

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

**(Mark One)**

Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2020**

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 No. 001-36868



**SUNWORKS, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction  
of incorporation or organization)

**2270 Douglas Blvd, Suite #216**  
**Roseville, CA**  
(Address of principal executive office)

**01-0592299**  
(I.R.S. Employer  
Identification No.)

**95661**  
(Zip Code)

Registrant's telephone number, including area code **(916) 409-6900**

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

<u>Common Stock, Par Value \$0.001</u> (Title of class)	<u>SUNW</u> (Trading Symbol(s))	<u>The NASDAQ Stock Market LLC</u> (Name of exchange on which registered)
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Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

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 filed the interactive data exhibits required to be filed during the past 12 months (or shorter applicable period). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

Indicate by check mark whether the company has filed an attestation report regarding management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act by the registered public accountants that audited the company's financial statements. Yes  No

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

The aggregate market value of the common stock held by non-affiliates as of June 30, 2020 was \$10.1 million.

The outstanding number of shares of common stock as of March 24, 2021 was 27,047,744.

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## PART I

### Item 1. Business.

#### Cautionary Note Regarding Forward-looking Statements

Statements in this annual report on Form 10-K that are not historical facts constitute forward-looking statements. Examples of forward-looking statements include statements relating to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, and may include certain assumptions that underlie forward-looking statements. Risks and uncertainties that may affect our future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements include, among other things, those listed under "Risk Factors" and elsewhere in this annual report.

These risks and uncertainties include but are not limited to:

- our limited operating history;
- our history of operating losses;
- our ability to raise additional capital to meet our financial commitments and objectives;
- our ability to compete in the solar power industry;
- our ability to sell solar power systems;
- our ability to arrange financing for our customers;
- government incentive programs related to solar energy;
- our ability to increase the size of our company and manage growth;
- our ability to acquire and integrate other businesses;
- disruptions to our business from protective tariffs on imported components, supply shortages and/or fluctuations in pricing;
- disruptions to our supply chain due to the impact of COVID-19 (Coronavirus);
- our ability or inability to attract and/or retain competent employees;
- relationships with employees, consultants, customers, and suppliers; and
- the concentration of our business in one industry in limited geographic areas.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology.

These statements are subject to business and economic risk and reflect management's current expectations and involve subjects that are inherently uncertain and difficult to predict. Actual events or results may differ materially. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this annual report to conform these statements to actual results.

#### Business Introduction/Summary

*References herein to "we," "us," "Sunworks," and "the Company" are to Sunworks, Inc. and its wholly-owned subsidiaries Sunworks United, Inc. ("Sunworks United"), MD Energy, Inc. ("MD Energy"), and Plan B Enterprises, Inc. ("Plan B").*

We provide photovoltaic ("PV") based power systems for the agricultural, commercial, industrial ("ACI"), public works, and residential markets in California, Nevada, Massachusetts, Oregon, New Jersey and Hawaii. We have direct sales and/or operations personnel in California, Massachusetts, and Oregon. Through our operating subsidiaries, we design, arrange financing, integrate, install, and manage systems ranging in size from 2kW (kilowatt) for residential projects to multi MW (megawatt) systems for larger ACI and public works projects. ACI installations have included installations at office buildings, manufacturing plants, warehouses, service stations, churches, and agricultural facilities such as farms, wineries, and dairies. Public works installations have included school districts, local municipalities, federal facilities and higher education institutions. We provide a full range of installation services to our solar energy customers including design, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance.

We operate in one segment based upon our organizational structure and the way in which our operations are managed and evaluated. Approximately 74% of our 2020 revenue was from sales to the ACI and public works markets, and approximately 26% of our revenue was from sales to the residential market. Approximately 69% of our 2019 revenue was from sales to the ACI and public works markets, and approximately 31% of our revenue was from sales to the residential market.

At the Company's Annual Meeting of Stockholders on August 7, 2019, the stockholders of the Company approved a reverse stock split of its issued and outstanding common stock at a ratio not less than 1-for-3 and not greater than 1-for-10. On August 29, 2019, the Company's Board of Directors approved the reverse stock split at a ratio of 1-for-7 which went into effect at the open of trading on August 30, 2019. At the effective time of the reverse stock split, every seven shares of issued and outstanding common stock were converted into one share of issued and outstanding common stock. The authorized shares of 200,000,000 and the par value of \$0.001 remained the same. All shares and related financial information in this Annual Report on Form 10-K is retroactively stated to reflect this 1-for-7 reverse stock split.

At the Company's Annual Meeting of Stockholders on August 26, 2020, the stockholders of the Company approved an amendment to the Company's Certificate of Incorporation to reduce the amount of shares of authorized common stock to 50,000,000. On September 18, 2020, a Certificate of Amendment of the Certificate of Incorporation was filed with the Secretary of State of the State of Delaware reducing the number of shares of our authorized common stock to 50,000,000. The par value of \$0.001 remained unchanged.

## **Strategy**

Our strategy for growth is focused on organic growth through continued expansion in California augmented by growth in other U.S. geographies. We believe that the competitors in the solar industry will consolidate and that we will be able to enhance our growth and scale through accretive acquisitions. With scalable administrative and operational infrastructure, we believe our current approach for organic growth will lead to profitability and positive cash generation. We anticipate taking advantage of the growth in the solar market as well as gaining market share relative to competitors. Additionally, we continue to evaluate various synergistic acquisitions.

In our residential business, we are expanding our marketing and internal methods of acquiring customers, which includes collaborating with select third party residential sales companies. We believe that the scarce resource in the residential solar industry is quality, economic installations in which customers can trust. We provide outstanding operations and customer support, as well as a competitive product warranty, which drives demand for our branded installations. We believe this allows us and our sales partners, knowing that they are backed by reliable installation and operations, to sell with confidence.

## **Company Operations**

### **Employees**

At December 31, 2019 we had 178 full-time employees. In response to the economic downturn, and the impact of COVID-19 on our business, we reduced our headcount. As of March 30, 2020, we employed approximately 98 full-time employees, 27 part-time employees and 37 employees on temporary layoff. A large percentage of the reductions in work force were intended to be temporary but became permanent as the impact of COVID-19 continued. As of December 31, 2020, we employed approximately 122 full-time employees with 38 of those employees on temporary layoff, medical, family or disability leave plus two part-time employees. We also utilize outside subcontractors to assist with installing solar systems for our commercial and residential customers. Our direct installation labor is a combination of employees and contract labor.

### **Sales and Marketing**

As of December 31, 2020, we had approximately 16 employees primarily focused on sales, sales support and marketing in California, Massachusetts, and Oregon.

We are adding to our in-house direct residential sales force and marketing capabilities while we continue to work with select third-party sales originators. Reducing our residential customer acquisition costs and managing the customer experience throughout the process of sales and installation is part of our goal to reduce our reliance on third-party sales originators. Minimizing the fixed costs and financial risk of maintaining our own direct residential sales force is a priority while improving the entire customer experience.

We have an advantage in the ACI solar market given our extensive contact list, resulting from our experience in the ACI construction market, which provides access to customers. Through our network of vendors, participation in variety of industry trade associations and independent sales consultants, we now have a growing list of repeat clients, as well as an active and loyal referral network.

### **Financing**

To promote sales, we assist customers in obtaining financing. Our objective is to arrange the most flexible terms that meet the needs and wants of the customer. Although we do not provide financing ourselves, we have relationships to arrange financing with numerous private and public sources.

We believe it is best for customers to own their own systems, but some customers prefer not to own their systems. We also have the ability to arrange financing with third parties through Power Purchase Agreements ("PPAs") and leases for our customers.

### **Suppliers**

We purchase solar panels, inverters, batteries and materials directly from multiple manufacturers and through distributors. We intend to further coordinate purchases and optimize supply relationships to realize the advantages of greater scale.

If one or more of our suppliers fail to meet our anticipated demand, ceases or reduces production due to its financial condition, acquisition by a competitor or otherwise, it may be difficult to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected. We do not, however, rely on any single supplier and, we believe, we can obtain needed solar panels and materials from a variety of different suppliers. Accordingly, we believe that the loss of any single supplier would not materially affect our business.

We also utilize strategic partnerships with subcontractors for electrical installations, for racking and solar panel installations, as well as numerous subcontractors for grading, landscaping, and construction for our larger ACI and public works projects.

### **Installation**

We are a licensed contractor in the markets we serve, and we are responsible for every customer installation. We manage the entire process from permitting through inspection to interconnection to the power grid, thereby making the system installation process simpler and as seamless as possible for our customers. Controlling every aspect of the installation process allows us to minimize costs, ensure quality and deliver high levels of customer satisfaction.

Even with controlling every aspect of the installation process, the ability to perform on a contract is subject to limitations. There remain jurisdictional approval processes outside our immediate control including, but not limited to, approval processes required by cities, counties, states or the Federal government or one of their agencies. Other aspects outside of our direct control include approvals from various utility companies and weather conditions.

### **After-Sales Support**

It is our intent to provide continuing operational and maintenance services for our installed residential and commercial PV systems. We provide extended factory equipment technical support and act as a service liaison using our proprietary knowledge, technology, and solar electric energy engineering staff. We do this through a Limited Workmanship Warranty and Operations and Maintenance Program, which among other things provides a service and technical support line to our customers. We generally respond to our job site related issues within 24 hours and we strive to offer assistance as long as required to maintain customer satisfaction. Our price to customers includes this warranty, which includes the pass through of various manufacturers' warranties.

### **Facilities**

We maintain sales and installation offices in Roseville, Rocklin, Durham, Campbell (San Jose), Tulare, and Riverside, California. We lease all our offices and facilities.

### **Customers**

The majority of our revenue comes from installations in California with a smaller amount in Nevada, Massachusetts, Oregon, Hawaii and New Jersey. Approximately 74% of our revenue in 2020 was in the ACI and public works markets, up from 69% in 2019. Approximately 26% of revenue was generated by residential installations, down from 31% in 2019. We expect that these percentages will vary from year to year.

We install systems for the ACI market and for public works projects. We define small commercial and public works projects as the installation of systems under 100kW, whereas large projects involve the installation of systems greater than 100kW. Solar projects have received limited financing from traditional lending sources, but we are encouraged by municipal PACE programs in California which have drawn funding sources such as Ygrene Energy Fund into the financing of energy projects. Public works projects are frequently financed through various PPA arrangements, often in conjunction with SPURR (School Project for Utility Rate Reduction) programs, a Joint Powers Authority in California. Cycle times vary from twenty weeks to more than a year, which is a common cycle for commercial and public works projects. Larger projects typically have a longer cycle time than smaller projects. Agricultural system sizes vary significantly within this sector and can range from 10kW to multiple megawatts. Agricultural loans to farmers and tax-oriented leases are the primary funding sources within the industry. Similar to commercial installations, cycle times for agricultural projects may commonly range from a few months to more than three years depending upon the authority having jurisdiction, the existing utility infrastructure and the various approvals required.

Our residential operations address the needs of property owners installing systems typically smaller than 20kW. The typical residential system installed is about 6kW with an average cycle time of 45 days or less. There is an increased demand for systems with batteries, and we fill those customer needs as well. We facilitate purchase or lease financing and offer multiple product options to fit the specific needs of each customer.

### **Competitors**

In the solar installation market, we compete with companies that offer products similar to ours. Some of these companies have greater financial resources, operational experience, and technical capabilities than we do. When bidding for solar installation projects, however, our current experience suggests that there is no clear dominant or preferred competitor in the markets in which we compete. We do not believe that any competitor has more than 10% of the market across all the areas in which we operate. We compete with other solar installers on pricing, service, warranty, and the ability to arrange financing. On a global scale, we also compete, on a cost basis, with traditional utilities that supply electricity to our potential customers and with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. Our advantage over traditional utilities is that we offer customers the opportunity to create their own electricity and reduce dependency from the traditional electrical grid.

## **Seasonality**

Our revenue is impacted by seasonal weather patterns. In addition, some customers push to complete projects by the end of a calendar year to realize the benefits of available subsidy programs prior to year-end. The first quarter in California often has rain, which also reduces our ability to install and recognize revenues in that quarter relative to the remainder of the year.

## **Technology and Intellectual Property**

Generally, the solar installation business is not dependent on intellectual property.

## **Government Regulation and Incentives**

### ***Government Regulation***

We are not regulated as a public utility in the United States under applicable national, state or other local regulatory regimes where we conduct business.

To operate our systems, we obtain interconnection permission from the applicable local primary electric utility. Depending on the size of the solar energy system and local law requirements, interconnection permission is provided by the local utility and us and/or our customer. In almost all cases, interconnection permissions are issued on the basis of a standard process that has been pre-approved by the local public utility commission or other regulatory body with jurisdiction over net energy metering procedures. As such, no additional regulatory approvals are required once interconnection permission is given.

Our operations are subject to stringent and complex federal, state and local laws, including regulations governing the occupational health and safety of our employees and wage regulations. For example, we are subject to the requirements of the federal and California Occupational Safety and Health Act, as amended (“OSHA”), the U.S. Department of Transportation (“DOT”), and comparable state laws that protect and regulate employee health and safety.

### ***Government Incentives***

Federal, state and local government bodies provide incentives to owners, end users, distributors, system integrators and manufacturers of solar energy systems to promote solar energy in the form of rebates, tax credits and other financial incentives such as system performance payments, payments for renewable energy credits associated with renewable energy generation and exclusion of solar energy systems from property tax assessments. These incentives enable us to lower the price we charge customers to own or lease our solar energy systems, helping to catalyze customer acceptance of solar energy as an alternative to utility-provided power.

The Federal government offered a 30% Investment Tax Credit in 2019. The ITC is currently 26% under Section 48(a) of the Internal Revenue Code, for the installation of certain solar power facilities until December 31, 2022, after which it will fall to 22% in 2023 and 10% in 2024 and 10% for commercial credit thereafter.

The economics of purchasing a solar energy system are also improved by eligibility for accelerated depreciation, also known as the modified accelerated cost recovery system (“MACRS”) depreciation, which allows for the depreciation of equipment according to an accelerated schedule set forth by the Internal Revenue Service. The acceleration of depreciation creates a valuable tax benefit that reduces the overall cost of the solar energy system and increases the return on investment.

Approximately 50% of states in the U.S. offer a personal and/or corporate investment or production tax credit for solar energy that is additive to the ITC. Further, these states, and many local jurisdictions, have established property tax incentives for renewable energy systems that include exemptions, exclusions, abatements, and credits. Many state governments, traditional utilities, municipal utilities and co-operative utilities offer a rebate or other cash incentive for the installation and operation of a solar energy system or energy efficiency measures. Capital costs or “up-front” rebates provide funds to solar customers based on the cost, size or expected production of a customer’s solar energy system. Performance-based incentives provide cash payments to a system owner based on the energy generated by their solar energy system during a pre-determined period, and they are paid over that time period. Depending on the cost of the system and other site-specific variables, tax incentives can typically cover 30-40% of the cost of a commercial or residential solar system.

Many states also have adopted procurement requirements for renewable energy production that requires regulated utilities to procure a specified percentage of total electricity delivered to customers in the State from eligible renewable energy sources, such as solar energy systems, by a specified date.

## Corporate History

We were originally incorporated in Delaware on January 30, 2002 as MachineTalker, Inc. In July 2010, we changed our company name to Solar3D, Inc. On January 31, 2014, we acquired 100% of the stock of Solar United Network, Inc., a California corporation. On March 2, 2015, we acquired MD Energy. On December 1, 2015, we acquired Plan B through a merger of Plan B Enterprises, Inc. into our wholly owned subsidiary, Elite Solar Acquisition Sub., Inc. On March 1, 2016 we changed our name to Sunworks, Inc. with simultaneous NASDAQ stock symbol change from SLTD to SUNW.

Our principal executive offices are located at 2270 Douglas Blvd., Suite 216, Roseville, CA 95661 and our telephone number is (916) 409-6900. Our web site address is [www.sunworksusa.com](http://www.sunworksusa.com). Information contained in or accessible through our website does not constitute part of this Annual Report on Form 10-K.

## Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, referred to herein as the SEC. Our SEC filings, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available to the public free of charge over the Internet at our website at <http://www.sunworksusa.com> or at the SEC's web site at <http://www.sec.gov>. Our SEC filings will be available on our website as soon as reasonably practical after we have electronically filed or furnished them to the SEC. Information contained on our website is not incorporated by reference into this 10-K. You can view our Code of Conduct and Ethics and the charters for each of our committees of our Board of Directors free of charge on the investor relations section of our website under corporate governance.

## Recent Developments

On January 27, 2021, the Company filed a Registration Statement on Form S-3 (File No. 333-252475) (the "Registration Statement"), with the Securities and Exchange Commission (the "SEC"). The Registration Statement allows the Company to offer and sell, from time to time in one or more offerings, any combination of common stock, preferred stock, warrants, or units having an aggregate initial offering price not to exceed \$100 million. The Registration Statement was declared effective by the SEC on February 3, 2021.

On February 10, 2021, the Company entered into a Sales Agreement (the "Roth Sales Agreement") with Roth Capital Partners, LLC (the "Agent RCP"), pursuant to which the Company could offer and sell from time to time, through the Agent RCP, shares of the Company's common stock, par value \$0.001 per share, registered under the Securities Act of 1933 (as amended, the "Securities Act"), pursuant to the Registration Statement filed on Form S-3. The base prospectus is contained within the Registration Statement.

Sales of shares pursuant to the Roth Sales Agreement are deemed to be "at the market offerings" ("ATM") as defined in Rule 415 promulgated under the Securities Act. The Agent RCP has agreed to act as sales agent and use commercially reasonable efforts to sell on the Company's behalf all of the shares requested to be sold by the Company, consistent with its normal trading and sales practices, on mutually agreed terms between the Agent RCP and the Company.

