POWIN ENERGY CORP
Form 10-Q
August 11, 2017

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: June 30, 2017

OR

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

For the transition period from _________ to _________

Commission File Number: 000-54015

POWIN ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

NEVADA	87-0455378
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

20550 SW 115th Ave
Tualatin, OR 97062
(Address of principal executive offices)

T: (503) 598-6659
(Issuer's telephone number)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if smaller reporting company)	Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 11, 2017, there were 37,107,924 shares of Common Stock, $0.001 par value, outstanding.

POWIN ENERGY CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements.

POWIN ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (unaudited)	December 31, 2016 Audited)
Assets		
Current Assets		
Cash	$4,036,408	$432,044
Restricted Cash	117,400	-
Accounts receivable, net	106,322	13,451
Notes and other receivables - current	126,787	182,100
Inventories, net	353,128	1,299,621
Prepaid expenses and deposits	568,343	267,485
Total current assets	5,308,388	2,194,701
Notes and other receivables - non current	789,544	829,427
Property and equipment, net	7,017,342	4,990,567
Intangible assets, net	185,027	175,297
Total assets	$13,300,301	$8,189,992
Liabilities and shareholders' equity		
Current Liabilities		
Accounts payable	$1,002,637	$672,322
Accounts payable to a related party	2,462,445	2,447,348
Accrued payroll and other accrued liabilities	233,455	82,491
Notes payable - current portion of long-term debt and accrued interest	1,722,929	1,528,352
Payable to related parties - current	3,900,369	903,422
Total current liabilities	9,321,835	5,633,935
Non-Current Liabilities		
Notes payables and long-term debt - non current	2,035,178	-
Payable to related parties - non current	5,049,347	2,013,648
Total non-current Liabilities	7,084,525	2,013,648
Total liabilities	16,406,360	7,647,583
Stockholders' equity		
Preferred stock, 25,000,000 shares authorized:		
Series A stock: $100 par value, Conversion rate 1 to 1, 0 and 11,509 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	-	1,150,900
Common stock, $0.001 par value, 575,000,000 shares Authorized; 37,107,924 and 37,096,415 shares issued and outstanding as of June 30, 2017 and December 31, 2016 , respectively	37,108	37,097
Additional paid-in capital	29,261,436	28,086,988
Accumulated deficit	(32,404,603)	(28,732,576)
Total Powin Energy Corporation stockholders' equity	(3,106,059)	542,409

Total liabilities and shareholders' equity	$13,300,301	$8,189,992

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

POWIN ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months ended June 30, 2017	Three Months ended June 30, 2016	Six Months ended June 30, 2017	Six Months ended June 30, 2016
Net sales				
Product sales	$-	$13,008	$42,192	$24,345
Revenue from energy storage assets	83,940	-	155,095	-
Net sales total	83,940	13,008	197,287	24,345
Cost of sales				
Product sales	420,246	17,743	876,935	43,772
Cost from energy storage assets	76,071	-	116,720	-
Cost of sales total	496,317	17,743	993,655	43,772
Gross profit (loss)	(412,377)	(4,735)	(796,368)	(19,427)
Operating Expenses				
Research & Development expense	90,750	-	157,653	27,910
Selling, general and administrative expenses	1,322,441	1,003,835	2,536,040	1,927,537
Total operating expenses	1,413,191	1,003,835	2,693,693	1,955,447
Loss from operations	(1,825,568)	(1,008,570)	(3,490,061)	(1,974,874)
Other income (expense)				
Other income	2,500	-	6,500	-
Interest expense	(108,971)	(40)	(184,716)	(171)
Other expenses	(106,471)	(40)	(178,216)	(171)
Loss before income taxes	(1,932,039)	(1,008,610)	(3,668,277)	(1,975,045)
Provision for income taxes	3,750	-	3,750	7,500
Net loss from continuing operations	(1,935,789)	(1,008,610)	(3,672,027)	(1,982,545)
Loss from discontinued operations, net of income taxes	-	(343,663)	-	(754,241)
Net loss before non controlling interest	(1,935,789)	(1,352,273)	(3,672,027)	(2,736,786)
Net loss attributable to non-controlling interest	-	(177,995)	-	(349,880)
Net loss attributable to Powin Corporation	(1,935,789)	(1,174,278)	(3,672,027)	(2,386,906)
Loss per share:				
Basic and diluted loss per share				
From continuing operations	(0.05)	(0.05)	(0.10)	(0.10)
From discontinued operations	-	(0.02)	-	(0.05)
Combined loss per share attributable to Common Shareholders	$(0.05)	$(0.07)	$(0.10)	$(0.15)
Weighted average shares outstanding:				
Basic and Diluted	37,107,924	16,258,641	37,102,837	16,257,240

