's revenues do not increase rapidly, and/or additional financing is not obtained, the Company will be required to significantly curtail operations to reduce costs and/or sell assets. Such actions would likely have an adverse impact on the Company's future operations. As a result of the Company's recurring losses from operations, and the need for additional financing to fund its operating and capital requirements, there is uncertainty regarding the Company's ability to maintain liquidity sufficient to operate its business effectively, which raises substantial doubt as to the Company's ability to continue as a going concern.

Statements of Cash Flows Comparison of the Three Months Ended March 31, 2018 and 2017

For the three months ended March 31, 2018, our cash used in operations was approximately \$1,495,000 compared to approximately \$2,661,000 for the three months ended March 31, 2017, a decrease of approximately \$1,166,000. The decrease is primarily due to the reduction of headcount and production, coupled with the transition out of retail consumer electronics markets and the sale of the EnerPlex brand. For the three months ended March 31, 2018, our cash used in investing activities was approximately \$7,000 as compared to our cash provided by investing activities of approximately \$131,000, a decrease of approximately \$137,000. This decrease is the result of investing in intellectual property ("IP") during the first quarter of 2018 and the sales of the EnerPlex brand IP during the first quarter of 2017. During the three months ended March 31, 2018, negative operating cash flows of approximately \$1,495,000 were funded through \$1,500,000 of funding received from promissory notes, and the use of cash customer receivables.

Contractual Obligations

The following table presents our contractual obligations as of March 31, 2018. Our long-term debt obligation is related to our building loan reflecting both principal and interest. Our purchase obligations include orders for equipment, inventory and operating expenses.

Contractual Obligation Total	Payments by Year				
	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years	
Long Term Debt	\$6,834,440	\$693,611	\$2,080,832	\$2,080,832	\$1,979,165

Edgar Filing: Ascent Solar Technologies, Inc. - Form 10-Q

Purchase Obligations \$423,297 423,297
\$7,257,737 \$1,116,908 \$2,080,832 \$2,080,832 \$1,979,165

Off Balance Sheet Transactions

As of March 31, 2018 and December 31, 2017, we did not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

Historically, we have purchased manufacturing equipment internationally, which exposes us to foreign currency risk.

From time to time we enter into foreign currency fair value hedges utilizing forward contracts designed to match scheduled contractual payments to equipment suppliers. Our objective is to fix the dollar amount of our foreign currency denominated manufacturing equipment purchases at the time of order. Although our hedging activity is designed to fix the dollar amount to be expended, the asset purchased is recorded at the spot foreign currency rate in effect as of the date of the payment to the supplier. The difference between the spot rate and the forward rate has been reported as gain or loss on forward contract. We cannot accurately predict future exchange rates or the overall impact of future exchange rate fluctuations on our business, results of operations and financial condition. All forward contracts entered into by us have been settled on the contract settlement dates, the last of which was settled in December 2009.

Although our reporting currency is the U.S. Dollar, we may conduct business and incur costs in the local currencies of other countries in which we may operate, make sales and buy materials. As a result, we are subject to currency translation risk. Further, changes in exchange rates between foreign currencies and the U.S. Dollar could affect our future net sales and cost of sales and could result in exchange losses.

Interest Rate Risk

Our exposure to market risks for changes in interest rates relates primarily to our cash equivalents. As of March 31, 2018, our cash equivalents consisted only of federally insured operating and savings accounts held with financial institutions. From time to time we hold money market funds, investments in U.S. government securities and high quality corporate securities. The primary objective of our investment activities is to preserve principal and provide liquidity on demand, while at the same time maximizing the income we receive from our investments without significantly increasing risk. The direct risk to us associated with fluctuating interest rates is limited to our investment portfolio and we do not believe that a change in interest rates will have a significant impact on our financial position, results of operations or cash flows.

Credit Risk

From time to time we hold certain financial and derivative instruments that potentially subject us to credit risk. These consist primarily of cash, cash equivalents, restricted cash, investments and foreign currency option contracts. We are exposed to credit losses in the event of nonperformance by the counter parties to our financial and derivative instruments. We place cash, cash equivalents, investments and forward foreign currency option contracts with various high-quality financial institutions, and exposure is limited at any one institution. We continuously evaluate the credit standing of our counter party financial institutions.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms. Our management, including our Chief Executive Officer and interim Principal Financial Officer, conducted an evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15 and 15d-15 under the Exchange Act as of March 31, 2018. Based on this evaluation, our Chief Executive Officer and interim Principal Financial

Officer concluded that as of March 31, 2018, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no other changes in internal control over financial reporting during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the updated risk factors in our Annual Report on Form 10-K filed on March 29, 2018, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K filed on March 29, 2018 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

Not required.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The exhibits listed on the accompanying Index to Exhibits on this Form 10-Q are filed or incorporated into this Form 10-Q by reference.

EXHIBIT INDEX

Exhibit No.	Description
10.1	<u>Unsecured Promissory Note dated January 31, 2018 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed February 2, 2018)</u>
10.2	<u>Amendment of Outstanding Convertible Notes dated May 1, 2018 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed May 7, 2018)</u>
31.1*	<u>Chief Executive Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Chief Financial Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*	<u>Chief Executive Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2*	<u>Chief Financial Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

29

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 11th day of May, 2018.

ASCENT SOLAR TECHNOLOGIES, INC.

By: /S/ VICTOR LEE

Lee Kong Hian (aka Victor Lee)

President and Chief Executive Officer

(Principal Executive Officer, Principal Financial Officer, Chief Accounting Officer, and Authorized Signatory)