3,212,486 shares of common stock (the "Fourth Placement Shares" were sold under the Roth Sales Agreement between February 11, 2021 and February 23, 2021, pursuant to a prospectus supplement that was filed with the SEC on February 10, 2021. Total gross proceeds for the Fourth Placement Shares were \$49,937,000 or \$15.54 per share. Net proceeds, less issuance, costs were \$48,937,000 or \$15.23 per share.

**Item 1A. Risk Factors.**

*Our business and operations are subject to a number of significant risks and uncertainties as described below. However, the risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we may currently deem immaterial, may become important factors that could harm our business, financial condition or results of operations. If any of the following risks actually occur, our business, financial condition or results of operations could suffer materially.*

**Risks Related to Our Financial Position and Capital Requirements**

*We have a limited operating history, which could make it difficult to accurately evaluate our business and prospects.*

Although we were formed in January 2002, we did not begin selling solar systems until we acquired Solar United Network, Inc. in January 2014. We acquired MD Energy in March 2015 and Plan B Enterprises in December 2015. Management believes that our success depends in large part on our ability to continue to successfully sell solar systems in California and other states against determined competition, and to consummate synergistic acquisitions. We cannot assure that we will operate profitably or that we will have adequate working capital to meet our obligations as they become due.

*We have incurred significant losses since inception.*

We had an accumulated deficit of \$88,635,000 and \$72,696,000 as of December 31, 2020 and December 31, 2019, respectively. We incurred annual operating losses from our inception. We anticipate becoming profitable as we reduce our costs and increase our installation revenues. However, there can be no assurances that these actions will result in sustained profitability. We are subject to all the risks incidental to the sales, development and costs of construction of new solar energy revenues, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business.

*We may require substantial additional funding which may not be available to us on acceptable terms, or at all. If we fail to raise the necessary additional capital, we may be unable to achieve growth of our operations.*

Our operations have consumed substantial amounts of cash since inception.

In order to carry out our business plan and implement our strategy, we anticipate that we will need to obtain additional financing from time to time and may choose to raise additional funds through strategic collaborations, public or private equity or debt financing, bank lines of credit, asset sales, government grants, or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us or at all. Furthermore, any additional equity or equity-related financing may be dilutive to our shareholders, and debt or equity financing, if available, may subject us to restrictive covenants and significant interest costs.



Our inability to raise capital when needed could harm our ability to grow our operations substantially, and could cause our stock price to decline.

### **Risks Related to Our Business and Industry**

*Our results of operations have been and will continue to be adversely impacted by the COVID-19 Pandemic, and the duration and extent to which it will impact our results of operations remains uncertain.*

A significant outbreak of epidemic, pandemic, or contagious diseases in the human population, such as the current COVID-19 pandemic, could result in a widespread health crisis that could adversely affect the broader economies, financial and capital markets, commodity and energy prices, and overall demand environment for our products. A global health crisis could affect, and has affected, our workforce, customers and vendors, as well as economies and financial markets globally, potentially leading to an economic downturn, which could decrease spending, adversely affecting the demand for our products.

In response to the COVID-19 pandemic, many state, local, and foreign governments have put in place, and others in the future may put in place, travel restrictions, quarantines, “stay at home” orders and guidelines, and similar government orders and restrictions, in an attempt to control the spread of the disease. Such restrictions or orders have resulted in, and will continue to result in, business closures, work stoppages, slowdowns and delays, among other effects that could negatively impact our operations, as well as the operations of our customers and business partners. Such results have had and will continue to have a material adverse effect on our business, operations, financial condition, results of operations, and cash flows.

Although we have continued to operate consistent with federal guidelines and state and local orders, the extent to which the COVID-19 pandemic impacts our business, operations, financial results and financial condition will depend on numerous evolving factors which are uncertain and cannot be predicted, including:

- the duration and scope of the pandemic and associated disruptions;
- a general slowdown in our industry;
- governmental, business and individuals’ actions taken in response to the pandemic;
- the effect on our customers and our customers’ demand for our products and installations;
- the effect on our suppliers and disruptions to the global supply chain;
- our ability to sell and provide our products and provide installations, including disruptions as a result of travel restrictions and people working from home;
- the ability of our customers to pay for our products;
- delays in our projects due to closures of jobsites or cancellation of jobs; and
- any closures of our and our suppliers’ and customers’ facilities.

These effects of the COVID-19 pandemic have resulted and will result in lost or delayed revenue to us, and we have experienced, and continue to experience, disruptions to our business as we implement safety protocols, and modifications to travel. We are closely monitoring the impact of the COVID-19 pandemic, continually assessing its potential effects on our business. We have taken actions to offset the impact of the COVID-19 pandemic, including reducing salaries for all exempt employees, implementing furloughs, and restricting nonessential travel, but we cannot predict what future actions we may have to take in response to the COVID-19 pandemic. The extent to which our results are affected by the COVID-19 pandemic will largely depend on future developments which cannot be accurately predicted and are uncertain, but the COVID-19 pandemic has had and will continue to have an adverse effect on our business, operations, financial condition, results of operations, and cash flows.

In addition, while we believe we have taken appropriate steps to maintain a safe workplace to protect our employees from contracting and spreading the coronavirus, including following the guidance set out from both the Occupational Safety and Health Administration and Centers for Disease Control and Prevention, we may not be able to completely prevent the spread of the virus among our employees. As of the time of this filing, several of our personnel have been subject to Company-imposed quarantine restrictions based upon possible contact with individuals who have tested positive. We may face litigation or other proceedings making claims related to unsafe working conditions, inadequate protection of our employees or other claims. Any of these claims, even if without merit, could result in costly litigation or divert management's attention and resources. Furthermore, we may face a sustained disruption to our operations due to one or more of the factors described above.

Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic instability that has occurred or may occur in the future. Any of these events could amplify the other risks and uncertainties described in this Annual Report on Form 10-K and could materially adversely affect our business, operations, financial condition, results of operations, cash flows or stock price.

***A material reduction in the retail price of traditional utility generated electricity or electricity from other sources could harm our business, financial condition, results of operations and prospects.***

We believe that a significant number of our customers decide to buy solar energy because they want to pay less for electricity than what is offered by the traditional utilities. However, distributed residential solar energy has yet to achieve broad market adoption as evidenced by the fact that distributed solar has penetrated less than 5% of its total addressable market in the U.S. residential sector.

The customer's decision to choose solar energy may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the traditional utilities or from other renewable energy sources would harm our ability to offer competitive pricing and could harm our business. The price of electricity from traditional utilities could decrease as a result of:

- construction of a significant number of new power generation plants, including plants utilizing natural gas, nuclear, coal, renewable energy or other generation technologies;
- relief of transmission constraints that enable local centers to generate energy less expensively;
- reductions in the price of natural gas;
- utility rate adjustment and customer class cost reallocation;
- energy conservation technologies and public initiatives to reduce electricity consumption;
- development of new or lower-cost energy storage technologies that have the ability to reduce a customer's average cost of electricity by shifting load to off-peak times; or
- development of new energy generation technologies that provide less expensive energy.

A reduction in utility electricity prices would make the purchase or the lease of our solar energy systems less economically attractive. If the retail price of energy available from traditional utilities were to decrease due to any of these reasons, or other reasons, we would be at a competitive disadvantage, we may be unable to attract new customers and our growth would be limited.

***Existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our solar energy systems.***

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase our customers' cost to use our systems and make them less desirable, thereby harming our business, prospects, financial condition and results of operations. In addition, depending on the region, electricity generated by solar energy systems competes most effectively with expensive peak-hour electricity from the electric grid, rather than the less expensive average price of electricity. Modifications to the utilities' peak hour pricing policies or rate design, such as to a flat rate, would require us to lower the price of our solar energy systems to compete with the price of electricity from the electric grid.

In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our products and services. For example, certain jurisdictions have proposed assessing fees on customers purchasing energy from solar energy systems or imposing a new charge that would disproportionately impact solar energy system customers who utilize net energy metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. It is possible charges could be imposed on not just future customers but our existing customers, causing a potentially significant consumer relations problem and harming our reputation and business. Due to the concentration of our business in California, any such changes in these markets would be particularly harmful to our business, results of operations, and future growth.

***Our growth strategy depends on the widespread adoption of solar power technology.***

The market for solar power products is emerging and rapidly evolving, and its future success is uncertain. If solar power technology proves unsuitable for widespread commercial deployment or if demand for solar power products fails to develop sufficiently, we would be unable to generate enough revenues to achieve and sustain profitability and positive cash flow. The factors influencing the widespread adoption of solar power technology include but are not limited to:

- cost-effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies;
- performance and reliability of solar power products as compared with conventional and non-solar alternative energy products;
- fluctuations in economic and market conditions which impact the viability of conventional and non-solar alternative energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- availability and economics of battery storage and co-generation technology;
- continued deregulation of the electric power industry and broader energy industry; and
- availability of governmental subsidies and incentives.

***Our business currently benefits from the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits and incentives would adversely impact our business.***

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. These governmental rebates, tax credits and other financial incentives enhance the return on investment for our customers and incent them to purchase solar systems. These incentives enable us to lower the price we charge customers for energy and for our solar energy systems. However, these incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. These reductions or terminations often occur without warning.

Reductions in, or eliminations or expirations of, governmental incentives could adversely impact our results of operations and our ability to compete in our industry, causing us to increase the prices of our solar energy systems, and reducing the size of our addressable market. In addition, this would adversely impact our ability to attract investment partners and to form new financing funds and our ability to offer attractive financing to prospective customers.

***Net energy metering and related policies to offer competitive pricing to our customers in our current markets, and changes to net energy metering policies may significantly reduce demand for electricity from our solar energy systems.***

Each of the states where we currently serve customers has adopted a net energy metering policy. Net energy metering typically allows our customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility's retail rate for energy generated by their solar energy system that is exported to the grid in excess of the electric load used by the customers. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Utilities operating in states without a net energy metering policy may receive solar electricity that is exported to the grid when there is no simultaneous energy demand by the customer without providing retail compensation to the customer for this generation.

Our ability to sell solar energy systems and the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net energy metering in states that have implemented it, the failure to adopt a net energy metering policy where it currently is not in place, the imposition of new charges that only or disproportionately impact customers that utilize net energy metering, or reductions in the amount or value of credit that customers receive through net energy metering. Our ability to sell solar energy systems and the electricity they generate also may be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid. If such charges are imposed, the cost savings associated with switching to solar energy may be significantly reduced and our ability to attract future customers and compete with traditional utility providers could be impacted.

Limits on net energy metering, interconnection of solar energy systems and other operational policies in key markets could limit the number of solar energy systems installed in those markets. For example, California utilities limit net energy metering credit to 5% of the utilities' aggregate customer peak demand. California has adopted legislation to establish a process and timeline for developing a new net energy metering program with no cap on participation. If the caps on net energy metering in California and other jurisdictions are reached or if the amount or value of credit that customers receive for net energy metering is significantly reduced, future customers will be unable to recognize the current cost savings associated with net energy metering. We rely substantially on net energy metering when we establish competitive pricing for our prospective customers and the absence of net energy metering for new customers would greatly limit demand for our solar energy systems.

***Our business depends in part on the regulatory treatment of third-party owned solar energy systems.***

Our leases and any power purchase agreements are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. Other challenges pertain to whether third-party owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems, whether third-party owned systems are eligible at all for these incentives, and whether third-party owned systems are eligible for net energy metering and the associated significant cost savings. Reductions in, or eliminations of, this treatment of these third-party arrangements could reduce demand for our systems, adversely impact our access to capital and could cause us to increase the price we charge our customers for energy.

***Our ability to provide solar energy systems to customers on an economically viable basis depends on our ability to help customers arrange financing for such systems.***

Our solar energy systems have been eligible for Federal ITCs or U.S. Treasury grants, as well as depreciation benefits. We have relied on, and will continue to rely on, financing structures that monetize a substantial portion of those benefits and provide financing for our solar energy systems. If, for any reason, our customers were unable to continue to monetize those benefits through these arrangements, we may be unable to provide and maintain solar energy systems for new customers on an economically viable basis.

The availability of this tax-advantaged financing depends upon many factors, including, but not limited to:

- the state of financial and credit markets;
- changes in the legal or tax risks associated with these financings; and
- non-renewal of these incentives or decreases in the associated benefits.

U.S. Treasury grants are no longer available for new solar energy systems. Changes in existing law and interpretations by the Internal Revenue Service and the courts could reduce the willingness of funding sources to provide funds to customers of these solar energy systems. We cannot assure you that this type of financing will be available to our customers. If, for any reason, we are unable to find financing for solar energy systems, we may no longer be able to provide solar energy systems to new customers on an economically viable basis. This would have a negative impact on our business, financial condition, and results of operations.

***Our inability to arrange financing could hurt our future business.***

We also compete, on a cost basis, with traditional utilities that supply electricity to our potential customers and with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. Our advantage over traditional utilities is that we offer customers the opportunity to create their own electricity and detach from the traditional electrical grid. To offer customers this opportunity, we often have to arrange financing for our customers as solar projects have received limited financing from traditional lending sources. Our objective is to arrange the most flexible terms that meet the needs and wants of the customer. Although we do not provide financing ourselves, we have relationships to arrange financing with numerous private and public sources, including PACE (Property Assessed Clean Energy) Programs, which are programs that involve both municipal governments and private financing companies that allows property owners to receive upfront funding for renewable energy projects, and agricultural financing offered by a network of lending institutions. Our inability to arrange financing through these or other sources could adversely affect our business and results of operations.

***If we cannot compete successfully against other solar and energy companies, we may not be successful in developing our operations and our business may suffer.***

The solar and energy industries are characterized by intense competition and technological advances, both in the United States and internationally. We compete with solar companies with business models that are similar to ours. In addition, we compete with solar companies in the downstream value chain of solar energy. For example, we face competition from purely finance driven organizations that acquire customers and then subcontract out the installation of solar energy systems, from installation businesses that seek financing from external parties, from large construction companies and utilities, and increasingly from sophisticated electrical and roofing companies. Some of these competitors specialize in the residential solar energy market, and some may provide energy at lower costs than we do. Further, some of our competitors are integrating vertically in order to ensure supply and to control costs. Many of our competitors also have significant brand name recognition and have extensive knowledge of our target markets.

If we are unable to compete in the market, it will have a negative impact on our business, financial condition, and results of operations.

***Adverse economic conditions may have negative consequences on our business, results of operations and financial condition.***

Unpredictable and unstable changes in economic conditions, including recession, inflation, increased government intervention, or other changes, may adversely affect our general business strategy. We rely upon our ability to generate additional sources of liquidity and we may need to raise additional funds through public or private debt or equity financings in order to fund existing operations or to take advantage of opportunities, including acquisitions of complementary businesses or technologies. Any adverse event would have a negative impact on our business, results of operations and financial condition.

***Our business is concentrated in certain markets, putting us at risk of region-specific disruptions.***

As of December 31, 2020, a vast majority of our total installations were in California and Nevada. We expect our near-term future growth to occur in California, Oregon, Massachusetts, Nevada, New Jersey and New York, and to further expand our customer base and operational infrastructure. Accordingly, our business and results of operations are particularly susceptible to adverse economic, regulatory, political, weather and other conditions in such markets and in other markets that may become similarly concentrated.

***Substantially all of our business is conducted primarily using direct-selling, channel partners and authorized dealers.***

While we are in the process of evaluating different distribution channels, currently substantially all of our business is conducted using direct selling, channel partners and authorized dealers. We compete against companies that sell solar energy systems to customers through a number of distribution channels, including homebuilders, home improvement stores, large construction, electrical and roofing companies and other third parties and companies that access customers through relationships with third parties in addition to other direct-selling companies. Our limited distribution channel may place us at a disadvantage with consumers who prefer to purchase products through these other distribution channels. Additionally, we are vulnerable to changes in laws related to direct marketing as regulations have limited unsolicited residential sales calls and may impose additional restrictions. If additional laws affecting direct marketing are passed in the markets in which we operate, it could take time to train our sales force to comply with such laws, and we may be exposed to fines or other penalties for violations of such laws. If we fail to compete effectively through our selling efforts or are not successful in executing our strategy to sell our solar energy systems through other channels, our financial condition, results of operations, and growth prospects will be adversely affected.

***If we are unable to retain and recruit qualified technicians and advisors, or if our board of directors, key executives, key employees or consultants discontinue their employment or consulting relationship with us, it may delay our development efforts or otherwise harm our business.***

We may not be able to attract or retain qualified management or technical personnel in the future due to the intense competition for qualified personnel among solar, energy, and other businesses. Our industry has experienced a high rate of turnover of management personnel in recent years. If we are not able to attract, retain, and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the successful development of any product candidates, our ability to raise additional capital, and our ability to implement our overall business strategy.

We are highly dependent on members of our management and technical staff. Our success also depends on our ability to continue to attract, retain and motivate highly skilled junior, mid-level, and senior managers as well as junior, mid-level, and senior technical personnel. The loss of any of our executive officers, key employees, or consultants and our inability to find suitable replacements could potentially harm our business, financial condition, and prospects. We may be unable to attract and retain personnel on acceptable terms given the competition among solar and energy companies. Certain of our current officers, directors, and/or consultants hereafter appointed may from time to time serve as officers, directors, scientific advisors, and/or consultants of other solar and energy companies. We do not maintain "key man" insurance policies on any of our officers or employees. Other than certain members of our senior management team, all of our employees are employed "at will" and, therefore, each employee may leave our employment and join a competitor at any time.

We plan to grant stock options, restricted stock grants, or other forms of equity awards in the future as a method of attracting and retaining employees, motivating performance, and aligning the interests of employees with those of our shareholders. If we are unable to implement and maintain equity compensation arrangements that provide sufficient incentives, we may be unable to retain our existing employees and attract additional qualified candidates. If we are unable to retain our existing employees and attract additional qualified candidates, our business and results of operations could be adversely affected. Currently the exercise prices of all outstanding stock options are greater than the current stock price.