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

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POWIN ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months ended June 30, 2017	2016
OPERATING ACTIVITIES		
Net loss from continuing operations	$(3,672,027)	$(1,982,547)
Adjustments to reconcile net loss to net cash used in operating activities		
Loss from discontinued operations, net of income taxes	-	(754,241)
Depreciation and amortization	113,131	26,278
Non-cash interest expense	155,148	-
Share based compensation	23,560	20,624
Impairment of inventory	851,206	-
Changes in operating assets and liabilities		
Increase of restricted cash	(117,400)	-
Accounts receivable	(92,871)	7,632
Notes and other receivables	95,196	(9,026)
Inventories	95,287	(480,309)
Prepaid expenses and deposits	(300,858)	(228,313)
Accounts payable	330,313	42,658
Accounts payable to a related party	15,101	-
Accrued payroll and other liabilities	150,964	34,094
Net cash used in operating activities – continuing operations	(2,353,250)	(3,323,150)
Net cash provided by operating activities – discontinued operations	-	504,044
Net cash used in operating activities	(2,353,250)	(2,819,106)
INVESTING ACTIVITIES		
Acquisition of intangible assets	(11,771)	(10,896)
Cash paid to acquire non-controlling interest	-	(15,747)
Purchase of energy storage assets and equipment	(2,137,865)	(58,500)
Net cash (used in) provided by investing activities – continuing operations	(2,149,636)	(85,143)
Net cash used in investing activities – discontinued operations	-	(44,457)
Net cash used in investing activities	(2,149,636)	(129,600)
FINANCING ACTIVITIES		
Proceeds from notes payables and debt	2,150,000	-
Repayments of notes payables and debt	-	(19,271)
Proceeds from related parties	6,159,321	-
Repayments to related parties	(202,071)	-
Net cash provided by (used in) financing activities – continuing operations	8,107,250	(19,271)
Net cash provided by financing activities – discontinued operations	-	268,512
Net cash provided by financing activities	8,107,250	249,241
Impact of foreign exchange on cash	-	41,888
Net increase (decrease) in cash	3,604,364	(2,657,577)
Cash at beginning of period	432,044	2,866,507
Cash at end of period	$4,036,408	$208,930

SUPPLEMENTAL DISCLOURSE OF CASH FLOW INFORMATION		
Interest paid	$ 58,333	$ 171
Income taxes paid	$ 3,750	$ 7,500
Preferred Stock to convert common stock	$ 1,150,900	$ -

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

POWIN ENERGY CORPORATION
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 – Overview of the Company

Powin Energy Corporation ("Powin", "Company", "we", "us") is a leading designer and developer of safe and scalable battery energy storage solutions for utility-scale, commercial and industrial, and microgrid applications. We are incorporated in the State of Nevada, and were founded in 1989 in Oregon. Until 2016, the Company operated as a contract manufacturer selling diverse products for leading North American retailers. In 2016, the Company sold off its contract manufacturing businesses, and on October 6, 2016, completed a merger between Powin Corporation and its subsidiary Powin Energy Corporation, with the surviving entity Powin Corporation changing its name to Powin Energy Corporation. We are focused on the rapidly growing advanced energy storage industry, and deploying our Stack140 modular battery system which features our patented bp-OS software controls.

The company's whollyowned subsidiaries include PPA Grand Johanna LLC ('PPA"), Don Lee Bess 1, LLC,Powin Energy Ontario Storage, LLC ("PE Ontario"), and Powin Energy Ontario Storage II, LP The purpose of these entities is to hold energy storage assets.

Note 2 – Summary of significant accounting policies

Basis of consolidation

The consolidated condensed financial statements include the accounts of Powin and its wholly-owned subsidiaries. Intercompany balances and transactions between consolidated entities have been eliminated.

Use of estimates

The preparation of consolidated financial statements in accordance with GAAP requires the use of management's estimates. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the periods presented. Estimates are used for, but not limited to, inventory valuation, warranties, depreciable lives of property and equipment, inputs used to value stock-based compensation including volatility, lives of stock option awards and forfeiture rates, income taxes, and contingencies. Actual results could differ from those estimates.

Unaudited interim financial statements

The accompanying unaudited condensed consolidated balance sheet as of June 30, 2017, the condensed consolidated statements of operations and condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2017 and 2016 of cash flows for the six months ended June 30, 2017 and 2016, and other information disclosed in the related notes are unaudited. The consolidated balance sheet as of December 31, 2016, was derived from our audited consolidated financial statements at that date. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission. The accompanying interim condensed consolidated financial statements and related disclosures have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary for a fair statement of the results of operations for the periods presented. The condensed consolidated results of operations for any interim period are not necessarily indicative of the results to be expected for the full year or any other future year or interim period.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no impact on our consolidated net earnings, financial position or cash flows.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. The new guidance provides a new model to determine when and over what period revenue is recognized. Under this new model, revenue is recognized as goods or services are delivered in an amount that reflects the consideration we expect to collect. In March 2016, the FASB issued an ASU, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the principal versus agent guidance in the new revenue recognition standard. In April 2016, the FASB issued another ASU, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies the guidance on accounting for licenses of intellectual property and identifying performance obligations in the new revenue recognition standard. In May 2016, the FASB issued another ASU, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedient, which clarifies the transition, collectability, noncash consideration and the presentation of sales and other similar taxes in the new revenue recognition standard. The guidance is effective for fiscal years beginning after December 15, 2017; early adoption is permitted for periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method and are evaluating the impact of adopting this guidance.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires management to evaluate whether there is substantial doubt about the entity’s ability to continue as a going concern and, if so, provide certain footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, including interim reporting periods thereafter. We adopted ASU 2014-15 and have provided related disclosures in note 3 of our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The ASU will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We are currently evaluating the potential impact of adopting the ASU on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 became effective for us beginning with the first quarter of 2017. The adoption of this guidance is not expected to have a material impact on our financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230). The ASU addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the potential impact of adopting the ASU on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other than Inventory, which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-06 will be effective for the Company in its first quarter of 2019. The Company does not expect that the adoption of this guidance will have a material impact on its financial statements.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. The amendments affect reporting entities that are required to evaluate whether they should consolidate a variable interest entity in certain situations involving entities under common control. Specifically, the amendments change the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity by changing how a reporting entity that is a single decision maker of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on its financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Basically these amendments provide a screen to determine when a set is not a business. If the screen is not met, the amendments in this ASU first, require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and second, remove the evaluation of whether a market participant could replace missing elements. These amendments take effect for public businesses for fiscal years beginning after December 15, 2017 and interim periods within those periods, and all other entities should apply these amendments for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.The Company does not expect that the adoption of this guidance will have a material impact on its financial statements.