In addition, we have reduced our workforce significantly from 178 full-time employees as of December 31, 2019 to 162 employees as of March 30, 2020, of which 98 were full-time, 37 are on temporary layoff and another 27 were part-time and implemented other cost saving measures. As of December 31, 2020 we had 122 full-time employees of which 38 were on temporary layoff, medical, disability or family leaves in addition to two part-time employees. These actions could lead to disruptions in our business, reduced employee morale and productivity, increased attrition, and problems with retaining existing and recruiting future employees.

***We may not successfully implement our business model.***

Our business model is predicated on our ability to provide solar systems at a profit, and through organic growth, geographic expansion, and strategic acquisitions. We intend to continue to operate as we have previously with sourcing and marketing methods that we have used successfully in the past. However, we cannot assure that our methods will continue to attract new customers in the very competitive solar systems marketplace.

In the event our customers resist paying the prices projected in our business plan to purchase solar installations, our business, financial condition, and results of operations will be materially and adversely affected.

***We may not be able to effectively manage our growth.***

Our future growth, if any, may cause a significant strain on our management and our operational, financial, and other resources. Our ability to manage our growth effectively will require us to implement and improve our operational, financial, and management systems and to expand, train, manage, and motivate our employees. These demands may require the hiring of additional management personnel and the development of additional expertise by management. Any increase in resources used without a corresponding increase in our operational, financial, and management systems could have a negative impact on our business, financial condition, and results of operations.

***We may not realize the anticipated benefits of future acquisitions, and integration of these future acquisitions which may disrupt our business and management.***

In the future, we may acquire additional companies, project pipelines, products or technologies or enter into joint ventures or other strategic initiatives. We may not realize the anticipated benefits of these future acquisitions, and any acquisition has numerous risks. These risks include the following:

- difficulty in assimilating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies or products with our current technologies;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company's accounting, management information, and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;
- inability to retain key customers, vendors, and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential failure of the due diligence processes to identify significant issues with product quality, intellectual property infringement, and other legal and financial liabilities, among other things;
- potential inability to assert that internal controls over financial reporting are effective;
- potential inability to retain the right individuals to serve on our Board of Directors and as our senior management, post transaction; and
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions.

Mergers and acquisitions of companies are inherently risky and, if we do not complete the integration of acquired businesses successfully and in a timely manner, we may not realize the anticipated benefits of the acquisitions to the extent anticipated, which could adversely affect our business, financial condition, or results of operations.

***A portion of our total assets consists of goodwill, which is subject to a periodic impairment analysis, and a significant impairment determination in any future period could have an adverse effect on our statement of operations even without a significant loss of revenue or increase in cash expenses attributable to such period.***

At December 31, 2020 we had goodwill totaling approximately \$5.5 million associated with prior acquisitions. We will be required to continue to evaluate this goodwill for impairment based on the fair value of the operating business units to which this goodwill relates, at least once a year. This estimated fair value could change if we are unable to achieve operating results at the levels that have been forecasted, the market valuation of those business units decreases based on transactions involving similar companies, or there is a permanent, negative change in the market demand for the services offered by the business units. These changes could result in further impairment of the existing goodwill balance that could require a material non-cash charge to our results of operations.

In the year ended December 31, 2020 we had a goodwill impairment charge of \$4.0 million.

***We may be subject to claims arising from the operations of our various businesses for periods prior to the dates we acquired them.***

We may be subject to claims or liabilities arising from the ownership or operation of acquired businesses for the periods prior to our acquisition of them, including environmental, employee-related, and other liabilities and claims not covered by insurance. These claims or liabilities could be significant. Our ability to seek indemnification from the former owners of our acquired businesses for these claims or liabilities may be limited by various factors, including the specific time, monetary or other limitations contained in the respective acquisition agreements and the financial ability of the former owners to satisfy our indemnification claims. In addition, insurance companies may be unwilling to cover claims that have arisen from acquired businesses or locations, or claims may exceed the coverage limits that our acquired businesses had in effect prior to the date of acquisition. If we are unable to successfully obtain insurance coverage of third-party claims or enforce our indemnification rights against the former owners, or if the former owners are unable to satisfy their obligations for any reason, including because of their current financial position, we could be held liable for the costs or obligations associated with such claims or liabilities, which could adversely affect our financial condition and results of operations.

***With respect to providing electricity on a price-competitive basis, solar systems face competition from traditional regulated electric utilities, from less-regulated third party energy service providers and from new renewable energy companies.***

The solar energy and renewable energy industries are both highly competitive and continually evolving as participants strive to distinguish themselves within their markets and compete with large traditional utilities. We believe that one of our primary competitors (excluding other engineering, procure and construction businesses) are the traditional utilities that supply electricity to our potential customers. Traditional utilities generally have substantially greater financial, technical, operational and other resources than we do. As a result, these competitors may be able to devote more resources to the research, development, promotion, and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. Traditional utilities could also offer other value-added products or services that could help them to compete with us even if the cost of electricity they offer is higher than ours. In addition, a majority of utilities' sources of electricity is non-solar, which may allow utilities to sell electricity more cheaply than electricity generated by our solar energy systems.

We also compete with companies that are not regulated like traditional utilities but that have access to the traditional utility electricity transmission and distribution infrastructure pursuant to state and local pro-competitive and consumer choice policies. These energy service companies are able to offer customers electricity supply-only solutions that are competitive with our solar energy system options on both price and usage of renewable energy technology while avoiding the long-term agreements and physical installations that our current fund-financed business model requires. This may limit our ability to attract new customers; particularly those who wish to avoid long-term contracts or have an aesthetic or other objection to putting solar panels on their roofs.

As the solar industry grows and evolves, we will also face new competitors who are not currently in the market. Low technological barriers to entry characterize our industry and well-capitalized companies could choose to enter the market and compete with us. Our failure to adapt to changing market conditions and to compete successfully with existing or new competitors will limit our growth and will have a negative impact on our business and prospects.

***Developments in alternative technologies or improvements in distributed solar energy generation may materially adversely affect demand for our offerings.***

Significant developments in alternative technologies, such as advances in other forms of distributed solar power generation, storage solutions such as batteries, the widespread use or adoption of fuel cells for residential or commercial properties or improvements in other forms of centralized power production may materially and adversely affect our business and prospects in ways we do not currently anticipate. Any failure by us to adopt new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay deployment of our solar energy systems, which could result in product obsolescence, the loss of competitiveness of our systems, decreased revenue and a loss of market share to competitors.

***Due to the limited number of suppliers in our industry, the acquisition of any of these suppliers by a competitor or any shortage, delay, quality issues, price change, imposition of tariffs or duties or other limitation in our ability to obtain components or technologies we use could result in sales and installation delays, cancellations, and loss of market share.***

While we purchase our products from several different suppliers, if one or more of the suppliers that we rely upon to meet anticipated demand ceases or reduces production due to its financial condition, acquisition by a competitor, or otherwise, is unable to increase production as industry demand increases or is otherwise unable to allocate sufficient production to us, it may be difficult to quickly identify alternate suppliers or to qualify alternative products on commercially reasonable terms, and our ability to satisfy this demand may be adversely affected. At times, suppliers may have issues with the quality of their products, which may not be realized until the product has been installed at a customer site. This may result in additional cost incurred. There are a limited number of suppliers of solar energy system components and technologies. While we believe there are other sources of supply for these products available, transitioning to a new supplier may result in additional costs and delays in acquiring our solar products and deploying our systems. These issues could harm our business or financial performance.

In addition, the acquisition of a component supplier or technology provider by one of our competitors could limit our access to such components or technologies and require significant redesigns of our solar energy systems or installation procedures and have a negative impact on our business.

There have also been periods of industry-wide shortages of key components, including solar panels, in times of industry disruption. The manufacturing infrastructure for some of these components has a long lead-time, requires significant capital investment and relies on the continued availability of key commodity materials, potentially resulting in an inability to meet demand for these components. The solar industry is frequently experiencing significant disruption and, as a result, shortages of key components, including solar panels, may be more likely to occur, which in turn may result in price increases for such components. Even if industry-wide shortages do not occur, suppliers may decide to allocate key components with high demand or insufficient production capacity to more profitable customers, customers with long-term supply agreements or customers other than us and our supply of such components may be reduced as a result.

Typically, we purchase the components for our solar energy systems on an as-needed basis and do not operate under long-term supply agreements. The vast majority of our purchases are denominated in U.S. dollars. Since our revenue is also generated in U.S. dollars we are mostly insulated from currency fluctuations. However, since our suppliers often incur a significant amount of their costs by purchasing raw materials and generating operating expenses in foreign currencies, if the value of the U.S. dollar depreciates significantly or for a prolonged period of time against these other currencies this may cause our suppliers to raise the prices they charge us, which could harm our financial results. Since we purchase most of the solar photovoltaic panels we use from China, we are particularly exposed to exchange rate risk from increases in the value of the Chinese Renminbi.

The supply of components from China is also uncertain due to COVID-19 (Coronavirus) that has resulted in travel restrictions and shutdowns of businesses in China and the broader Asian region. Any supply shortages, delays, price changes or other limitation in our ability to obtain components or technologies we use could limit our growth, cause cancellations or adversely affect our profitability, and result in loss of market share and damage to our brand.

***Although our business has benefited from the declining cost of solar panels, our financial results may be harmed now that the cost of solar panels has stabilized and could increase in the future, due to increases in the cost of solar panels and tariffs on imported solar panels imposed by the U.S. government.***

The declining cost of solar panels and the raw materials necessary to manufacture them has been a key driver in the pricing of our solar energy systems and customer adoption of this form of renewable energy. With the stabilization or increase of solar panel and raw materials prices, our growth could slow, and our financial results could suffer. Further, the cost of solar panels and raw materials could increase in the future due to tariff penalties or other factors.

On January 23, 2018, The U.S. government imposed a protective tariff on solar panel components. The U.S. Trade Representative (“USTR”) released the following terms of the tariff:

	Year 1	Year 2	Year 3	Year 4
Safeguard Tariff on Panels and Cells	30%	25%	20%	15%
Cells Exempted from Tariff	2.5 gigawatts	2.5 gigawatts	2.5 gigawatts	2.5 gigawatts

As indicated in the terms, the tariff will not apply to the first 2.5 gigawatts of solar cells imported in each of the four years. Panels imported from China and Taiwan previously were subject to tariffs from a 2012 solar trade case. The current tariff applies to all countries.

As a result of the protective tariffs, and if additional tariffs are imposed or other disruptions to the supply chain occur, our ability to purchase these products on competitive terms or to access specialized technologies from those countries could be limited. Any of those events could harm our financial results by requiring us to account for the cost of trade penalties or to purchase solar panels or other system components from alternative, higher-priced sources.



***We act as the licensed general contractor for our customers and are subject to risks associated with construction, cost overruns, delays, regulatory compliance and other contingencies, any of which could have a negative impact on our business and results of operations.***

We are a licensed contractor. We are normally the general contractor, electrician, construction manager, and installer for our solar energy systems. We may be liable to customers for any damage we cause to their home, belongings or property during the installation of our systems. For example, we penetrate our customers' roofs during the installation process and may incur liability for the failure to adequately weatherproof such penetrations following the completion of installation of solar energy systems. In addition, because the solar energy systems we deploy are high-voltage energy systems, we may incur liability for the failure to comply with electrical standards and manufacturer recommendations. Because our profit on a particular installation is based in part on assumptions as to the cost of such project, cost overruns, delays, or other execution issues may cause us to not achieve our expected results or cover our costs for that project.

In addition, the installation of solar energy systems is subject to oversight and regulation in accordance with national, state, and local laws and ordinances relating to building, fire and electrical codes, safety, environmental protection, utility interconnection and metering, and related matters. We also rely on certain of our employees to maintain professional licenses in many of the jurisdictions in which we operate, and our failure to employ properly licensed personnel could adversely affect our licensing status in those jurisdictions. It is difficult and costly to track the requirements of every authority having jurisdiction over our operations and our solar energy systems. Any new government regulations or utility policies pertaining to our systems, or changes to existing government regulations or utility policies pertaining to our systems, may result in significant additional expenses to us and our customers and, as a result, could cause a significant reduction in demand for our systems.

***Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays, and adverse publicity.***

The installation of solar energy systems requires our employees to work at heights with complicated and potentially dangerous electrical systems. The evaluation and modification of buildings as part of the installation process requires our employees to work in locations that may contain potentially dangerous levels of asbestos, lead, mold or other materials known or believed to be hazardous to human health. We also maintain a fleet of trucks and other vehicles to support our installers and operations. There is substantial risk of serious injury or death if proper safety procedures are not followed. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, the U.S. Department of Transportation, or DOT, and equivalent state laws. Changes to OSHA or DOT requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures or suspend or limit operations. High injury rates could expose us to increased liability. In the past, we have had workplace accidents and received citations from OSHA regulators for alleged safety violations, resulting in fines. Any such accidents, citations, violations, injuries or failure to comply with industry best practices may subject us to adverse publicity, damage our reputation and competitive position and adversely affect our business.

***Problems with product quality or performance may cause us to incur warranty expenses, damage our market reputation, and prevent us from maintaining or increasing our market share.***

If our products fail to perform as expected while under warranty, or if we are unable to support the warranties or production guarantees, sales of our products may be adversely affected, or our costs may increase, and our business, results of operations, and financial condition could be materially and adversely affected.

We may also be subject to warranty or product liability claims against us that are not covered by insurance or are in excess of our available insurance limits or warranty reserves. In addition, quality issues can have various other ramifications, including delays in the recognition of revenue, loss of revenue, loss of future sales opportunities, increased costs associated with repairing or replacing products, and a negative impact on our goodwill and reputation. The possibility of future product failures could cause us to incur substantial expenses to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation and reduce our market share causing sales to decline.

***A failure to comply with laws and regulations relating to our interactions with current or prospective residential customers could result in negative publicity, claims, investigations, and litigation, and adversely affect our financial performance.***

Approximately 26% of our business focuses on contracts and transactions with residential customers. We must comply with numerous federal, state, and local laws and regulations that govern matters relating to our interactions with residential consumers, including those pertaining to privacy and data security, consumer financial and credit transactions, home improvement contracts, warranties, and door-to-door solicitation. These laws and regulations are dynamic and subject to potentially differing interpretations, and various federal, state and local legislative and regulatory bodies may expand current laws or regulations, or enact new laws and regulations, regarding these matters. Changes in these laws or regulations or their interpretation could dramatically affect how we do business, acquire customers, and manage and use information we collect from and about current and prospective customers and the costs associated therewith. We strive to comply with all applicable laws and regulations relating to our interactions with residential customers. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Our non-compliance with any such law or regulations could also expose the company to claims, proceedings, litigation and investigations by private parties and regulatory authorities, as well as substantial fines and negative publicity, each of which may materially and adversely affect our business. We have incurred, and will continue to incur, significant expenses to comply with such laws and regulations, and increased regulation of matters relating to our interactions with residential consumers could require us to modify our operations and incur significant additional expenses, which could have an adverse effect on our business, financial condition and results of operations.

***If we experience a significant disruption in our information technology systems, fail to implement new systems and software successfully, or if we experience cyber security incidents or have a deficiency in cybersecurity, our business could be adversely affected.***

We depend on information systems throughout our company to process orders, manage inventory, process and bill shipments and collect cash from our customers, respond to customer inquiries, contribute to our overall internal control processes, maintain records of our property, plant and equipment, and record and pay amounts due vendors and other creditors. These systems may experience damage or disruption from a number of causes, including power outages, computer and telecommunication failures, computer viruses, malware, ransomware or other destructive software, internal design, manual or usage errors, cyberattacks, terrorism, workplace violence or wrongdoing, catastrophic events, natural disasters and severe weather conditions. We may also be impacted by breaches of our third-party processors.

If we were to experience a prolonged disruption in our information systems that involve interactions with customers and suppliers, it could result in the loss of sales and customers and/or increased costs, which could adversely affect our overall business operation. Although no such incidents have had a direct, material impact on us, we are unable to predict the direct or indirect impact of any future incidents to our business.

In addition, numerous and evolving cybersecurity threats, including advanced and persistent cyberattacks, phishing and social engineering schemes, particularly on internet applications, could compromise the confidentiality, availability, and integrity of data in our systems. The security measures and procedures we and our customers have in place to protect sensitive data and other information may not be successful or sufficient to counter all data breaches, cyberattacks, or system failures. Although we devote resources to our cybersecurity programs and have implemented security measures to protect our systems and data, and to prevent, detect and respond to data security incidents, there can be no assurance that our efforts will prevent these threats.

Because the techniques used to obtain unauthorized access, or to disable or degrade systems change frequently, have become increasingly more complex and sophisticated, and may be difficult to detect for periods of time, we may not anticipate these acts or respond adequately or timely. As these threats continue to evolve and increase, we may be required to devote significant additional resources in order to modify and enhance our security controls and to identify and remediate any security vulnerabilities.

***Seasonality caused by customer demand and weather may cause fluctuations in our financial results.***

We often find that some customers tend to book projects by the end of a calendar year to realize the benefits of available subsidy programs prior to year-end. This results in third and fourth quarter revenues being more robust usually at the expense of the first quarter. However, demand for our products may be affected by changes in the buying patterns of our customers.

In addition, the first quarter in California, Nevada and the Northeast often has rain and snow, which also reduces our ability to install in that quarter relative to the remainder of the year. In the future, this seasonality may cause fluctuations in our financial results. Poor performance because of unseasonable weather conditions whether due to climate change or otherwise, economic conditions or other factors, could have a negative impact on our business, financial condition and operating results for the entire fiscal year. Abnormally wet weather in the spring or summer months could negatively impact our financial results.