Revenue recognition

We recognize revenue for products and services when: (i) persuasive evidence of an arrangement exists, (ii) the service is performed or delivery has occurred, (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured.

For our energy storage assets that have been commissioned and placed in service, we recognize revenue when amounts under the contract with the customer are due and payable.

For product shipped directly from the Company’s warehouse or manufactured by the Company in the United States and then shipped to the customer, revenue is recognized at time of shipment as it is determined that ownership and title has passed to the customer at shipment and revenue is recognized. Amounts billed to customers for freight and shipping are classified as revenue.

Products assembled in China and shipped directly to the customer may be either FOB Port of Origin or FOB Shipping Destination United States. If the product is shipped FOB Port of Origin revenue is recognized at time of delivery to the Company’s representative in China, when the proper bills-of-lading have been signed by the customer’s agent and ownership passed to the customer. For product shipped FOB Shipping Destination, revenue is recognized when product is delivered to the customer, when all delivery documents have been signed by the receiving customer, and ownership has passed to the customer.

Concentration of Risk

As of June 30, 2017, our accounts receivable was derived primarily from one customer.

Cost of goods sold

Cost of goods sold includes cost of products and services sold during the period, net of discounts and allowances, freight and shipping costs, warranty and rework costs, and sales tax.

Research and development expenses

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs, and software translation costs for international markets.

Net Loss Per Share

Our basic and diluted net loss per share is calculated by dividing net loss by the weighted-average shares of common stock outstanding for the period. Potentially dilutive shares, which are based on the number of shares underlying outstanding stock options and warrants as well as our convertible senior notes, are not included when their effect is anti-dilutive.

Liquidity and Capital Resources

As of June 30, 2017, we had $4,036,408 in principal sources of liquidity available in cash. Sources of cash are predominantly from proceeds from financing activities. Additional sources of cash were also derived from revenues from owned and installed energy assets operating under Power Purchase Agreements.

Where necessary, we evaluate alternatives to pursue liquidity options to fund ongoing operations and capital intensive initiatives. Should prevailing economic, financial, business or other factors adversely affect our ability to meet our operating cash requirements, we could be required to obtain funding through traditional or alternative sources of financing. We cannot be certain that additional funds would be available to us on favorable terms when required, or at all.

Inventories, net

Inventories consist of containers with partially or fully completed energy storage components, including batteries, inverters and battery management hardware and software. Inventory is valued at the lower of cost (first-in, first-out method) or market. The Company capitalizes applicable direct and indirect costs incurred in the Company's manufacturing operations to bring its products to a sellable state. As of June 30, 2017 and December 31, 2016, the components of inventories were as follows:

	June 30, 2017 (unaudited)	December 31, 2016
Raw materials	$ 432,744	$ 434,092
Work in progress	114,150	113,861
Finished goods	1,127,023	1,221,001
Reserve for slow moving and obsolete inventory	(1,320,789)	(469,333)
Inventories, net	$ 353,128	$ 1,299,621

The Company reviews the carrying value of inventory for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the inventory is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, $851,206 and $0 impairment expenses for inventories were recorded in cost of sales during the six months ended June 30, 2017 and 2016, respectively. $419,995 and $0 impairment expenses for inventories were recorded in cost of sales during the three months ended June 30, 2017 and 2016, respectively.

Notes receivables

Notes receivables consist of the following:

	June 30, 2017 (unaudited)		December 31, 2016	
	Current	Non Current	Current	Non Current
On October 3, 2016, the Company issued a loan to an unrelated party. The principal amount is $100,000 and the interest rate is 4%, due on November 3, 2017.	$33,778	$-	$75,385	$-
On October 3, 2016, the Company issued a loan to an unrelated party. The principal amount is $800,000 and the interest rate is 5%, due on November 21, 2024.	92,686	664,544	101,965	704,427
On October 3, 2016, the Company issued a loan to an unrelated party. The principal amount is $125,000 with no interest rate, due on December 3, 2020.	-	125,000	-	125,000
Other receivable	323	-	4,750	-
	$126,787	$789,544	$182,100	$829,427

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. For financial reporting and income tax purposes, the costs of property and equipment are depreciated and amortized over the assets estimated useful lives, using principally the straight-line method for financial reporting purposes and an accelerated method for income tax purposes. Costs associated with repair and maintenance of property and equipment are expensed as incurred. Changes in circumstances, such as technological advances, changes to the Company's business model or capital strategy could result in actual useful lives differing from the Company's estimates. In those cases where the Company determines that the useful life of property and equipment should be shortened, the Company would depreciate the asset over its revised remaining useful life thereby increasing depreciation expense.

The Company depreciates property and equipment over the following estimated useful lives:

Energy Storage Assets	10-20 years
Equipment	7-15 years
Leasehold improvements	39 years
Computers	3-5 years
Vehicles	5-7 years
Furniture and fixtures	3-5 years

The Company reviews the carrying value of property, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, and equipment was recorded in operating expenses during the six months ended June 30, 2017 and 2016.

Intangible Assets

All of our intangible assets include websites and also patents that are subject to amortization and are amortized using the straight-line method over their estimated period of benefit, ranging from 3 to 5 years. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicates the asset may be impaired. Based on this assessment, no impairment expenses for intangible assets were recorded in operating expenses during the three and six months ended June 30, 2017 and 2016. Intangible assets amounted $185,027 and $175,297 as of June 30, 2017 and December 31, 2016, respectively. Amortization expenses amounted to $2,041 and $10,970 for the six months ended June 30, 2017 and 2016, respectively. Amortization expenses amounted to $0 and $6,329 for the three months ended June 30, 2017 and 2016, respectively.

Income taxes

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company calculates a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In determining the future tax consequences of events that have been recognized in the consolidated financial statements or tax returns, judgment and interpretation of statutes is required. Additionally, the Company uses tax planning strategies as a part of its tax compliance program. Judgments and interpretation of statutes are inherent in this process.

The accounting guidance for uncertainties in income tax prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company recognizes a tax benefit from an uncertain tax position in the consolidated financial statements only when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority's widely understood administrative practices and precedents.

Fair Value Measurements

The fair value accounting guidance defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The definition is based on an exit price rather than an entry price, regardless of whether the entity plans to hold or sell the asset. This guidance also establishes a fair value hierarchy to prioritize inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The carrying value of the Company's equipment borrowing and short term line of credit borrowing at June 30, 2017 and December 31, 2016, is considered to approximate fair market value, as the interest rates of these instruments are based predominantly on variable reference rates. The carrying value of accounts receivable, trade payables and accrued liabilities approximates the fair value due to their short-term maturities.

Stock-Based Compensation

The Company measures stock-based compensation expense for all share-based awards granted to employees based on the estimated fair value of those awards at grant-date. The cost of restricted stock awards is determined using the fair market value of our common stock on the date of grant. The fair values of stock option awards are estimated using a Black-Scholes valuation model. The compensation costs are recognized net of any estimated forfeitures on a straight-line basis over the employee requisite service period. Forfeiture rates are estimated at grant-date based on historical experience and adjusted in subsequent periods for any differences in actual forfeitures from those estimates.

Note 3: Going concern

The Company sustained a net loss $1,935,789 and $1,174,278 during the three months ended June 30, 2017 and 2016. The Company sustained a net loss $3,672,027 and $2,386,906 during the six months ended June 30, 2017 and 2016. The Company has accumulated deficit of $32,404,603 and $28,732,576 as of June 30, 2017 and December 31, 2016, respectively. Working capital amounted to $(4,013,447) and $(3,439,234) as of June 30, 2017 and December 31, 2016, respectively. The Company also has notes payable to unrelated parties due within 12 months amounting $1,722,929 and $1,528,352 as of June 30, 2017 and December 31, 2016, respectively. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations and/or obtain additional financing, as may be required.

The accompanying condensed financial statements have been prepared assuming that the Company will continue as a going concern; however, the above condition raises substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

The assessment of a company's ability to meet its obligations is inherently judgmental. Without additional funding, the company may not have sufficient available cash to meet its obligations coming due in the ordinary course of business within one year of the financial statement issuance date. However, the Company has historically been able to successfully secure funding to meet its obligations as they become due. The following conditions were considered in management's evaluation of going concern:

· In early 2017, the Company completed the installation of a 2-megawatt / 8-megawatt-hour Battery Energy Storage System with the Southern California Edison utility, and recorded revenues of $155,094.95 for the six months ended June 30, 2017 associated with this installation.

* Management is actively in ongoing discussions with several parties regarding various forms of funding, which if successful, would mitigate any going concern risks within one year from the date of issuance of its financial statements for the quarter ended June 30, 2017.

* In June 2017, the Company successfully raised $5,150,000 in short and long-term debt financing. Details of these financing activities are discussed in notes 6 and 10 of these financial statements.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern; however, the above condition raises substantial doubt about the Company's ability to do so. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Note 4: Property and equipment, net

The components of property and equipment were as follows:

	June 30, 2017 (unaudited)	December 31, 2016
Energy Storage Assets	$ 5,450,602	$ 4,882,025
Equipment	50,385	50,385
Leasehold improvements	7,564	7,564
Computers	99,365	99,365
Vehicles	32,983	32,983
Construction in progress	1,569,288	-
	7,210,187	5,072,322
Accumulation depreciation	(192,845)	(81,755)
Property and equipment – net	$ 7,017,342	$ 4,990,567

For the three months ended June 30, 2017 and 2016, depreciation of property and equipment amounted $67,740 and $8,628, respectively. For the six months ended June 30, 2017 and 2016, depreciation of property and equipment amounted $111,090 and $15,306, respectively.

Construction in progress represents process the cost incurred-to-date for the company's energy Storage project currently underway in Ontario Canada.

Note 5: Loss per share

Our basic and diluted net loss per share is calculated by dividing net loss by the weighted-average shares of common stock outstanding for the period. Potentially dilutive shares, which are based on the number of shares underlying outstanding stock options and warrants as well as our convertible senior notes, are not included when their effect is anti-dilutive.

The Company had 11,509 shares of outstanding Series A preferred stock as of December 31, 2016. On March 21, 2017, the board of directors of the company authorized the issuance of one share of the company's Common Stock in exchange for each share of Series A stock. All shares of Series A Preferred Stock were cancelled.

The Company has 102,000 shares of outstanding stock options as of June 30, 2017 and December 31, 2016.

On April 15, 2013, The Company issued a Warrant to Purchase Common Stock to Global Storage Group, LLC for 70,000 shares of the Company's common stock at an exercise price of $25.00; and a Warrant to Purchase Common Stock to Virgil L. Beaston for 30,000 shares of the Company's common Stock at an exercise price of $25.00. The exercise period of each Warrant is 60 months from the date of issuance and may be exercised in whole or in part at any time prior to April 15, 2018. As of June 30, 2017 and December 31, 2016, all 100,000 warrants remain outstanding.