Shifts in customer demand or weather are difficult to predict and may not be immediately apparent, and the impact of these changes is difficult to quantify from period to period. There can be no assurance that we will be successful in implementing effective strategies to counter these shifts. In addition, other seasonality trends may develop and the existing seasonality that we experience may change.

***If we fail to maintain an effective system of internal control over financial reporting and other business practices, and of board-level oversight, we may not be able to report our financial results accurately or prevent and detect fraud and other improprieties. Consequently, investors could lose confidence in our financial reporting, and this may decrease the trading price of our stock.***

We must maintain effective internal controls to provide reliable financial reports and to prevent and detect fraud and other improprieties. We are responsible for reviewing and assessing our internal controls and implementing additional controls when improvement is needed. Failure to implement any required changes to our internal controls or other changes we identify as necessary to maintain an effective system of internal controls could harm our operating results and cause investors to lose confidence in our reported financial information. Any such loss of confidence would have a negative effect on the market price of our stock.

Sarbanes-Oxley Act requirements regarding internal control over financial reporting, and other internal controls over business practices, are costly to implement and maintain, and such costs are relatively more burdensome for smaller companies such as us than for larger companies. We have limited internal personnel to implement procedures and must scale our procedures to be compatible with our resources. We also rely on outside professionals including accountants and attorneys to support our control procedures. We are working to improve all of our controls but, if our controls are not effective, we may not be able to report our financial results accurately or prevent and detect fraud and other improprieties which could lead to a decrease in the market price of our stock.

#### **Risks Relating to our Common Stock**

***The market price of our common stock may fluctuate significantly, and investors in our common stock may lose all or a part of their investment.***

The market prices for securities of solar and energy companies have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. The price at which our common stock has traded in the recent year has fluctuated greatly. In addition, the market price of our common stock may continue to fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- adverse regulatory decisions;
- changes in laws or regulations applicable to our products or services;
- legal disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our product candidates, and the results of any proceedings or lawsuits, including patent or shareholder litigation;
- our dependence on third parties;
- announcements of the introduction of new products by our competitors;
- market conditions in the solar and energy sectors;
- announcements concerning product development results or intellectual property rights of others;
- future issuances of common stock or other securities;
- the addition or departure of key personnel;
- failure to meet or exceed any financial guidance or expectations that we may provide to the public;
- actual or anticipated variations in quarterly operating results;
- our failure to meet or exceed the estimates and projections of the investment community;
- overall performance of the equity markets and other factors that may be unrelated to our operating performance or the operating performance of our competitors, including changes in market valuations of similar companies;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- issuances of debt or equity securities;
- sales of our common stock by us or our shareholders in the future;
- trading volume of our common stock;
- ineffectiveness of our internal controls;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- general political and economic conditions;
- effects of natural or man-made catastrophic events, including widespread public health epidemics like the pandemic related to the rapidly spreading COVID-19; and,
- other events or factors, many of which are beyond our control.

Further, the equity markets in general have recently experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility of our common stock might worsen if the trading volume of our common stock is low. The realization of any of the above risks or any of a broad range of other risks, including those described in these “Risk Factors,” could have a dramatic and negative impact on the market price of our common stock.

***A substantial number of shares of common stock may be sold in the market, which may depress the market price for our common stock.***

A substantial majority of the outstanding shares of our common stock and exercisable options are freely tradable without restriction or further registration under the Securities Act of 1933, as amended.

Pursuant to various agreements (“ATM Agreements”) with the sales agents (each, an “Agent”), Sunworks has periodically sold shares of common stock (the “Placement Shares”) through an Agent. Sales of the Placement Shares pursuant to ATM Agreements, were deemed to be “at the market offerings” as defined in Rule 415 promulgated under the Securities Act. The Agent acted as sales agent and used commercially reasonable efforts to sell on Sunworks’ behalf all of the Placement Shares requested to be sold by Sunworks, consistent with its normal trading and sales practices, on mutually agreed terms between the Agent and Sunworks. During 2019 Sunworks sold 2,920,968 shares under an ATM Agreement, with net proceeds for the shares of \$6,694,000. In 2020 we sold 17,009,685 shares, with net proceeds of \$41,406,000. In 2021 to date we have sold 3,212,486 shares with gross proceeds of \$49,937,000.

Sales of a substantial number of shares of our common stock in the public market, future sales of substantial amounts of shares of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. Increased sales of our common stock in the market for any reason could exert significant downward pressure on our stock price.

***If we fail to comply with the continued minimum closing bid requirements of the Nasdaq Capital Market LLC (“Nasdaq”) or other requirements for continued listing, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.***

If we fail to comply with continued minimum closing bid requirements or other requirements for continued listing, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted. A delisting of our common stock from The NASDAQ Capital Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, employees and fewer business development opportunities.

***Trading in our stock has been volatile in volume and price. Therefore, investors may not be able to sell as much stock as they want at prevailing prices. Moreover, low volumes can increase stock price volatility.***

Because of the volatility of our common stock, it may be difficult for investors to sell or buy substantial quantities of shares in the public market at any given time at prevailing prices. When trading volume is low, significant price movement can be caused trading a relatively small number of shares.

***If securities analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

***We do not expect any cash dividends to be paid on our common stock in the foreseeable future.***

We have never declared or paid a cash dividend on our common stock, and we do not anticipate paying cash dividends in the foreseeable future. We expect to use future earnings, if any, as well as any capital that may be raised in the future, to fund business growth or retire debt. Consequently, a stockholder's only opportunity to achieve a return on investment would be for the price of our common stock to appreciate. We cannot assure stockholders of a positive return on their investment when they sell their shares, nor can we assure that stockholders will not lose the entire amount of their investment.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Sunworks United leased 2,846 square feet of retail space in Rocklin, California, at a monthly lease rate of \$9,609. The lease expired in January 2021.

Sunworks United leases 5,304 square feet of office space in Rocklin, California, at a monthly lease rate of \$6,100. The lease expires in May 2021. Sunworks is the sublessor through May 2021. Sublessee makes monthly payments at a rate of \$5,834 per month.

Sunworks United leases approximately 3,665 square feet of mixed-use space consisting of office and warehouse facilities in Riverside, California, at a monthly lease rate of \$3,835. The lease expires in July 2021.

Sunworks Inc. leases 15,600 square feet of mixed-use space consisting of office and warehouse facilities from an entity controlled by the former sole shareholder of Plan B Enterprises, Inc. and current Sunworks executive in Durham, California, at a monthly lease rate of \$9,000. The lease is month-to-month.

Sunworks United leases 5,000 square feet of mixed-use space consisting of office and warehouse facilities in Tulare, California at monthly lease rate of \$4,783. The lease expires in July 2021.

Sunworks United leases 3,560 square feet of mixed-use space consisting of office and warehouse facilities in Campbell (San Jose), California at monthly lease rate of \$4,905. The lease expires in January 2022.

All of these properties are adequate for our current needs and we expect that we can extend our leases on these properties, or replace them with similar space, at approximately the same cost.

**Item 3. Legal Proceedings.**

We are not currently a party to any legal proceedings, not covered by insurance, that individually or in the aggregate, are deemed to be material to our financial condition or results of operations (see Note 14 to the consolidated financial statements).

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

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

On March 4, 2015 our common stock began to be traded on The NASDAQ Capital Market under the symbol “SLTD” that was changed on March 1, 2016 to “SUNW” simultaneously with our name change to Sunworks, Inc. Our common stock previously traded on the OTCQB under the symbol “SLTD.” The market for our common stock was often sporadic, volatile, and limited.

#### ***Holder of Common Stock.***

On March 18, 2021, we had 83 registered holders of record of our common stock.

#### ***Dividends and dividend policy.***

We have never declared or paid any dividends on our common stock. We do not anticipate paying dividends on our common stock at the present time or in the foreseeable future. We currently intend to retain earnings, if any, for use in our business.

#### ***Recent Sales of Unregistered Securities.***

None.

### **Item 6. Selected Financial Data**

As a smaller reporting company, we are not required to provide the information under this item, pursuant to Regulation S-K Item 301(c).

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes appearing elsewhere in this annual report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this annual report on Form 10-K.*

*Amounts in thousands, except share and per share data*

### **Overview**

Sunworks provides PV based power systems for the agricultural, commercial, industrial, public works, and residential markets in California, Nevada, Massachusetts, Oregon, New Jersey and Hawaii. We have direct sales and/or operations personnel in California, Nevada, Massachusetts, and Oregon. Through our operating subsidiaries, we design, arrange financing, integrate, install, and manage systems ranging in size from 2kW (kilowatt) for residential loads to multi MW (megawatt) systems for larger ACI and public works projects. ACI installations have included installations at office buildings, manufacturing plants, warehouses, churches, and agricultural facilities such as farms, wineries, and dairies. Public works installations have included school districts, local municipalities, federal facilities and higher education institutions. The Company provides a full range of installation services to our solar energy customers including design, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance.

We currently operate in one segment based upon our organizational structure and the way in which our operations are managed and evaluated. Approximately 74% of our 2020 revenue was from sales to the ACI and public works markets and approximately 26% of our revenue was from sales to the residential market. Approximately 69% of our 2019 revenue was from sales to the ACI and public works markets and approximately 31% of our revenue was from sales to the residential market.

During the second half of 2020 Sunworks entered into an Agreement and Plan of Merger among The Peck Company Holdings, Inc., Peck Mercury, Inc. and Sunworks (the “Merger Agreement”). Significant management time and expense was spent in negotiating, documenting and preparing proxy materials for the special meeting of shareholders (“the Special Meeting”) scheduled for November 12, 2020. In addition to significant management time and effort spent in preparing for the shareholder vote, substantial legal, accounting and consulting costs were incurred.

Due to the failure to obtain a quorum at the Special Meeting, the Special Meeting was convened, but no matters were submitted to a vote of the Company’s shareholders. As a result, the proposal to adopt the Merger Agreement did not receive the affirmative vote of the holders of a majority of the shares of the Company’s common stock. The Merger Agreement was therefore not approved by the Company’s shareholders.

As a result of the failure to receive shareholder approval, the Merger Agreement was terminated and the merger contemplated thereby was abandoned.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). 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 disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, plant and equipment, goodwill, deferred tax assets, costs to complete projects, and fair value computation using the Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.



## Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include estimates used to review the Company's goodwill, impairments and estimations of long-lived assets, revenue recognition on construction contracts recognized over time, allowances for uncollectible accounts, operating lease right-of-use assets and liabilities, warranty reserves, inventory valuation, valuations of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

## Revenue Recognition

Revenues and related costs on construction contracts are recognized as the performance obligations for work are satisfied over time in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*. Under ASC 606, revenue and associated profit, engineering, procurement and construction ("EPC") projects for residential and smaller ACI systems that require us to deliver functioning solar power systems are generally completed within two to twelve months from commencement of construction. Construction on larger Public Works and ACI projects may be completed within eighteen to thirty-six months, depending on the size and location. We recognize revenue from EPC services over time as our performance creates or enhances an energy generation asset controlled by the customer.

The cost of materials or equipment will generally be excluded from our recognition of profit, unless specifically produced or manufactured for a project, because such costs are not considered to be a measure of progress. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss in the period it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts which require the revision become known. We use an input method based on costs incurred as we believe that this method most accurately reflects our progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed-price construction contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Contract assets represent revenues recognized in excess of amounts invoiced to customers on contracts in progress. Contract liabilities represent amounts invoiced to customers in excess of revenues recognized on contracts in progress.

## **Goodwill**

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company retains a valuation consulting firm to test for goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of an asset exceeds its fair value and may not be recoverable. In accordance with the Company's policies, the Company performed a quantitative assessment of goodwill at December 31, 2019, and no impairment was found. As a result of the events and circumstances resulting from the COVID-19 pandemic, the Company's outlook for revenue, profitability and cash flow had deteriorated. Therefore, the Company performed another quantitative assessment of goodwill at March 31, 2020, where it was determined that the carrying value of goodwill exceeded its fair value at March 31, 2020. As a result, the Company recorded an impairment of \$4,000. The Company performed another quantitative assessment of goodwill at December 31, 2020 and no additional impairment was found.

## **Stock-Based Compensation**

The Company periodically issues stock options to employees and directors. The Company accounts for stock option grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board ("FASB") whereas the value of the award is measured on the date of grant and recognized over the vesting period.

The Company accounts for stock grants issued to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

## **Accounts Receivable**

Accounts receivables are recorded on contracts for amounts currently due based upon progress billings, as well as retention, which are collectible upon completion of the contracts. Retention receivable is the amount withheld by a customer until a contract is completed. Retention receivables of \$392 and \$1,027 were included in the balance of trade accounts receivable as of December 31, 2020, and 2019, respectively.

The Company performs ongoing credit evaluation of its customers. Management monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, age of receivables and other information, and records bad debts using the allowance method. Accounts receivable are presented net of an allowance for doubtful accounts of \$253 at December 31, 2020, and \$350 at December 31, 2019. During the year ended December 31, 2020, \$710 was recorded as bad debt expense compared to \$111 in 2019.

## **Inventory**

Inventory is valued at lower of cost or net realizable value determined by the first-in, first-out method. Inventory primarily consists of panels, inverters, batteries and mounting racks and other materials. The Company reviews the cost of inventories against their estimated net realizable value and records write-downs if any inventories have costs in excess of their net realizable values. Inventory is presented net of an allowance of \$309 at December 31, 2020 and \$50 at December 31, 2019.

## **Warranty Liability**

The Company establishes warranty liability reserves to provide for estimated future expenses as a result of installation, product and performance defects, product recalls and litigation incidental to the Company's business. Liability estimates are determined based on management's judgment, considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, and consultations with third party experts such as engineers. Solar panel manufacturers currently provide substantial warranties of between ten to twenty five years with full reimbursement to replace and install replacement panels. Inverter manufacturers currently provide warranties covering ten to fifteen years including replacement and installation. The warranty liability for estimated future warranty costs at December 31, 2020 and 2019 is \$1,131 and \$441, respectively.

## **Income Taxes**

The Company uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized.

## **Impact of COVID-19**

In March 2020, the COVID-19 pandemic spread globally, including to the United States, which resulted in significant governmental measures being implemented to control the spread of the virus, including quarantines, travel restrictions and business shutdowns. Although we could not predict the scope and severity of COVID-19, these developments and measures adversely affected our business and our results of operation and financial condition, particularly with respect to operations and our ability to complete ongoing installations in a timely manner. COVID-19 also caused a decline in demand of our products and services.

In response to the economic downturn, and the uncertain impact of COVID-19 on our business, we implemented proactive steps to try and protect our business, including but not limited to: as of March 30, 2020, terminating or temporarily laying off 59 employees, representing a 33% reduction from the beginning of the year headcount, reducing an additional 23 employees to part time, and temporarily eliminating salaries for members of our board of directors and our Chief Executive Officer and reducing other management individual's salaries by at least 50%.

We applied for and received a Payroll Protection Program loan of \$2,846 for which we have applied for 100 percent forgiveness. Full-time employee headcount has returned slowly over the remainder of 2020 as installation activity required additional labor. We had 84 active full-time and two part-time employees with another 38 employees on temporary layoff or other leaves of absence as of December 31, 2020.

We instituted remote working for employees and procedures for social distancing and sanitation within offices and among construction teams. Employees were trained in preventative measures. Internal communication procedures were created to provide information regarding possible exposures, isolation procedures, testing and return to work standards for employees and their households.

The extent to which COVID-19 continues to impact our business, operations or financial results depends on future developments, which are uncertain and cannot be predicted with confidence, such as the duration of the outbreak, new variations of the virus that may emerge or the nature or effectiveness of actions to contain COVID-19 or treat its impact, among others. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions.

## Results of Operations for the Years Ended December 31, 2020 and 2019

### REVENUE AND COST OF REVENUES

For the year ended December 31, 2020, revenue declined 36.6% to \$37,913 compared to \$59,830 for the year ended December 31, 2019. Revenue decreased for ACI by \$10,169 or 35.1% compared to the prior year. The revenue decrease for Public Works was \$2,671 or 22.0% compared to the prior year. The revenue decrease for Residential installations was \$9,077 or 48.4% compared to 2019. The governmental response to COVID-19 had its greatest impact on residential revenue by limiting customer interaction and slowing the sales process. Closure and reconfiguration of offices for the authorities having jurisdictional approval responsibilities slowed plan reviews, approvals and construction permitting. As our primary third-party sales generator's sales continued to decline during 2020, Sunworks is reducing its reliance on third-party sales generators and bringing in its own in-house residential sales team to better manage the sales process and customer expectations.

We have also combined our Northern California ACI leadership and operations, thus improving the utilization of construction resources and talent. Combining leadership and oversight of operations in Northern California and having completed older less profitable and problematic projects in 2019 has contributed to the decrease in cost of goods sold as a percentage of revenue to 86.1% for the year 2020 from 88.9% in the prior year. This reduction in cost of goods sold as a percentage of revenue between years was achieved in spite of 36.6% lower revenue and an incremental \$749 accrual for warranty-related costs and settlements.

Approximately 74% of our 2020 revenue was from installations for the ACI and public works markets and approximately 26% was from residential system installations. Larger ACI projects take longer to sell, design, engineer, permit and construct than residential projects. Some current projects may take more than a year to complete from the time that the sales agreement is signed, and revenue is fully recognized with the installation and receipt of final inspection documents.

Gross profit for the year ended December 31, 2020 was \$5,268 or 13.9% of revenue compared to \$6,663 or 11.1% of revenue for the year ended December 31, 2019.

Gross margin in 2020 was lower than the prior year due to the reduction in revenue for all three business groups, ACI, Public Works and Residential. Compared to 2019, the gross margin percentage improved as redundant overheads were eliminated, there was less rework in engineering design and permits, and more efficient construction activities with fewer jobs performed compared to the prior year.