The following sets forth the number of shares of common stock underlying if all outstanding options, warrants, and convertible debt were converted as of June 30, 2017 and December 31, 2016:

	June 30, 2017 (unaudited)	December 31, 2016
Series A preferred stock	-	230,180
Warrants	100,000	100,000
Stock options	102,000	102,000
	202,000	432,180

For the three and six months ended June 30, 2017 and 2016, the effect of warrants, stock options and convertible preferred stock and preferred stock dividends are excluded from loss per share because their impact is considered to be anti-dilutive.

Note 6: Notes Payable and Long Term Debt

The total carrying value of notes payable and long-term debt, including current and long-term portions, was as follows:

	June 30, 2017 (unaudited)		December 31, 2016	
	Current	Non Current	Current	Non Current
Loan from a third party, starting March 16, 2017,due March 16, 2019, at a 6% interest rate, with a security interest in the assets of PPA Grand Johanna LLC and a $1million personal guarantee from Joseph Lu. Subject to meeting the requirements of a qualified financing event within 24 months of the date of this note, the note holder will have the right to convert the note balance into offered securities. The first $1millionof the note balance is eligible to be converted at 90%of the price paid per share under the qualified financing, and the remaining balance at the same price per share paid by the other participants.	$-	$ 2,000,000	$ -	$ -
Loan from a third party, starting July 5, 2016,due July 4, 2017, at a 6% annual interest rate, with no collateral The Company is in the process of renewing the note, with no collateral.	1,484,118	-	1,484,118	-
Loan from a third party, starting June 13, 2017,due June 30, 2018, at a 10% annual interest rate, with no collateral	150,000			
Accrued interest	88,811	35,178	44,234	-
Total long-term debt, including current portion and accrued interest	$ 1,722,929	$ 2,035,178	$ 1,528,352	$ -

Interest expenses related to notes payable and long-term debt amounted to $52,858 and $40 for the three months ended June 30, 2017 and 2016, respectively. Interest expenses related to notes payable and long-term debt amounted to $80,075 and $171for the six months ended June 30, 2017 and 2016, respectively.

Note 7: Commitments

Operating Leases

The Company leases a facility from Lu Pacific Properties, LLC (“Lu Pacific”, formerly, Powin Pacific Properties, LLC, a company owned by Joseph Lu, the Company’s largest shareholder, Chairman of the Board and CEO, which serves as the Company’s corporate headquarters as well as the base of all operations. This lease is through June 30, 2021 and requires the Company to pay for all property taxes, utilities and facility maintenance.

Effective January 1, 2017, the Company entered into a lease amendment. The Company leased 28,275 square feet of the building. The lease term is through June 30, 2021 and all property taxes, utilities and facility maintenance were charge at $0.15 per square foot per month by Lu Pacific Properties, LLC. The monthly rental expense is $17,706.50.

The Company leases a facility from 3U Millikan, LLC, a company owned by Xilong Zhu, a member of the Company’s Board of Director. This lease commenced on October 10, 2016 and will terminate on January 9, 2027 and requires the Company to pay for all property taxes, utilities and facility maintenance. The monthly base rental expense is $17,550, commencing January 1, 2017 and ending January 9, 2027.

Minimum future lease payments under non-cancelable operating leases are as follows:

Year ending June 30,	
2018	$426,240
2019	432,654
2020	439,254
2021	446,058
2022	240,588
Thereafter	1,174,122
Total	$3,158,916

For the three months ended June 30, 2017 and 2016, total lease expense paid for all operating rents and leases was $105,770 and $70,681, respectively. For the six months ended June 30, 2017 and 2016, total lease expense paid for all operating rents and leases was $211,539 and $141,362, respectively. These leases are also disclosed in Note 10, related party transactions.

On June 27, 2017, the Company entered into a lease agreement for its Ontario Project, at Stratford location. The Company leased 1 acre of land from an unrelated party. The lease term is for three years and will start upon commissioning and acceptance of the project. The annual rental expense is $30,100. The lease has term to renew 2 additional terms of 5 years each with 6 months notices.

Note 8: Capital stock

Preferred Stock

On March 21, 2017, the board of directors of the company authorized the issuance of one share of the company’s Common Stock in exchange for each share of Series A stock. All shares of Series A Preferred Stock were cancelled.

Common Stock

On April 15, 2013, the Company issued a Warrant to Purchase Common Stock to Global Storage Group, LLC for 70,000 shares of the Company's common stock at an exercise price of $25.00; and a Warrant to Purchase Common Stock to Virgil L. Beast on for 30,000 shares of the Company's common Stock at an exercise price of $25.00. The exercise period of each Warrant is 60 months from the date of issuance and may be exercised in whole or in part at any time prior to April 15, 2018. As of June 30, 2017 and December 31, 2016, all 100,000 warrants remain outstanding.

	Warrants	Weighted average exercise price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	100,000	$ 25	1.4	$ -
Exercisable at December 31, 2016	100,000	$ 25	1.4	$ -
Warrants granted	-	-	-	-
Warrants exercised	-	-	-	-
Warrants forfeited	-	-	-	-
Outstanding at June 30, 2017	100,000	$ 25	1.15	$ -
Exercisable at June 30, 2017	100,000	$ 25	1.15	$ -

Note 9: Stock options

Ratification of the plan is scheduled for the shareholders' meeting on August 17th, 2017. As of the date of this filing, no awards have been granted under this plan. In June 2017, the Company's Board of Directors approved the adoption of the Powin Energy Corporation 2017 Stock Option Plan ("The 2017Plan").

In February 2011, the Company's Board of Directors approved the adoption of the Powin Corporation 2011 Stock Option Plan ("the Plan") and submitted its ratification to the shareholders at the shareholders' meeting held June 15, 2011, where the shareholders approved the Plan.

The Company records stock-based compensation expense related to stock options and the stock incentive plan in accordance with ASC 718, "Compensation – Stock Compensation".

On June 15, 2011, the Company granted awards in the form of incentive stock options to its key employees for 1,170,000 shares of common stock. There were no stock options granted in 2012. On August 6, 2013, the Company granted another 1,640,000 stock options under the same plan to all employees. Awards are granted with an exercise price that approximates the market price of the Company's common stock at the date of grant. The 2013 grant included immediate vesting of 20% of the options resulting in greater expense recognized than in previous years.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model using. The following assumptions were used to determine the fair value of the options at date of original issuance on August 6, 2013:

Dividend Yield	0	%
Expected volatility	161.80	%
Risk-free interest rate	1.39	%
Term in years	9.92	

The Company has never paid a cash dividend and does not intend to pay cash dividends in the foreseeable future, so the dividend yield used in the calculation is 0%. The expected volatility is based on the daily historical volatility of comparative companies, measured over the expected term of the option. The risk-free rate is based on the implied yield on a United States Treasury zero-coupon issue with a remaining term closest to the expected term of the option. The term of the option is the expiration as there is no ready market for employees to exercise and sell shares and to date no option has been exercised on the 2011 plan.

A summary of option activity as is presented below:

	Options	Weighted average exercise price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	102,000	$ 5.7	4.88	$ -
Exercisable at December 31, 2016	84,059	$ 6.5	4.28	$ -
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options forfeited	-	-	-	-
Outstanding at June 30, 2017	102,000	$ 5.7	4.38	$ -
Exercisable at June 30, 2017	94,175	$ 6.4	3.85	$ -

Stock option expense included in operating expense for the three months ended June 30, 2017 and 2016 is $11,780 and $9,025, respectively. Stock option expense included in operating expense for the six months ended June 30, 2017 and 2016 is $23,560 and $18,824, respectively. As of June 30, 2017 and December 31, 2016, remaining unvested stock expenses amounted to $0 and $46,126, respectively.

Note 10: Related party transactions

Rent from Related Parties

All of the Company’s facilities are owned by Lu Pacific Properties, LLC (“Lu Pacific”), an Oregon limited liability company, controlled by Joseph Lu (“Mr. Lu”), CEO and Chairman of the Board. Rent expenses were $53,120 and $70,681 for the three months ended June 30, 2017 and 2016, respectively. Rent expenses were $106,240 and $141,362for the six months ended June 30, 2017 and 2016, respectively. Rental rates are deemed to be and were derived by local market rates for the rents when the contracts were entered.

The Company’s facilities in Irvine, California are owned by 3U Millikan, LLC, a California limited liability company, controlled by Xilong Zhu, a director of the Company. Rent expenses were $52,650 and $0 for the three months ended June 30, 2017 and 2016, respectively. Rent expenses were $105,300 and $0 for the six months ended June 30, 2017 and 2016, respectively. Rental rates are deemed to be and were derived by local market rates for the rents when the contracts were entered.

Accounts payable to a related party

Accounts payable to a related party amounted to $2,462,445 and $2,447,348 as of June 30, 2017 and December 31, 2016, respectively. Accounts payable to a related party is accounts payable to a vendor of which our Company’s VP of Sales is a significant shareholder.

<u>Loans from Related Parties</u>

	June 30, 2017 (unaudited)		December 31, 2016	
	Current	Non Current	Current	Non Current
On May 31, 2017, the Company renewed two loans from Lu Pacific. The principal amount is $159,321 and the annual interest rate is 6%, due on May 31, 2018, with no collateral. As of June 30, 2017, accrued interest is $812.Interest expense amounted to $2,244for the three months ended June 30, 2017and amounted to $4,463 for the six months ended June 30, 2017.	$160,132	$ -	$151,825	$ -
On October 26, 2016, the Company secured a loan from Lu Pacific. The principal amount is$2,000,000, and the annual interest rate is 7%, due on October 26, 2018, with no collateral. As of June 30, 2017, accrued interest is $13,073. Interest expense amounted to $34,904for the three months ended June 30, 2017.Interest expense amounted to $69,424for the six months ended June 30, 2017.	-	2,013,073	-	2,013,648
On October 18, 2016, the Company secured a loan from Joseph Lu, CEO and Chairman of the Company. The principal amount is$115,000 and the annual interest rate is 6%, due on January 31, 2018, with no collateral. As of June 30, 2017, and accrued interest is $4,821. Interest expense amounted to $1,720 for the three months ended June 30, 2017.Interestexpense amounted to $3,422 for the six months ended June 30, 2017.	119,821	-	116,399	-
On December 30, 2016, the Company borrowed the sum of $600,000 from Joseph Lu, CEO and Chairman of the Company and issued its note in the principal amount of $600,000, with an annual interest rate of 6%, due on June 30, 2017, with no collateral. As of June 30, 2017, accrued interest is $17,951. Interest expense amounted to$8,975 for the three months ended June 30, 2017.Interest expense amounted to $17,852 for the six months ended June 30,2017. The Company is in the process of renewing the note.	617,951	-	600,099	-
On January 26, 2017, the Company borrowed the sum of $1,000,000 from Joseph Lu, CEO and Chairman of the Company and issued its note in the principal amount of $1,000,000, with an annual interest rate is 6%, due on January26, 2019. The note is secured by the Company's intellectual property. As of June 30, 2017, accrued interest is$29,918. Interest expense amounted to $17,452for the three months ended June 30, 2017.Interest expense amounted to $29,918 for the six months ended June 30, 2017.		1,029,918	-	-
On June 5, 2017, the Company borrowed the sum of $1,000,000 from Joseph Lu, CEO and Chairman of the Company and issued its note in the principal amount of $1,000,000, with an annual interest rate of 6%, due on June 5, 2019. The loan is secured by the assets of PPA and assets of PE Ontario. In the event of default, the note becomes convertible into equity. As of June 30,		1,005,699		