### SELLING AND MARKETING EXPENSES

Selling and marketing ("S&M") expenses for the year ended December 31, 2020 were \$2,903 compared to \$2,992 for the year ended December 31, 2019. The 3.0% decline in S&M expenses was primarily due to decreases in employee headcount and related costs, commissions, and media advertising expenses on lower revenue compared to the prior year. As a percentage of revenues S&M expenses increased to 7.7% of revenue in 2020 compared to 5.0% in 2019 on 36.6% lower revenue.

## GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative (“G&A”) expenses for the year ended December 31, 2020 were \$13,116 compared to \$11,222 for the year ended December 31, 2019. As a percentage of revenue, G&A expenses increased to 34.6% of revenue in 2020 compared to 18.8% in 2019. In total dollars, G&A expense increased primarily due to non-recurring incremental legal and transaction related costs of \$2,159 related to the proposed merger’s failure to obtain a quorum to receive shareholder approval, \$710 in bad debt expense, executive recruiting fees, and increases in Delaware franchise taxes, and sales tax liability accruals.

Operating expenses are expected to be significantly lower in 2021 without the non-recurring charges and continuing efforts to optimize G&A expenses.

## GOODWILL IMPAIRMENT

Goodwill impairment recorded for the years ended December 31, 2020 and 2019 was \$4,000 and \$0, respectively. The Company retained a valuation consultant to perform quantitative assessments of goodwill at December 31, 2020, March 31, 2020 and December 31, 2019. At December 31, 2020, the Company determined that the carrying amount of goodwill did not exceed its fair value and, as a result, no impairment was recorded. At March 31, 2020, primarily as a result of the events and circumstances resulting from the COVID-19 pandemic, our outlook for revenue, profitability and cash flow deteriorated. Therefore, we performed a quantitative assessment of goodwill at March 31, 2020. It was determined that the carrying value of goodwill exceeded its fair value at March 31, 2020 and we recorded an impairment of \$4,000 during the first quarter of 2020. At December 31, 2019 the quantitative assessment showed that the carrying amount of goodwill did not exceed its fair value and as a result, no impairment was recorded.

## STOCK BASED COMPENSATION EXPENSES

During the year ended December 31, 2020, we incurred approximately \$147 in non-cash stock compensation costs associated with Restricted Stock Grant Agreements and stock options compared to \$434 during the year ended December 31, 2019. The reduction in expense is partially the result of the cessation of any stock-based compensation expense for a restricted stock grant agreement (the “March 2017 RSGA”) effective March 29, 2017 that expired March 29, 2020.

For the years ended December 31, 2020 and 2019, stock-based compensation of \$63 and \$250, respectively, is for the March 2017 RSGA grant to our former CEO.

Stock-based compensation, excluding restricted stock grant agreements, related to employee and director options totaled \$84 and \$184 for the years ended December 31, 2020 and 2019, respectively.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the year ended December 31, 2020 was \$337 compared to \$353 for the year ended December 31, 2019. Depreciation and amortization expense decreased primarily due to certain equipment becoming fully depreciated.

## OTHER INCOME/(EXPENSES)

Other income/(expenses) decreased for the year ended December 31, 2020 to \$(704) compared to \$(848) for the year ended December 31, 2019. Interest expense for the year ended December 31, 2020 decreased to \$714 from \$863 for year ended December 31, 2019. Approximately \$653 and \$780 of the interest expense for the years ended December 2020 and 2019, respectively, was from the Promissory Note Payable entered into in April 2018. The January 2020 prepayment of \$1,500 in principal resulted in lower interest expense for the year. The Promissory Note Payable was completely paid off in December 2020.

## NET LOSS

The Company had a consolidated net loss of \$15,939, including the \$4,000 goodwill impairment expense, for the year ended December 31, 2020 compared to a net loss of \$9,186 for the year ended December 31, 2019.

### **Liquidity and Capital Resources**

We had \$38,991 in cash at December 31, 2020, as compared to \$3,154 at December 31, 2019. We believe that the aggregate of our existing cash and cash equivalents along with net proceeds raised in February 2021 from sales of our common stock of \$48,937, is sufficient to meet our operating cash requirements and strategic objectives for growth for at least the next year. To satisfy our capital requirements, including acquisitions and ongoing future operations, we may seek to raise additional financing through debt and equity financings.

On January 27, 2021, the Company filed a Registration Statement on Form S-3 (File No. 333-252475) (the "Registration Statement"), with the SEC. The Registration Statement allows the Company to offer and sell, from time to time in one or more offerings, any combination of common stock, preferred stock, warrants, or units having an aggregate initial offering price not to exceed \$100 million. The Registration Statement was declared effective by the SEC on February 3, 2021. Approximately \$50 million of the \$100 million total is available for future offerings pursuant to the Registration Statement.

As of December 31, 2020, our working capital surplus was \$30,890 compared to a working capital surplus of \$1,460 at December 31, 2019.

During the year ended December 31, 2020, we used \$4,337 of cash in operating activities compared to \$6,456 used in operating activities for the prior year ended December 31, 2019. The cash used in operating activities was primarily the result of the current year net loss combined with changes in working capital accounts.

Net cash used by investing activities was \$26 in the year ended December 31, 2020 compared to \$11 provided by investing activities in the year ended December 31, 2019. The cash used in investing activities was for the purchase of equipment.

Net cash provided by financing activities during the year ended December 31, 2020 was \$40,163. This is due to net proceeds of \$41,406 received from the At the Market offerings, proceeds from a Paycheck Protection Loan of \$2,847 partially offset by the repayment of the \$3,750 promissory note payable and principal payments on acquisition and equipment debt totaling \$340. Cash provided by financing activities during the year ended December 31, 2019 was \$5,909. The cash was primarily used to provide financial flexibility and to pay principal payments on existing debt. Since January 1, 2021 until February 23, 2021, we sold an additional 3,212,486 Placement Shares resulting in additional net proceeds of approximately \$48,937.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity, or capital expenditures.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 8. Financial Statements and Supplementary Data.**

**SUNWORKS, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Sunworks, Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Sunworks, Inc. (the “Company”) as of December 31, 2020, the related consolidated statements of operations, shareholders’ equity and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

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

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

### Critical Audit Matter

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

#### *Revenue Recognition – Estimated Costs to Complete Long-Term Contracts*

##### *Critical Audit Matter Description*

As described in Notes 2 and 3 to the consolidated financial statements, the Company recognizes revenue over time on certain long-term contracts that are completed within eighteen to thirty-six months, as the Company’s performance creates or enhances an energy generation asset controlled by the customer. The Company uses an input method based on costs incurred (generally excluding costs of materials or equipment) as management believes that this method most accurately reflects progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed-price construction contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

We identified estimated costs to complete long-term contracts as a critical audit matter. The determination of the total estimated cost and progress toward completion requires management to make significant estimates and assumptions. Changes in these estimates can have a significant impact on the revenue recognized each period. Auditing these estimates involved especially challenging auditor judgment in evaluating the reasonableness of management’s assumptions and estimates over the duration of these contracts due to the lack of objectively verifiable evidence used in the estimation process. As a result, there is a high degree of auditor judgment involved in performing procedures on the Company’s estimates.

##### *How the Critical Audit Matter Was Addressed in the Audit*

The primary procedures we performed to address this critical audit matter included, among others, performing job site visits for a sample of open projects at the end of the year. In addition, we assessed the reasonableness of project revenues and cost forecasts by selecting a sample of open projects and: (i) obtaining and inspecting the related contract agreements, amendments and change orders to test the existence of customer arrangements and understand the scope and pricing of the related projects; (ii) performing inquiries of management and project personnel regarding facts and circumstances related to the estimates to complete for these projects; (iii) testing key components of the estimated costs to complete, including materials (as applicable), labor, and subcontractors costs and agreeing actual costs incurred to supporting documentation; and (iv) recalculating revenues recognized based on the project’s percentage of completion and management’s estimate of transaction price. In addition, we performed certain retrospective review procedures to assess management’s historical ability to accurately estimate the transaction price and costs to complete contracts.

*/s/ KMJ Corbin & Company LLP*

We have served as the Company’s auditor since 2020.

Irvine, California

March 26, 2021



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Sunworks, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Sunworks, Inc., (the "Company") as of December 31, 2019, the related consolidated statement of operations, shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

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

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

*/s/ LIGGETT & WEBB, P.A.*

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We have served as the Company's auditor since 2014.

New York, NY  
March 30, 2020

**SUNWORKS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2020 AND 2019**  
(in thousands, except share and per share data)

Assets	December 31, 2020	December 31, 2019
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 38,991	\$ 3,154
Restricted cash	348	385
Accounts receivable, net	2,890	7,606
Inventory	1,179	2,970
Contract assets	2,397	4,864
Other current assets	137	275
<b>Total Current Assets</b>	<b>45,942</b>	<b>19,254</b>
Property and equipment, net	198	511
Operating lease right-of-use asset	694	1,505
Deposits	47	69
Goodwill	5,464	9,464
<b>Total Assets</b>	<b>\$ 52,345</b>	<b>\$ 30,803</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 7,356	\$ 11,221
Contract liabilities	5,961	4,616
Customer deposits	299	753
Operating lease liability, current portion	649	864
Paycheck Protection Program loan payable, current portion	787	-
Loan payable	-	88
Acquisition convertible promissory note	-	252
<b>Total Current Liabilities</b>	<b>15,052</b>	<b>17,794</b>
<b>Long-Term Liabilities:</b>		
Operating lease liability, net of current portion	45	641
Paycheck Protection Program loan payable, net of current portion	2,060	-
Promissory note payable, net	-	3,484
Warranty liability	1,131	441
<b>Total Long-Term Liabilities</b>	<b>3,236</b>	<b>4,566</b>
<b>Total Liabilities</b>	<b>18,288</b>	<b>22,360</b>
<b>Commitments and Contingencies (Note 14)</b>		
<b>Shareholders' Equity</b>		
Preferred stock Series B, \$0.001 par value; 5,000,000 authorized shares; no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 50,000,000 authorized shares; 23,835,258 and 6,805,697 issued and outstanding at December 31, 2020 and 2019, respectively	24	7
Additional paid-in capital	122,668	81,132
Accumulated deficit	(88,635)	(72,696)
<b>Total Shareholders' Equity</b>	<b>34,057</b>	<b>8,443</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 52,345</b>	<b>\$ 30,803</b>

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

**SUNWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(thousands, except share and per share data)

	<b>2020</b>	<b>2019</b>
Revenue, net	\$ 37,913	\$ 59,830
Cost of Goods Sold	<u>32,645</u>	<u>53,167</u>
Gross Profit	<u>5,268</u>	<u>6,663</u>
Operating Expense		
Selling and marketing	2,903	2,992
General and administrative	13,116	11,222
Goodwill impairment	4,000	-
Stock-based compensation	147	434
Depreciation and amortization	<u>337</u>	<u>353</u>
Total Operating Expense	<u>20,503</u>	<u>15,001</u>
Operating Loss	<u>(15,235)</u>	<u>(8,338)</u>
Other (Expense) Income		
Other income (expense), net	10	15
Interest expense	<u>(714)</u>	<u>(863)</u>
Total Other Expense, net	<u>(704)</u>	<u>(848)</u>
Loss Before Income Taxes	(15,939)	(9,186)
Income Tax Expense	<u>-</u>	<u>-</u>
Net Loss	(15,939)	(9,186)
Deemed dividend on repricing of warrants (2019 revised)	<u>(60)</u>	<u>(1,430)</u>
Net Loss available to common shareholders	<u>\$ (15,999)</u>	<u>\$ (10,616)</u>
Net Loss per common share, basic and diluted	<u>\$ (1.03)</u>	<u>\$ (2.39)</u>
Weighted average common shares outstanding, basic and diluted	<u>15,600,455</u>	<u>4,447,648</u>

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

**SUNWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(in thousands, except share and per share data)

	<u>Common stock</u>			<u>Additional</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>		<u>Capital</u>	<u>Deficit</u>	
Balance at December 31, 2018	3,730,110	\$ 4	\$ 73,502	\$ (63,510)	\$ 9,996	
Issuance of common stock under terms of restricted stock grants	23,809	-	250	-	250	
Issuance of common stock for conversion of promissory notes, plus accrued interest	68,082	-	161	-	161	
Issuance of common stock as fees paid for the extension of maturity date of debt	57,143	-	344	-	344	
Sales of common stock pursuant to S-3 registration statement	2,920,968	3	6,691	-	6,694	
Stock-based compensation	-	-	184	-	184	
Rounding shares due to reverse split	5,585	-	-	-	-	
Net loss for the year ended December 31, 2019	-	-	-	(9,186)	(9,186)	
Balance at December 31, 2019	<u>6,805,697</u>	<u>7</u>	<u>81,132</u>	<u>(72,696)</u>	<u>8,443</u>	
Issuance of common stock under terms of restricted stock grants	5,952	-	63	-	63	
Issuance of common stock for cashless exercise of options	13,924	-	-	-	-	
Sales of common stock pursuant to S-3 registration statement, net	17,009,685	17	41,389	-	41,406	
Stock-based compensation	-	-	84	-	84	
Net loss for the year ended December 31, 2020	-	-	-	(15,939)	(15,939)	
Balance at December 31, 2020	<u>23,835,258</u>	<u>\$ 24</u>	<u>\$ 122,668</u>	<u>\$ (88,635)</u>	<u>\$ 34,057</u>	

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

**SUNWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(in thousands, except share and per share data)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (15,939)	\$ (9,186)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	337	353
Amortization of right-of-use asset	811	648
(Gain) loss on sale of equipment	2	(23)
Stock-based compensation	147	434
Goodwill impairment	4,000	-
Amortization of debt issuance costs	266	159
Bad debt expense	710	111
Changes in Operating Assets and Liabilities:		
Accounts receivable	4,006	484
Inventory	1,791	263
Deposits and other current assets	160	(126)
Contract assets	2,467	1,289
Accounts payable and accrued liabilities	(3,865)	(576)
Contract liabilities	1,345	(453)
Customer deposits	(454)	695
Warranty liability	690	120
Operating lease liability	(811)	(648)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(4,337)</b>	<b>(6,456)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(27)	(23)
Proceeds from sale of property and equipment	1	34
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(26)</b>	<b>11</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Loans payable and acquisition convertible promissory note repayments	(340)	(785)
Promissory note payable repayment	(3,750)	-
Proceeds from Paycheck Protection Program loan payable	2,847	-
Proceeds from sales of common stock, net	41,406	6,694
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>40,163</b>	<b>5,909</b>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>35,800</b>	<b>(536)</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR</b>	<b>3,539</b>	<b>4,075</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR</b>	<b>\$ 39,339</b>	<b>\$ 3,539</b>
Cash and cash equivalents	\$ 38,991	\$ 3,154
Restricted cash	348	385
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR</b>	<b>\$ 39,339</b>	<b>\$ 3,539</b>
<b>CASH PAID FOR:</b>		
Interest	\$ 840	\$ 477
Franchise and corporate excise taxes	\$ 243	\$ -
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS</b>		
Issuance of common stock upon conversion of debt	\$ -	\$ 161
Operating right-of-use asset and operating lease liability upon adoption of ASU 2016-02, <i>Leases (Topic 842)</i>	\$ -	\$ 2,153
Issuance of common stock for fees paid for the extension of maturity date of debt	\$ -	\$ 344

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

**SUNWORKS, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**  
**(dollars in thousands, except share and per share data)**

## **1. ORGANIZATION AND LINE OF BUSINESS**

### Organization and Line of Business

Sunworks, Inc. (the “Company”) was originally incorporated in Delaware on January 30, 2002 as MachineTalker, Inc. In July 2010, the Company changed its name to Solar3D, Inc. On January 31, 2014, the Company acquired Solar United Network, Inc., a California corporation. On March 2, 2015, the Company acquired MD Energy. On December 1, 2015, the Company acquired Plan B through a merger of Plan B Enterprises, Inc. into its wholly owned subsidiary, Elite Solar Acquisition Sub., Inc. On March 1, 2016 the Company changed its name to Sunworks, Inc. with simultaneous NASDAQ stock symbol change from SLTD to SUNW.

The Company provides photovoltaic (“PV”) based power systems for the agricultural, commercial, industrial (“ACI”), public works, and residential markets in California, Nevada, Massachusetts, Oregon, New Jersey and Hawaii. The Company has direct sales and/or operations personnel in California, Nevada, Massachusetts, and Oregon. Through the Company’s operating subsidiaries, it designs, arranges financing, integrates, installs, and manages systems ranging in size from 2kW (kilowatt) for residential loads to multi-MW (megawatt) systems for larger ACI and public works projects. Commercial installations have included installations at office buildings, manufacturing plants, warehouses, churches, and agricultural facilities such as farms, wineries, and dairies. Public works installations have included school districts, local municipalities, federal facilities, state facilities and higher education institutions. The Company provides a full range of installation services to its solar energy customers including design, system engineering, procurement, permitting, construction, grid connection, warranty, system monitoring and maintenance.

At the Company’s Annual Meeting of Stockholders on August 7, 2019, the stockholders of the Company approved a reverse stock split of its issued and outstanding common stock at a ratio not less than 1-for-3 and not greater than 1-for-10. On August 29, 2019, the Company’s Board of Directors approved the reverse stock split at a ratio of 1-for-7 which went into effect at the open of trading on August 30, 2019. At the effective time of the reverse stock split, every seven shares of issued and outstanding common stock was converted into one share of issued and outstanding common stock. The authorized shares of 200,000,000 and the par value of \$0.001 remained the same. All shares and related financial information in this Annual Report on Form 10-K is retroactively stated to reflect this 1-for-7 reverse stock split.