2017, and accrued interest is$4,274. Interest expense amounted to $4,274for the three months ended June 30, 2017.Interest expense amounted to $4,274 for the six months ended June 30, 2017.				
On June 28, 2017, the Company borrowed a loan from Xiaoyin Zhu, a shareholder with more than 5% of total ownership. The principal is $3,000,000; interest rate is 10%, due on September 27, 2017.The loan is secured by the assets of PPA and assets of PE Ontario. In the event of default, the note becomes convertible into equity. As of June 30, 2017, accrued interest is $2,465. Interest expense amounted to $2,465for the three months ended June 30, 2017.Interest expense amounted to $2,465 for the six months ended June 30, 2017.	3,002,465	-	-	-
On June 28, 2017, the Company borrowed the sum of $1,000,000 from Joseph Lu, CEO and Chairman of the Company and issued its notes in the principal amount of $1,000,000, with an annual interest rate of 6%, due on June 28, 2019.The loan is secured by the assets of PPA and assets of PE Ontario. In the event of default, the note becomes convertible into equity. As of June 30, 2017, and accrued interest is$493. Interest expense amounted to $493for the three months ended June 30, 2017.Interest expense amounted to $493 for the six months ended June 30, 2017.		1,000,657		
On October 14, 2016, the Company borrowed the sum of $35,100 from Xilong Zhu, a director of the Company and issued its note in the principal amount of $35,100, with an annual interest rate of 0%, due on March 1, 2017, with no collateral. As of March31, 2017, and accrued interest is $0. Interest expense amounted to $0 for the three months ended June 30, 2017. The loan was paid off on March 6, 2017.	-	-	35,100	-
Total	$3,900,369	$5,049,347	$903,422	$2,013,648

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Interest expenses related to loans from related parties amounted to $72,686 and $40 for the three months ended June 30, 2017 and 2016, respectively. Interest expenses related to loans from related parties amounted to $130,250 and $171for the six months ended June 30, 2017 and 2016, respectively.

Purchase from Related Parties

Mr. Lu's son, Danny Lu, owns 49% of Yangzhou Finway Energy Tech Co. since May 2016. The Company made purchases from Yangzhou Finway Energy Tech Co. in the amount of $9,843 and $0 for the six months ended June 30, 2017 and 2016, respectively. Amounts due to Yangzhou Finway Energy Tech Co. amounted to $2,462,445 and $2,447,347 at June 30, 2017 and December 31, 2016, respectively.

The Company made purchases from Quailhurst Vineyard Estates, an Oregon company, controlled by Joseph Lu in the amount of $3,177 and $0 for the six months ended June 30, 2017 and 2016, respectively. Amounts due to Quailhurst Vineyard Estates amounted to $220 and $3,332 at June 30, 2017 and December 31, 2016, respectively.

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

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on June 30, 2017, and the unaudited condensed interim consolidated financial statements and notes thereto included in this Quarterly Report.

Note Regarding Forward-Looking Statements

The discussions in this Quarterly Report on Form 10-Q contain forward-looking statements reflecting our current expectations that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, profitability, expected cost reductions, capital adequacy, expectations regarding demand and acceptance for our technologies, growth opportunities and trends in the market in which we operate, prospects and plans and objectives of management. The words "expect," "anticipate," "estimate," "project," "strategy," "intend," "plan," "target," "goal," "may," "will," "should" and "believe" or the negative of those terms or other variations or comparable terminology to identify its forward-looking statements. Not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in these forward-looking statements, and you should not place undue reliance on these forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause our actual results or events to differ materially from the plans, intentions or expectations disclosed in these forward-looking statements, including, without limitation, the risks set forth annual report on Form 10-K and in our other filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statements.

Overview

Incorporated in the State of Nevada, Powin Energy Corporation is a leading designer and developer of safe and scalable battery energy storage solutions for utility-scale, commercial and industrial, and microgrid applications. We are focused on the rapidly growing advanced energy storage industry, and our Stack140 modular battery system features our patented Battery Pack Operating System (bp-OS) that provides critical insight into system functions and lifespan.

Our primary source of revenues are from sales of our Stack140 modular battery system and from Power-Purchase Agreements from energy storage assets placed in-service.

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Management Opportunities, Challenges and Risks

Industry experts project the energy market to grow an average of 60% per year over the next five years. During the same five-year period, Powin Energy forecasts securing 4% to 7% of the contracts in that market. The conservative contract acquisition rate allows Powin Energy to grow at a manageable rate and achieve profitability. Management continues to pursue strategic investments that will allow for more aggressive growth in future years.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 2 of our consolidated financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

Results of Operations For the Three Months Ended June 30, 2017 and 2016

Revenues

Revenue for the three months ended June 30, 2017, increased $70,932 or 545.3% from $13,008 in the same period of 2016 to $83,940. All of this increase was revenue from the deployment of an energy storage asset in Southern California which was placed in service in January 2017.