At the Company’s Annual Meeting of Stockholders on August 26, 2020, the stockholders of the Company approved an amendment to the Company’s Certificate of Incorporation to reduce the amount of shares of authorized common stock to 50,000,000. On September 18, 2020, a Certificate of Amendment of the Certificate of Incorporation was filed with the Secretary of State of the State of Delaware reducing the number of shares of our authorized common stock to 50,000,000. The par value of \$0.001 remained unchanged.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Sunworks, Inc. is presented to assist in understanding the Company’s financial statements. These accounting policies conform to Generally Accepted Accounting Principles used in the United States (“GAAP”) and have been consistently applied in the preparation of the financial statements.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Sunworks, Inc., and its wholly owned operating subsidiaries, Sunworks United, MD Energy, and Plan B. All material intercompany transactions have been eliminated upon consolidation of these entities.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include estimates used to review the Company’s goodwill, impairments and estimations of long-lived assets, revenue recognition on construction contracts recognized over time, allowances for uncollectible accounts, operating lease right-of-use assets and liabilities, warranty reserves, inventory valuation, valuations of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Revenue Recognition

Revenues and related costs on construction contracts are recognized as the performance obligations for work are satisfied over time in accordance with Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*. Under ASC 606, revenue and associated profit, engineering, procurement and construction (“EPC”) projects for residential and smaller ACI systems that require us to deliver functioning solar power systems are generally completed within two to twelve months from commencement of construction. Construction on larger Public Works and ACI projects may be completed within eighteen to thirty-six months, depending on the size and location. We recognize revenue from EPC services over time as our performance creates or enhances an energy generation asset controlled by the customer.

The cost of materials or equipment will generally be excluded from our recognition of profit, unless specifically produced or manufactured for a project, because such costs are not considered to be a measure of progress. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss in the period it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts which require the revision become known. We use an input method based on costs incurred as we believe that this method most accurately reflects our progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed-price construction contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Contract assets represent revenues recognized in excess of amounts invoiced to customers on contracts in progress. Contract liabilities represent amounts invoiced to customers in excess of revenues recognized on contracts in progress.

#### Accounts Receivable

Accounts receivables are recorded on contracts for amounts currently due based upon progress billings, as well as retention, which are collectible upon completion of the contracts. Retention receivable is the amount withheld by a customer until a contract is completed. Retention receivables of \$392 and \$1,027 were included in the balance of trade accounts receivable as of December 31, 2020, and 2019, respectively.

The Company performs ongoing credit evaluation of its customers. Management monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, age of receivables and other information, and records bad debts using the allowance method. Accounts receivable are presented net of an allowance for doubtful accounts of \$253 at December 31, 2020, and \$350 at December 31, 2019. During 2020, \$710 was recorded as bad debt expense compared to \$111 in 2019.

#### Customer Deposits

Customer deposits are recorded for funds remitted by the Company's customers in advance worked performed and a progress billing milestone being completed.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### Restricted Cash

The Company considers restricted cash to be cash balances that have legal and/or contractual restrictions imposed by a third party and are restricted as to withdrawal or use except for the specified purpose.

#### Concentration Risk

Cash includes amounts deposited in financial institutions in excess of insurable Federal Deposit Insurance Corporation ("FDIC") limits. At times throughout the year, the Company may maintain cash balances in certain bank accounts in excess of FDIC limits. As of December 31, 2020 and 2019, the cash balance in excess of the FDIC limits was \$38,981 and \$3,405, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

#### Inventory

Inventory is valued at lower of cost or net realizable value determined by the first-in, first-out method. Inventory primarily consists of panels, inverters, batteries and mounting racks and other materials. The Company reviews the cost of inventories against their estimated net realizable value and records write-downs if any inventories have costs in excess of their net realizable values. Inventory is presented net of an allowance of \$309 at December 31, 2020 and \$50 at December 31, 2019.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation for property and equipment commences when it is put into service and are depreciated using the straight-line method over property and equipment's estimated useful lives:

Machinery & equipment	3-7 Years
Office equipment & furniture	5-7 Years
Computers & software	3-5 Years
Vehicles & trailers	3-7 Years
Leasehold improvements	3-5 Years

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$337 and \$353, respectively.

#### Leases

The Company determines if an arrangement is a lease at inception. Operating lease right-of-use assets ("ROU assets") and short-term and long-term lease liabilities are included on the face of the consolidated balance sheet. If the Company had finance lease ROU assets, such assets would be presented within other assets, and finance lease liabilities would be presented appropriately within liabilities.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component. For lease agreements with terms less than 12 months, the Company has elected the short-term lease measurement and recognition exemption, and the Company recognizes such lease payments on a straight-line basis over the lease term.

### Warranty Liability

The Company establishes warranty liability reserves to provide for estimated future expenses as a result of installation, product and performance defects, product recalls and litigation incidental to the Company's business. Liability estimates are determined based on management's judgment, considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, and consultations with third party experts such as engineers. Solar panel manufacturers currently provide substantial warranties of between ten to twenty-five years with full reimbursement to replace and install replacement panels. Inverter manufacturers currently provide warranties covering ten to fifteen years including replacement and installation. The warranty liability for estimated future warranty costs at December 31, 2020 and 2019 is \$1,131 and \$441, respectively.

### Advertising and Marketing

The Company expenses advertising and marketing costs as incurred. Advertising and marketing costs may include printed material, billboards, sponsorships, direct mail, radio, telemarketing, tradeshow costs, magazine, and catalog advertisement. Advertising and marketing costs for the years ended December 31, 2020 and 2019 were \$107 and \$123, respectively.

### Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board ("FASB") whereas the value of the award is measured on the date of grant and recognized over the vesting period.

The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

### Basic and Diluted Net (Loss) per Share Calculations

(Loss) per Share dictates the calculation of basic earnings (loss) per share and diluted earnings per share. Basic earnings (loss) per share are computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The shares for employee options, restricted stock, warrants and convertible notes were not used in the calculation of the net loss per share.

A net loss causes all outstanding common stock options to be anti-dilutive. As a result, the basic and diluted losses per common share are the same for the year ended December 31, 2020 and 2019.

As of December 31, 2020, the potentially dilutive securities were excluded from the computations of weighted average shares outstanding including 88,441 stock options.

As of December 31, 2019, the potentially dilutive securities were excluded from the computations of weighted average shares outstanding including 143,623 stock options, 5,952 restricted stock grants, 428,143 warrants.

Dilutive per share amounts are computed using the weighted-average number of common shares outstanding and potentially dilutive securities, using the treasury stock method, if their effect would be dilutive.

### Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The test for impairment is required to be performed by management at least annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted operating cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.



### Goodwill

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company retains a valuation consulting firm to test for goodwill impairment in the fourth quarter of each year and whenever events or circumstances indicate that the carrying amount of an asset exceeds its fair value and may not be recoverable. In accordance with the Company's policies, the Company performed a quantitative assessment of goodwill at December 31, 2019 and no impairment was found. As a result of the events and circumstances resulting from the COVID-19 pandemic, the Company's outlook for revenue, profitability and cash flow had deteriorated. Therefore, the Company performed another quantitative assessment of goodwill at March 31, 2020, where it was determined that the carrying value of goodwill exceeded its fair value at March 31, 2020. As a result, the Company recorded an impairment of \$4,000. The Company performed another quantitative assessment of goodwill at December 31, 2020 and no additional impairment was found.

### Fair Value of Financial Instruments

Disclosures about fair value of financial instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of December 31, 2020, the amounts reported for cash, accrued interest and other expenses, and notes payable approximate the fair value because of their short maturities.

The Company accounts for financial instruments measured as fair value on a recurring basis under ASC Topic 820. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined 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. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized.

### Reclassifications

Certain reclassifications have been made to prior year's financial statement to conform to classifications used in the current year.

### Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding the method to allocate resources and assess performance. The Company currently has one reportable segment for financial reporting purposes, which represents the Company's core business.

### New Accounting Pronouncements

#### *Adopted Accounting Pronouncements*

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, U.S. GAAP requires the performance of procedures to determine the fair value at the impairment testing date of assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, the amendments under this ASU require the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU became effective for the Company on January 1, 2020 and was followed in the preparation of a quantitative assessment of goodwill at March 31, 2020, where it was determined that the carrying value of goodwill exceeded its fair value at March 31, 2020. As a result, we recorded an impairment of \$4,000. The quantitative assessment performed at December 31, 2020 determined that there was no additional impairment.

Management reviewed currently issued pronouncements during the year ended December 31, 2020, and believes that any other recently issued, but not yet effective, accounting standards, if currently adopted, would not have a material effect on the accompanying consolidated financial statements.

### Revision of 2019 Amounts Previously Reported

In the preparation of this Annual Report on Form 10-K for the year ended December 31, 2020, the Company determined that it had omitted to record a deemed dividend on the repricing of warrants it issued in 2015. The 2019 sales of common stock pursuant to an "at the market offering" triggered down round provisions associated with 428,143 warrants that resulted in an understatement of the net loss attributable to common shareholders and loss per share attributable to common shareholders for the year ended December 31, 2019. The warrants expired unexercised in March 2020 (see Note 12). The Company assessed the materiality of this misstatement in accordance with Staff Accounting Bulletin No. 108 – "Qualifying Misstatements" and concluded this error was not qualitatively material as there was no impact on the consolidated balance sheet, statement of shareholders' equity, statement of cash flows and statement of operations other than the net loss available to common shareholders. As such, the correction of the error is only revised in the December 31, 2019 consolidated statement of operations presented herein.

The effect of this revision on the line items within the statement of operations for the year ended December 31, 2019 was as follows:

	<b>For the Year Ended December 31, 2019</b>		
	As previously reported	Adjustment	As revised
<b>Consolidated Statement of Operations</b>			
Net Loss	\$ (9,186)	\$ -	\$ (9,186)
Deemed dividend on repricing of warrants	\$ -	\$ (1,430)	\$ (1,430)
Net Loss available to common shareholders	\$ (9,186)	\$ (1,430)	\$ (10,616)
Net Loss per common share, basic and diluted	\$ (2.07)	\$ (0.32)	\$ (2.39)

### 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenues and related costs on construction contracts are recognized as the performance obligations for work are satisfied over time in accordance with ASC 606, *Revenue from Contracts with Customers*. Under ASC 606, revenue and associated profit, EPC projects for residential and smaller ACI systems that require us to deliver functioning solar power systems are generally completed within two to twelve months from commencement of construction. Construction on larger Public Works and ACI projects may be completed within eighteen to thirty-six months, depending on the size and location. We recognize revenue from EPC services over time as our performance creates or enhances an energy generation asset controlled by the customer. The cost of materials or equipment will generally be excluded from our recognition of profit, unless specifically produced or manufactured for a project, because such costs are not considered to be a measure of progress.

The following table represents a disaggregation of revenue by customer type from contracts with customers for the years ended December 31, 2020 and 2019:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Agricultural, Commercial, and Industrial (ACI)	\$ 18,771	\$ 28,940
Public Works	9,457	12,128
Residential	9,685	18,762
Total	<u>\$ 37,913</u>	<u>\$ 59,830</u>

Contract assets represent revenues recognized in excess of amounts invoiced on contracts in progress. Contract liabilities represent billings in excess of revenues recognized on contracts in progress. At December 31, 2020 and 2019, the contract asset balances were \$2,397 and \$4,864, and the contract liability balances were \$5,961 and \$4,616, respectively. The Company recognized revenue of approximately \$753 for 2020 related to customer deposits outstanding at the beginning of the year.

#### 4. LEASES

The Company has operating leases for offices, warehouses, vehicles, and office equipment. The Company's leases have remaining lease terms of 1 month to 3 years, some of which include options to extend (see Note 14).

The Company's lease expense for the year ended December 31, 2020 was entirely comprised of operating leases and amounted to \$1,016. Operating lease payments, which reduced operating cash flows for the year ended December 31, 2020 amounted to \$1,016. The difference between the ROU asset amortization of \$811 and the associated lease expense of \$1,016 consists of interest, new vehicle lease and early terminated vehicles leases, facility lease rent concessions, office and office equipment leases originated during the year ended December 31, 2020.

	Year Ended December 31,	
	2020	2019
Operating lease right-of-use assets	\$ 694	\$ 1,505
Operating lease liabilities—short term	649	864
Operating lease liabilities—long term	45	641
Total operating lease liabilities	\$ 694	\$ 1,505

As of December 31, 2020, the weighted average remaining lease term was 1.1 years and the discount rates for the Company's leases was 10.0%.

Maturities for leases were as follows:

	Operating Leases (in thousands)
2021	\$ 677
2022	39
2023	8
Total lease payments	\$ 724
Less: imputed interest	30
Total	\$ 694

#### 5. PROPERTY AND EQUIPMENT, NET

Property and equipment is summarized as follows at December 31, 2020 and 2019:

	2020	2019
Leasehold improvements	\$ 419	\$ 446
Vehicles & trailers	221	229
Machinery & equipment	713	740
Office equipment & furniture	364	379
Computers & software	120	144
	1,837	1,938
Less accumulated depreciation	(1,639)	(1,427)
	\$ 198	\$ 511

#### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2020 and 2019 are as follows:

	2020	2019
Trade payables	\$ 3,780	\$ 8,676
Accrued payroll, vacation and payroll taxes	798	628
Accrued expenses, bonus and commissions	2,778	1,917
Total	\$ 7,356	\$ 11,221

#### 7. LOANS PAYABLE

Plan B, a subsidiary of the Company, entered into a business loan agreement, prior to being acquired by the Company, with Tri Counties Bank dated March 14, 2014, in the original amount of \$131 bearing interest at 4.95%. The loan agreement called for monthly payments of \$2 and matured on March 14, 2019. Proceeds from the loan were used to purchase a pile driver and related equipment and was secured by the equipment. The loan was fully paid off during the year ended December 31, 2019.

Plan B entered into a business loan agreement prior to being acquired by the Company, with Tri Counties Bank dated April 9, 2014, in the original amount of \$250 bearing interest at 4.95%. The loan agreement called for monthly payments of \$5 and matured on April 9, 2019. Proceeds from the loan were used to purchase racking inventory and related equipment and was secured by the inventory and equipment. The loan was fully paid off during the year ended December 31, 2019.

On January 5, 2016, the Company entered into a loan agreement for the acquisition of a pile driver in the principal amount of \$182 bearing interest at 5.5%. The loan agreement called for monthly payments of \$4 and matured on January 15, 2020. The loan was secured by the pile driver. At December 31, 2020, there was no remaining loan balance.

On September 8, 2016, the Company entered into a loan agreement for the acquisition of a pile driver in the principal amount of \$174 bearing interest at 5.5%. The loan agreement called for monthly payments of \$4 and matured on September 15, 2020. The loan was secured by the pile driver. At December 31, 2020, there was no remaining loan balance.

On November 14, 2016, the Company entered into a 0% interest loan agreement for the acquisition of an excavator in the principal amount of \$59. The loan agreement called for monthly payments of \$1 and matured on November 13, 2020. The loan was secured by the excavator. At December 31, 2020, there was no remaining loan balance.

On December 23, 2016, the Company entered into a loan agreement for the acquisition of modular office systems and related furniture in the principal amount of \$172 bearing interest at 4.99%. The loan agreement called for 16 quarterly payments of \$12 and matured in September 2020. The loan was secured by the modular office systems and related furniture. At December 31, 2020, there was no remaining loan balance.

As of December 31, 2020 and 2019, loans payable are summarized as follows:

	2020	2019
Equipment notes payable	-	88
Less: Current portion	-	(88)
Long-term portion	\$ -	\$ -

## 8. ACQUISITION PROMISSORY NOTE

On February 28, 2015, the Company issued a 4% convertible promissory note in the aggregate principal amount of \$2,650 as part of the consideration paid to acquire 100% of the total outstanding stock of MD Energy. The note was convertible into shares of common stock on or after each of the following dates: November 30, 2015, November 30, 2016 and November 30, 2017. The conversion price was \$18.20 per share. A beneficial conversion feature of \$3,262 was calculated but capped at the \$2,650 value of the note. The beneficial conversion feature was calculated by multiplying the difference between the fair value of stock at the date of the note, \$40.60, less the conversion price of \$18.20, multiplied by the maximum number of shares subject to conversion, 145,604. In November 2015, the Company issued 48,535 shares of common stock upon conversion of the principal amount of \$883. Commencing on March 31, 2015, and each quarter thereafter during the first two (2) years of the note, the Company made quarterly interest only payments to the shareholder for accrued interest on the Note during the quarter. Commencing with the quarter ending on June 30, 2017, the Company began to make quarterly payments of interest accrued on the convertible note during the prior quarter plus \$151 with the final payment of all outstanding principal and accrued but unpaid interest on the convertible note due and payable on February 28, 2020, the maturity date. This convertible promissory note was paid in full at maturity. The debt discount was fully amortized and has a zero balance. The Company recorded interest expense of \$3 and \$19 during the years ended December 31, 2020 and 2019, respectively. The outstanding balances at December 31, 2020 and 2019 were \$0 and \$252, respectively.

The Company evaluated the foregoing financing transactions in accordance with ASC Topic 470, *Debt with Conversion and Other Options*, and determined that the conversion feature of the convertible promissory note was afforded the exemption for conventional convertible instruments due to its fixed conversion rate. The convertible promissory notes had explicit limits on the number of shares issuable, so they did meet the conditions set forth in current accounting standards for equity classification. The convertible promissory notes were issued with non-detachable conversion options that were beneficial to the investors at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The accounting for the beneficial conversion feature required that the beneficial conversion feature be recognized by allocating the intrinsic value of the conversion option to additional paid-in-capital, resulting in a discount on the convertible notes, which was amortized and recognized as interest expense.

## 9. PROMISSORY NOTES PAYABLE

On April 27, 2018, the Company entered into a Loan Agreement (the "Loan Agreement") with CrowdOut Capital, Inc. ("CrowdOut") pursuant to which the Company issued an aggregate of \$3,750 in promissory notes (the "Notes"), of which \$3,000 was a Senior Note and \$750 were Subordinated Notes. The Subordinated Notes were funded by the Company's Chief Executive Officer, Charles Cargile, and the Company's President of Commercial Operations, Kirk Short.

The Notes bore interest at the rate of the one-month LIBOR plus 950 basis points and were originally scheduled to mature on June 30, 2020. The maturity date of the Notes was subsequently extended to January 31, 2021 as described below.

On June 3, 2019, the Company entered into an amendment to its Loan Agreement (the “First Amendment”), pursuant to which the maturity date of the \$3,000 Senior Note and \$750 Subordinated Notes was extended from June 30, 2020 to January 31, 2021. In connection with entering into the First Amendment, the Company agreed to issue to CrowdOut, as the holder of the Senior Note, 57,143 shares of common stock as an amendment fee (the “Amendment Fee”) pursuant to the Company’s shelf registration statement on Form S-3. Based upon the closing price of the Company’s common stock on June 17, 2019, the day of issuance, the 57,143 shares were valued at \$344. The \$344 Amendment Fee plus \$7 for CrowdOut Amendment related legal fees were added to the debt issuance costs and were amortized over the remaining life of the loan (see discussion below).

The Notes could be prepaid in whole without the consent of the lender or in part with the consent of the lender. At the time the Notes were paid in full, the Company paid CrowdOut, as the holder of the Senior Note, an exit fee of \$435. The Company accrued the exit fee of \$435 over the extended remaining life of the Loan Agreement and recognized the exit fee as interest expense. For the years ended December 31, 2020 and 2019, the exit fee recorded as interest expense was \$141 and \$160, respectively.

On January 28, 2020, the Company entered into a second amendment to its Loan Agreement (the “Second Amendment” and, together with the First Amendment, the “Amendments”) pursuant to which the Loan Agreement was amended to permit the partial prepayment of One Million Five Hundred Thousand Dollars \$(1,500) of the Senior Note loan amount without any prepayment fees. In addition, the Second Amendment provided that, unless an event of default occurred under the Loan Agreement, CrowdOut no longer had the right to designate a member to the Company’s Board of Directors. Accordingly, in January 2020, \$1,500 of the \$3,000 Senior Note was paid.

In connection with the issuance of the Senior Note, the Company entered into a security agreement (the “Security Agreement”) pursuant to which the Company granted to CrowdOut a security interest in certain of the Company’s assets to secure the prompt payment, performance and discharge in full of all of the Company’s obligations under the Senior Note. The Company also entered into a subordination agreement with the holders of the Subordinated Notes and the Senior Note pursuant to which the Subordinated Notes were subordinated to the Senior Note.

The Loan Agreement contained certain customary events of default including, but not limited to, default in payment of any sum payable thereunder, breaches of representations or warranties thereunder, the occurrence of an event of default under the transaction documents, change in control of the Company, filing of bankruptcy and the entering or filing of certain monetary judgments against the Company. Upon the occurrence of an event of default the outstanding principal amount of the Notes, plus accrued but unpaid interest and other amounts owing in respect thereof, would become, at the giving of notice by CrowdOut, immediately due and payable. Interest on overdue payments upon the occurrence of an event of default would accrue interest at a rate equal to the lesser of 18% per annum or the maximum rate permitted under applicable law. Additionally, the Loan Agreement included a subjective event of default clause if CrowdOut reasonably determined that an event has occurred that would reasonably be expected to have had a “material adverse effect.”

In conjunction with the Loan Agreement and Amendments, the Company recorded \$468 of capitalized debt issuance costs. The debt issuance costs were amortized over the life of the Loan Agreement and recognized as interest expense. The balance payable under the Notes was reported net of the unamortized portion of the debt issuance costs. The Company recorded amortization of the debt issuance cost of \$266 and \$159 as interest expense during the years ended December 31, 2020 and 2019, respectively. The \$266 recorded as amortization of the debt issuance costs during the year ended December 31, 2020 includes \$98 of expense required as a result of the \$1,500 prepayment of the \$3,000 Senior Note and required write-off of a proportionate share of the associated debt issuance cost.

On April 28, 2020, the Company entered into a Third Amendment to Loan Agreement (“Third Amendment”) with CrowdOut. Pursuant to the Third Amendment, CrowdOut provided its consent permitting the Company to obtain its Paycheck Protection Program (“PPP”) loan.

On December 4, 2020, the Company paid the remaining outstanding balance of the \$1,500 Senior Note and \$750 of Subordinated Notes together with the \$435 exit fee. No balance or obligations remain outstanding as of December 31, 2020.

Promissory notes payable at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Promissory notes payable	\$ -	\$ 3,750
Less: debt issuance costs	-	(266)
Promissory notes payable, net	<u>\$ -</u>	<u>\$ 3,484</u>

## 10. PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

On April 28, 2020 the Company's operating subsidiary, Sunworks United, received a PPP loan, which was established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), of \$2,847. As modified by the subsequent PPP Flexibility Act of 2020, proceeds from the loan were used to cover documented expenses related to payroll, rent and utilities, during the 24-week period after the cash was received by the Company. The 24-week period ended on October 12, 2020. The loan is being accounted for as a financial liability in accordance with FASB ASC 470. Proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly forgiven, and the Company has been "legally released" from the liability or (2) the Company pays off the loan. Once the loan is in part or wholly forgiven, and a legal release is received, the liability will be reduced by the amount forgiven and the Company will record a gain on extinguishment of the debt.

The eligible forgiveness amount allows for not more than 40% of the forgiveness to be for non-payroll items and is subject to reduction if employees are terminated or wages are reduced. The remaining unforgiven amount of the loan bears interest at 1% per annum. Eighteen equal principal and interest payments of \$159 are deferred for up to ten months after the initial 24-week covered period, with payments scheduled to begin on August 12, 2021; however, interest is being accrued from the inception date of the loan. There are no collateral requirements or prepayment penalties associated with the loan.

The underlying expenses, included in the forgiveness application filed with the Small Business Administration ("SBA"), are sufficient to have the entire \$2,847 PPP loan completely forgiven. Until final approval is received from the SBA and the Company has been "legally released" from the liability, there is no guarantee when forgiveness will be received or whether the loan will be completely or partially forgiven.

Paycheck Protection Program loan payable at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Paycheck Protection Program loan payable	\$ 2,847	\$ -
Less: Current portion	(787)	-
Long-term portion	\$ 2,060	\$ -

## 11. CAPITAL STOCK

### Common Stock

At the Company's Annual Meeting of Stockholders on August 7, 2019, the stockholders of the Company approved a reverse stock split of the Company's issued and outstanding common stock at a ratio not less than 1-for-3 and not greater than 1-for-10. On August 29, 2019, the board of directors of the Company approved the reverse stock split at a ratio of 1-for-7 which went into effect at the open of trading on August 30, 2019. At the effective time of the reverse stock split, every seven shares of issued and outstanding common stock was converted into one share of issued and outstanding common stock. The authorized shares of 200,000,000 and the par value of \$0.001 remained the same. All shares and related financial information in this Form 10-K is retroactively stated to reflect this 1-for-7 reverse stock split.

Due to the 1-for-7 reverse stock split that went into effect on August 30, 2019, a rounding of common stock shares was required due to partial share amounts that are rounded up to the next whole share. This resulted in an increase in shares of common stock of 5,585.

As approved by stockholders during the 2020 annual meeting on September 18, 2020, a Certificate of Amendment of the Certificate of Incorporation was filed with the Secretary of State of the State of Delaware to reduce the total number of shares of all classes of capital stock of the Company to fifty-five million (55,000,000) shares, consisting of fifty million (50,000,000) shares of common stock, par value \$0.001 per share and five million (5,000,000) shares of preferred stock, par value \$0.001 per share.

### Year ended December 31, 2020

#### *At The Market Issuances - 2020*

##### \$15 Million Prospectus Supplement Continuation From - June 6, 2019

Pursuant to a June 6, 2019 At Market Issuance Sales Agreement (the "First ATM Agreement") with B. Riley Securities (the "Agent"), the Company offered and sold shares of the Company's common stock, par value \$0.001 per share, registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the Registration Statement (the "Prior Registration Statement") on Form S-3 (File No. 333-231653), which was originally filed with the Securities and Exchange Commission ("SEC") on May 21, 2019 and declared effective by the SEC on May 31, 2019. The base prospectus was contained within the Prior Registration Statement. The Prior Registration Statement allowed the Company to offer and sell, from time to time in one or more offerings, any combination of common stock, preferred stock, warrants, or units having an aggregate initial offering price not to exceed \$50 million. As of December 31, 2020, all of the shares of common stock registered under the Prior Registration Statement have been sold.

Sales of shares under the First ATM Agreement were deemed to be "at the market offerings" as defined in Rule 415 promulgated under the Securities Act. The Agent acted as sales agent and used commercially reasonable efforts to sell on the Company's behalf all of the First Placement Shares requested to be sold by the Company, consistent with its normal trading and sales practices, on mutually agreed terms between the Agent and the Company.

9,817,343 shares of common stock (the "First Placement Shares") were sold under the First ATM Agreement between January 1, 2020 and March 26, 2020, pursuant to a prospectus supplement that was filed with the SEC on June 6, 2019. Total gross proceeds for the shares were \$7,976 or \$0.812 per share. Net proceeds after issuance costs were \$7,736 or \$0.788 per share. With the sale of the First Placement Shares during the first three months of 2020, the Company had sold the maximum amount allowed under its prospectus supplement and no further First Placement Shares under the First ATM Agreement could be sold without the Company filing an additional prospectus supplement with the SEC. The Prior Registration Statement was filed in reliance on Instruction I.B.6. of Form S-3, which imposes a limitation on the maximum amount of securities that the Company could sell pursuant to the Prior Registration Statement during any twelve-month period. At the time the Company sold the First Placement Shares pursuant to the Prior Registration Statement, the amount of securities to be sold plus the amount of any securities the Company had sold during the prior twelve months in reliance on Instruction I.B.6. could not exceed one-third of the aggregate market value of the Company's outstanding common stock held by non-affiliates as of a day during the 60 days immediately preceding such sale as computed in accordance with Instruction I.B.6. Therefore, the Company was not eligible to sell additional shares under the Prior Registration Statement at that time.



\$20 Million Prospectus Supplement – November 25, 2020

3,877,746 shares of common stock (the “Second Placement Shares”) were sold under the First ATM Agreement between November 25, 2020 and December 2, 2020, pursuant to a prospectus supplement that was filed with the SEC on November 25, 2020. Total gross proceeds for the Second Placement Shares were \$19,990, or an average of \$5.16 per share. Net proceeds after issuance costs were \$19,468, or an average of \$5.02 per share.

\$14.6 Million Prospectus Supplement – December 18, 2020

3,314,596 shares of common stock (the “Third Placement Shares”) were sold under the First ATM Agreement between December 21, 2020 and December 22, 2020, pursuant to a prospectus supplement that was filed with the SEC on December 18, 2020. Total gross proceeds for the shares were \$14,590, or an average of \$4.40 per share. Net proceeds after issuance costs were \$14,202, or an average of \$4.28 per share.

*NASDAQ Bid Price Compliance*

On March 13, 2020, the Company received a letter from The Nasdaq Stock Market LLC (“NASDAQ”) indicating that the Company had failed to comply with the minimum bid price requirement of Nasdaq Listing Rule 5550(a)(2). Nasdaq Listing Rule 5550(a)(2) requires that companies listed on the Nasdaq Capital Market maintain a minimum closing bid price of at least \$1.00 per share.

On August 5, 2020 the Company received a letter from the NASDAQ Listing Qualifications Staff notifying the Company that the Company had regained compliance with NASDAQ’s minimum bid price requirements for continued listing on the Nasdaq Capital Market. The letter noted that as a result of the closing bid price of the Company’s common stock having been at \$1.00 per share or greater for at least ten consecutive business days, from July 22, 2020 to August 4, 2020, the Company has regained compliance with Listing Rule 5550(a)(2) and the matter was closed.

On September 22, 2020, the Company received a letter from NASDAQ indicating that the Company had failed to comply with the minimum bid price requirement of Nasdaq Listing Rule 5550(a)(2).

On October 14, 2020 the Company received a letter from the NASDAQ Listing Qualifications Staff notifying the Company that the Company had regained compliance with NASDAQ's minimum bid price requirements for continued listing on the Nasdaq Capital Market. The letter noted that as a result of the closing bid price of the Company's common stock having been at \$1.00 per share or greater for at least ten consecutive business days, from September 23, 2020 to October 13, 2020, the Company had regained compliance with Listing Rule 5550(a)(2) and the matter was closed.

#### *Restricted Stock*

During the first three months of the year 2020, the terms of the March 2017 restricted stock grant agreement were completed with the issuance of 5,952 shares of common stock to the Company's Chairman and former Chief Executive Officer, Charles Cargile.

#### Year ended December 31, 2019

##### *At The Market Issuances - 2019*

On June 6, 2019 the Company entered into the First ATM Agreement with the Agent, pursuant to which the Company offered and sold shares of the Company's common stock, par value \$0.001 per share, registered under the Securities Act of 1933, as amended, pursuant to the Prior Registration Statement on Form S-3 (File No. 333-231653), which was originally filed with the SEC on May 21, 2019 and declared effective by the SEC on May 31, 2019, the base prospectus contained within the Prior Registration Statement.

2,920,968 shares of common stock were sold under the First ATM Agreement between June 6, 2019 and December 31, 2019 totaled, pursuant to a prospectus supplement that was filed with the SEC on June 6, 2019. Total gross proceeds for the shares were \$7,023, or an average of \$2.40 per share, as of December 31, 2019. Net proceeds, less issuance costs, were \$6,694, or an average of \$2.29 per share, as of December 31, 2019.

The Company could use the net proceeds from the offering for general corporate purposes, including, without limitation, sales and marketing activities, product development, making acquisitions of assets, businesses, companies or securities, capital expenditures, repayment of indebtedness, and for working capital needs.

##### *Other Equity Related Activity*

On April 10, 2019, the remaining principal of \$100 and accrued interest of \$61 due under the convertible promissory notes dated January 31, 2014 and February 11, 2014 were converted into 68,082 shares of common stock.

During the year ended December 31, 2019, 23,809 shares of common stock were issued to Charles Cargile from Mr. Cargile's RSGA executed in 2017.

In connection with the June 3, 2019 Amendment to the Loan Agreement, the Company agreed to issue 57,143 shares of common stock to CrowdOut, as the holder of the \$3 million Senior Note. The shares were issued pursuant to the Company's shelf registration on Form S-3 on June 17, 2019 at a market value of \$344 based upon a closing price of \$6.01 per common share (see Note 9).

#### Preferred Stock

On November 25, 2015, the Company designated 1,700,000 shares, of its authorized preferred stock, as Series B Preferred Stock, \$0.001 par value per share. Pursuant to the Certificate of Designation filed with the Secretary of State of the State of Delaware, and subject to the rights of any other series of preferred stock that may be established by the Company's Board of Directors, holders of Series B Preferred Stock (the "Holders") will have liquidation preference over the holders of the Company's common stock in any distribution upon winding up, dissolution, or liquidation. Holders will also be entitled to receive dividends, if, when and as declared by the Company's Board of Directors, which dividends shall be payable in preference and priority to any payment of any dividend to holders of common stock. Holders will be entitled to convert each share of Series B Preferred Stock into one (1) share of common stock and will also be entitled to vote together with the holders of common stock on all matters submitted to shareholders at a rate of one (1) vote for each share of Series B Preferred Stock. In addition, so long as at least 100,000 shares of Series B Preferred Stock are outstanding, the Company may not, without the consent of the Holders of at least a majority of the shares of Series B Preferred Stock then outstanding: (i) amend, alter or repeal any provision of the Certificate of Incorporation or bylaws of the Company or the Certificate of Designation so as to adversely affect any of the rights, preferences, privileges, limitations or restrictions provided for the benefit of the Holders or (ii) issue or sell, or obligate itself to issue or sell, any additional shares of Series B Preferred Stock, or any securities that are convertible into or exchangeable for shares of Series B Preferred Stock. 1,506,024 shares of Series B Preferred Stock, at a fair value of \$4,500 were issued in December 2015 in connection with the acquisition of Plan B. On May 2, 2019, the Holder converted 1,506,024 shares of Series B Preferred Stock into 215,147 post-split shares of the Company's common stock. As of December 31, 2020 and 2019, there were no outstanding shares of Preferred Stock.

## 12. STOCK OPTIONS, RESTRICTED STOCK AND WARRANTS

### Options

As of December 31, 2020, the Company has incentive stock options and non-qualified stock options outstanding to purchase 88,441 shares of common stock, per the terms set forth in the option agreements. The stock options vest at various times and are exercisable for a period of five years from the date of grant at exercise prices ranging from \$2.10 to \$21.70 per share, the market value of the Company's common stock on the date of each grant. The Company determined the fair market value of these options by using the Black Scholes option valuation model.

During 2020, using cashless option exercises, 26,116 options were exercised resulting in 13,924 net shares being issued.