Cost of Sales and Gross Profit (Loss)

Cost of sales for the three months ended June 30, 2017, increased $478,574 or 2,697.3%, from $17,743 in the same period of 2016 to $496,317. A significant portion of this increase is due to the impairment of finished goods inventories on hand.

Gross loss for the three months ended June 30, 2017, increased $407,642 or 8,609.1%, from $4,735 in the same period of 2016 to $412,377 due the reasons stated above.

Research and Development Expenses

Research & Development expense for the three months ended June 30, 2017, increased $90,750 or 100.0%, from $0 in the same period of 2016 to $90,750.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2017, increased 318,606 or 31.7%, from $1,003,835 in the same period of 2016 to $1,322,441. Increase is primarily due to increased staffing costs as the company prepares for future growth.

Interest Expense

Interest expenses for the three months ended June 30, 2017, increased $108,931 or 272,327.5%, from $40in the same period of 2016 to $108,971. The increase is due to interest on the Company’s debt.

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Provision for income taxes

Provision for income taxes for the three months ended June 30, 2017, increased $3,750 or 100.0%, from $0 in the same period of 2016 to $3,750.

Net Loss

For the three months ended June 30, 2017, the Company had net loss of $1,935,789 or $0.05 per share, compared to net loss of $1,174,278 or $0.07 per share for the same period of 2016.

Results of Operations For the Six Months Ended June 30, 2017 and 2016

Revenues

Revenue for the six months ended June 30, 2017, increased $172,942 or 710.4% from $24,345 in the same period of 2016 to $197,287. $155,095 of this increase was revenue from the deployment of an energy storage asset in Southern California which was placed in service in January 2017.

Cost of Sales and Gross Profit (Loss)

Cost of sales for the six months ended June 30, 2017, increased $949,883 or 2,170.1%, from $43,772 in the same period of 2016 to $993,655. A significant portion of this increase is due to the write-down of slow moving and excess/obsolete inventories.

Gross loss for the six months ended June 30, 2017, increased $776,941 or 3,999.3%, from $19,427 in the same period of 2016 to $796,368 due the reasons stated above.

Research and Development Expenses

Research and Development expense for the six months ended June 30, 2017, increased $129,743 or 464.9%, from $27,910 in the same period of 2016 to $157,653.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended June 30, 2017, increased $608,503 or 31.6%, from $1,927,537 in the same period of 2016 to $2,536,040. Increase is primarily due to increased staffing costs as the company prepares for future growth.

Interest Expense

Interest expenses for the six months ended June 30, 2017, increased $184,545 or 107,921.1%, from $171 in the same period of 2016 to $184,716. The increase is due to interest on the Company’s debt.

Provision for income taxes

Provision for income taxes for the six months ended June 30, 2017, decreased $3,750 or 50.0%, from $7,500 in the same period of 2016 to $3,750.

Net Loss

For the six months ended June 30, 2017, the Company had net loss of $3,672,027 or $0.10 per share, compared to net loss of $2,386,906 or $0.15 per share for the same period of 2016.

Liquidity and Capital Resources

Cash used in operating activities was approximately $2,353,250 for the six months ended June 30, 2017 compared to $2,819,106 used in operating activities for the same period in 2016. The decrease of cash used in operating activities is mainly due to lower purchases of inventories and an increase in accounts payable.

Cash used in investing activities was $2,149,636 and $129,600 during the six months ended June 30, 2017 and 2016, respectively, as the Company commenced the construction of a new energy storage asset in Ontario, Canada in the second quarter of 2017.

Cash provided by financing activities were approximately $8,107,250 for the six months ended June 30, 2017, compared to $249,241 provided by financing activities for the same period in 2016. The increase of cash provided from financing activities is due to increased proceeds from notes payables and debt and proceeds from related parties.

The Company's management does not believe the current cash and cash flow from operations will be sufficient to meet anticipated cash needs, including cash for working capital and capital expenditures in the foreseeable future. The Company will likely require additional cash resources that will require the Company to sell additional equity securities or debt securities. The sale of convertible debt securities or additional equity securities could result in additional dilution to the company's stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

The Company's ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties including: investors' perception of, and demand for, securities of alternative manufacturing companies; conditions of the United States and other capital markets in which we may seek to raise funds; and future results of operations, financial condition and cash flow. Therefore, the Company's management cannot assure that financing will be available in amounts or on terms acceptable to the Company, if at all. Any failure by the Company's management to raise additional funds on terms favorable to the Company could have a material adverse effect on the Company's liquidity and financial condition.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company, as defined by Rule 229.10(f)(1) and is not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our principal executive and financial officers concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None

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

Equity Compensation Plan Information

In six months ended June 30, 2017, the company did not issue any shares of Common Stock to our directors for their services on the Board of Directors.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any of our Common Stock or other securities during the six-month period ended June 30, 2017.

In the first quarter of 2017, 11,509 shares of preferred stock had converted into common stock.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

31.1	Certification of the Chief Executive Officer Pursuant to 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer Pursuant to 13a-14 and 15d-14 of the Securities Exchange Act of 1934, , as adopted pursuant Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of the Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 11, 2017

By:/s/ Joseph Lu
Chief Executive Officer
(Principal Executive Officer)

By:/s/ Geoffrey Brown
President

By:/s/ Craig Eastwood
Chief Financial Officer
(Principal Financial Officer)