A summary of the Company's stock option activity and related information follows:

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning January 1	143,623	\$ 8.99	224,127	\$ 12.11
Granted	-	-	55,707	2.73
Exercised	(26,116)	2.66	-	-
Forfeited	(29,066)	8.53	(136,211)	11.49
Expired	-	-	-	-
Outstanding, end of December 31	88,441	\$ 11.02	143,623	\$ 8.99
Exercisable at the end of December 31	71,502	\$ 12.81	85,181	\$ 12.18
Weighted average fair value of options granted during period		\$ -		\$ 1.31

The following summarizes the options to purchase shares of the Company's common stock which were outstanding at December 31, 2020:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
\$ 18.76	12,142	12,142	0.28
\$ 20.16	7,142	7,142	0.67
\$ 21.70	7,142	7,142	0.84
\$ 10.50	17,140	17,140	1.38
\$ 10.71	1,428	1,428	1.67
\$ 6.93	7,142	6,547	2.25
\$ 8.68	7,142	6,348	2.37
\$ 7.63	12,855	11,367	2.41
\$ 2.31	1,024	86	2.94
\$ 2.10	4,436	341	3.01
\$ 3.07	6,483	1,621	3.62
\$ 2.52	4,365	198	3.75
	88,441	71,502	

Aggregate intrinsic value of options outstanding and exercisable at December 31, 2020 and 2019 was \$5 and \$0, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$5.12 and \$1.25 as of December 31, 2020 and 2019, respectively, and the exercise price multiplied by the number of options outstanding.

The Company recorded stock-based compensation for issued options of \$84 and \$184 for the years ended December 31, 2020 and 2019, respectively.

### Restricted Stock Grant to Chairman and Former CEO

With an effective date of March 29, 2017, subject to the Sunworks, Inc. 2016 Equity Incentive Plan, (the “2016 Plan”) the Company entered into a restricted stock grant agreement (the “March 2017 RSGA”) effective March 29, 2017 with its then Chief Executive Officer, Charles Cargile. All shares issuable under the March 2017 RSGA are valued as of the grant date at \$10.50 per share. The March 2017 RSGA provided for the issuance of up to 71,429 shares of the Company’s common stock. The restricted shares vested as follows: 23,810 of the restricted shares shall vested on the one (1) year anniversary of the effective date, and the balance, or 47,619 restricted shares, vested in twenty-four (24) equal monthly installments commencing on the one (1) year anniversary of the effective date. Vesting of the shares and recognition of stock-based compensation expense for the March 2017 RSGA ended as of March 29, 2020.

In the years ended December 31, 2020 and 2019, stock-based compensation expense of \$63 and \$250, respectively was recognized for the March 2017 RSGA.

The total combined option and restricted stock compensation expense recognized in the statements of operations during the years ended December 31, 2020 and 2019 was \$147 and \$434, respectively.

### Warrants

As part of a March 2015 capital raise, the Company issued common stock with warrants to purchase 428,572 shares of common stock at an exercise price of \$29.05 per share. During 2015, 429 warrants were exercised. No additional warrants were ever exercised after 2015. The warrants expired on March 9, 2020.

The sale and issuances of common stock pursuant to various ATM agreements in 2019 and 2020 described in Note 11 triggered the down round provision in the warrants resulting in the Company recording a deemed dividend of approximately \$60 and \$1,430 in the years ended December 31, 2020 and 2019, respectively (see Note 2).

Pursuant to the down round provisions of the warrants, the exercise price decreased from \$29.05 to \$1.20 at December 31, 2019. In 2020, continued common stock issuances caused the exercise price to decrease from \$1.20 to \$0.65 until on March 9, 2020, when the warrants expired unexercised.

The deemed dividend has no cash impact. For financial statement presentation purposes, the deemed dividend is shown as an increase in the net loss attributable to common shareholders, increasing the loss per share for common stock by approximately \$0.01 and \$0.32 per common share for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, the Company had no remaining stock purchase warrants outstanding.

See Note 2 for a discussion of the impact of the accounting for the warrant deemed dividend on the 2019 consolidated financial statements.

### NOTE13 – INCOME TAXES

The Company had no income tax expense due to operating losses incurred for the years ended December 31, 2020 and 2019. The Company accounts for income taxes in accordance with ASC 740, which requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is “more likely than not.” Realization of the future tax benefits is dependent on the Company’s ability to generate sufficient taxable income within the carryforward period. No tax benefit has been reported in the 2020 financial statements, since the potential tax benefit is offset by a valuation allowance of the same amount.

The Company’s income tax expense for the years ended December 31, 2020 and 2019 are summarized below:

	December 31, 2020	December 31, 2019
Current:		
Federal	\$ -	\$ -
State	-	-
Foreign	-	-
Total current	\$ -	\$ -
Deferred:		
Federal	\$ (2,863)	\$ (2,519)
State	(599)	-
Change in valuation allowance	3,462	2,519
Total deferred	-	-
Income tax provision (benefit)	\$ -	\$ -

The Company’s deferred tax assets are as follows:

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 8,270	\$ 5,910
Research and development tax credit	248	173
Disallowed interest	579	-
Warranty, inventory and accounts receivable allowances	462	109
Depreciation	94	42
Other	170	127
Total deferred tax assets	9,823	6,361
Valuation allowances	(9,823)	(6,361)
Net deferred tax assets	\$ -	\$ -

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the year ended December 31, 2020 and 2019 due to the following:

	2020	2019
Net taxable (loss) at effective tax rates	\$ (3,347)	\$ (2,480)
Stock compensation expense	31	91
State tax	-	-
Impairment of goodwill	840	-
Other	-	4
Valuation allowance	2,476	2,385
Income tax expense	\$ -	\$ -

At December 31, 2020, the Company had federal, and California net operating loss carryforwards of approximately \$31 million and \$28 million, respectively. In addition, the Company has federal and California research and development tax credit carryforwards of approximately \$172 and \$75, respectively. The federal net operating losses incurred in years beginning after January 1, 2018 in the amount of \$19 million can be carried forward indefinitely. The remaining \$12 million of federal net operating loss, research tax credit carryforwards and California net operating loss carryforwards will begin to expire in 2029 unless previously utilized. The California research and development credit carryforwards will carry forward indefinitely until utilized.

Utilization of U.S. net operating losses and tax credit carryforwards may be limited by “ownership change” rules, as defined in Sections 382 and 383 of the Code. Similar rules may apply under state tax laws. The Company has not conducted a study to-date to assess whether a limitation would apply under Sections 382 and 383 of the Code as and when it starts utilizing its net operating losses and tax credits. The Company will continue to monitor activities in the future. In the event the Company should experience an ownership change in the future, the amount of net operating losses and research and development credit carryovers available in any taxable year could be limited and may expire unutilized.

The CARES Act was signed into law on March 27, 2020 as a response to the economic challenges facing U.S. businesses caused by the COVID-19 global pandemic. The CARES Act allowed net operating loss incurred in 2018-2020 to be carried back five years or carried forward indefinitely, and to be fully utilized without being subjected to the 80% taxable income limitation. Net operating losses incurred after December 31, 2020 will be subjected to the 80% taxable income limitation. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion, or all, of the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the Company attaining future taxable income during periods in which those temporary differences become deductible.

Due to the uncertainty surrounding the realization of the benefits of its deferred assets, including NOL carryforwards, the Company has provided a 100% valuation allowance on its deferred tax assets at December 31, 2020.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740, *Income Taxes*. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of December 31, 2020, the Company had no uncertain tax positions for the years ended December 31, 2020 and 2019.

## 14. COMMITMENTS AND CONTINGENCIES

### Leases

Sunworks United leased 27,530 square feet of mixed-use space consisting of office and warehouse facilities in Roseville, California, at a monthly lease rate of \$22. The lease was to expire in December 2021. The Company and landlord mutually agreed to terminate the lease as of March 2021 to reduce costs while assisting the landlord in securing a long-term lease with a new tenant.

Sunworks United leased 2,846 square feet of retail space in Rocklin, California at a monthly lease rate of \$10. The lease expired in January 2021 and the space was vacated.

Sunworks United leases 5,304 square feet of office space in Rocklin, California, at a monthly lease rate of \$6. The lease expires in May 2021. Sunworks is the sublessor through May 2021. Sublessee makes monthly payments at a rate of \$5 per month.

Sunworks United leases 3,665 square feet of mixed-use space consisting of office and warehouse facilities in Riverside, California, at a monthly lease rate of \$3. The lease expires in July 2021.

Sunworks Inc. leases 15,600 square feet of mixed-use space consisting of office and warehouse facilities in Durham, California from an entity controlled by the Company's President of Commercial Operations, at a monthly lease rate of \$9. The lease is month-to-month.

Sunworks United leases 5,000 square feet of mixed-use space consisting of office and warehouse facilities in Tulare, California at monthly lease rate of \$5. The lease expires in July 2021.

Sunworks United leases 3,560 square feet of mixed-use space consisting of office and warehouse facilities in Campbell (San Jose), California at monthly lease rate of \$5. The lease expires in January 2022.

### Litigation

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a negative impact on the Company's financial position except as noted below:

On October 12, 2020, a putative class complaint was filed by a purported stockholder of Sunworks regarding the contemplated but terminated merger among The Peck Company Holdings, Inc. ("Peck"), Peck Mercury, Inc. ("Merger Sub") and Sunworks (the "Merger"). The complaint names, as defendants, each of the Sunworks' Board of Directors (the "Directors") and asserts that the Directors breached their fiduciary duties. The plaintiff alleges that the consideration to be received by stockholders of Sunworks was inadequate and that the Registration Statement on Form S-4 contained materially incomplete and misleading information regarding the proposed Merger. On November 24, 2020, the parties filed a joint stipulation to dismiss the action without prejudice with a reservation for plaintiff to seek attorneys' fees and costs; the Court granted that stipulation and ordered the dismissal on November 25, 2020.

There are seven other actions related to the same proposed transaction, of which six have been voluntarily dismissed by the respective plaintiffs. All eight complaints seek: (i) injunctive relief to prevent the consummation of the Merger; (ii) damages suffered by the plaintiff; and (iii) an award of Plaintiff's expense, including reasonable attorneys' and experts' fees. On November 2, 2020, Sunworks filed a Form 8-K that included supplemental disclosures intended to moot the allegations in all of the complaints. Sunworks and the Directors believe the claims asserted in the complaints are without merit and intend to vigorously defend themselves. Sunworks has had on-going settlement discussion, but Sunworks has not entered into any agreement to settle any of the lawsuits. Sunworks is insured against such claims and losses.

## 15. MAJOR CUSTOMER/SUPPLIERS

For the years ended December 31, 2020 and 2019 the Company had no projects that represented more than 10% of revenue.

For the years ended December 31, 2020 and 2019 the following suppliers represented more than 10% of Costs of Goods Sold:

	2020	2019
CED Green Tech	10.6%	N/A
Wesco	N/A	11.6%

## 16. RELATED PARTY TRANSACTIONS

The Subordinated Notes (Note 9) were funded by the Company's Chairman and former Chief Executive Officer and the Company's President of Commercial Operations. The Subordinated Notes were repaid in December 2020.

The Company rents a facility in Durham, California from Plan D Enterprises, Inc., an entity controlled by the Company's President of Commercial Operations, for \$9 per month for a total cost of \$108 and \$103 for 2020 and 2019, respectively. During the year 2020, the Company rented a scissor lift from Plan D Enterprises, Inc. for a total cost of \$2.

## 17. SUBSEQUENT EVENTS

Subsequent to December 31, 2020 and through March 26, 2021, the following events occurred:

On January 27, 2021, the Company filed a Registration Statement on Form S-3 (File No. 333-252475) (the "Registration Statement") with the SEC. The Registration Statement allows the Company to offer and sell, from time to time in one or more offerings, any combination of common stock, preferred stock, warrants, or units having an aggregate initial offering price not to exceed \$100 million. The Registration Statement was declared effective by the SEC on February 3, 2021.

On February 10, 2021, the Company entered into a Sales Agreement (the "Roth Sales Agreement") with Roth Capital Partners, LLC (the "Agent RCP"), pursuant to which the Company could offer and sell from time to time, through the Agent RCP, shares of the Company's common stock, par value \$0.001 per share registered under the Securities Act, pursuant to the Registration Statement filed on Form S-3. The base prospectus is contained within the Registration Statement.

Sales of shares pursuant to the Roth Sales Agreement are deemed to be "at the market offerings" as defined in Rule 415 promulgated under the Securities Act. The Agent RCP has agreed to act as sales agent and use commercially reasonable efforts to sell on the Company's behalf all of the shares requested to be sold by the Company, consistent with its normal trading and sales practices, on mutually agreed terms between the Agent RCP and the Company.

3,212,486 shares of common stock (the "Fourth Placement Shares") were sold under the Roth Sales Agreement between February 11, 2021 and February 23, 2021, pursuant to a prospectus supplement that was filed with the SEC on February 10, 2021. Total gross proceeds for the shares were \$49,937 or \$15.54 per share. Net proceeds after issuance costs were \$48,937 or \$15.23 per share.

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

None.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the required time periods specified in the Commission's rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Limitations on the Effectiveness of Controls**

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal controls will prevent all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013).

Management believes that the controls currently in place are adequate and operated effectively based upon the criteria established in "Internal Control-Integrated Framework" issued by the COSO, management concluded that as of December 31, 2020, our internal controls over financial reporting are effective.

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the year ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**No Attestation Report by Independent Registered Accountant**

The effectiveness of our internal control over financial reporting as of December 31, 2020 has not been audited by our independent registered public accounting firm by virtue of our exemption from such requirement as a smaller reporting company.

**Item 9B. Other Information.**

Not applicable.



### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The following persons are our executive officers and directors, and hold the offices set forth opposite their names.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Charles Cargile	56	Chief Executive Officer and Chairman (Effective January 2020, resigned as CEO in August 2020)
Gaylon Morris	48	Chief Executive Officer (Effective January 2021)
Paul McDonnel	64	Interim Chief Financial Officer
Rhone Resch	54	Director
Judith Hall	58	Director
Daniel Gross	50	Director
Stanley Speer	60	Director

The following is a brief account of the business experience during the past five years of each of our directors and executive officers:

**Charles Cargile** has served as a Director of the Company since September 2016 and Chairman since January 2020. Mr. Cargile has also served as Chief Executive Officer from April 2017 to August 2020. Since August 2020 Mr. Cargile has served as the Chief Financial Officer for Tattooed Chef, a public company traded on Nasdaq (NASDAQ: TTCF). From July 2016 until September 2016, Mr. Cargile served as an Executive Advisor to MKS Instruments, which acquired Newport Corporation (“Newport”) in April 2016. Prior to that, since 2000, Mr. Cargile served as the Chief Financial Officer for Newport. Prior to joining Newport, Mr. Cargile served in various capacities at York International Corporation (now a division of Johnson Controls, Inc.) since 1998 including Vice President, Finance and Corporate Development and Corporate Controller and Chief Accounting Officer. From 1992 to 1998 Mr. Cargile served at Flowserve Corporation, most recently as Corporate Controller and Chief Accounting Officer from 1995 to 1998. Mr. Cargile currently serves on the board of directors of Photon Control, a company engaged in the design and manufacture of optical sensors. Photon Control is publicly traded on the Toronto Exchange (TEX: Pho.to). Mr. Cargile holds a Bachelor of Science degree in Accounting from Oklahoma State University and a Master’s degree in Business Administration from the Marshall School of Business at the University of Southern California

Mr. Cargile qualifies to serve on our Board of Directors because of his experience serving on public company board of directors and his extensive financial background including strategic development, capital structures, operational management and financial processes and controls.

**Gaylon Morris** joined the Company as Chief Executive Officer in January 2021 after two decades leading large-scale engineering and construction companies through transition and growth. Prior to joining the Company, Mr. Morris served as Business Strategist at Rosendin Electric, one of the largest electrical contractors, from September 2019 to March 2020 where he was responsible for identifying, researching, and developing go-to-market strategies to target new market opportunities. Before Rosendin Electric, he was Senior Vice President of Operations for Strategic Growth and Market Development at Cupertino Electric, Inc. (“CEI”), a large, national electrical contractor, since October 2016. At CEI, Mr. Morris was responsible for developing and successfully implementing strategies for CEI’s growth divisions, specifically in Modular Manufacturing, Renewable Energy (photovoltaics and storage), and Utility Electrical (transmission, distribution, and substation). Other previous experience includes senior executive roles at NTS Corporation, Methode Electronics and MET Laboratories, along with serving in the United States Navy, where he was a Submarine Service Reactor Plant Operator.

**Paul McDonnel** joined the Company in September 2016 as our Chief Financial Officer and transitioned to Treasurer in May 2018. In February 2019, Mr. McDonnel was named as our Interim Chief Financial Officer. Prior to joining the Company, Mr. McDonnel served as the President of Vulcan Precision Linings since 2010. From 2009 until 2010 Mr. McDonnel served as the Chief Operating Officer of Franklin Covey Products, LLC. From 2006 until 2009 he served as the Corporate Controller & Chief Financial Officer of Arrowhead Research Corp., (NASDAQ: ARWR). From 2003 until 2005 Mr. McDonnel served as the Chief Executive Officer of Quality Imaging Products, and from 1999 until 2003 he served as the Chief Financial Officer and Senior Manager-Operations of Recall Secure Destruction Services. From 1994 to 1998 Mr. McDonnel served as the VP of Operations and Chief Operating Officer of Reid Plastics, Inc. (“Reid”). From 1990 until 1994 he served as Reid’s Chief Financial Officer. From 1987 to 1990 Mr. McDonnel served as the Vice President of Finance of Trojan Enterprises. From 1982 until 1987 he served in the audit practice of the Small Business Division of the Los Angeles office of Arthur Andersen & Co. Mr. McDonnel received both a Master of Arts - Management Accounting and Bachelor of Science – Accounting from Brigham Young University. Mr. McDonnel is a Certified Public Accountant in the State of California.

**Rhone Resch** has served as a director of the Company since November 2016. In 2016, Mr. Resch founded and serves as Chief Executive Officer of the Advanced Energy Advisors, a strategic, impact consulting firm that helps clean energy companies navigate complex political, economic and business environments on tax, trade, energy and infrastructure issues. He is also founder, President and CRO of Solarlytics, a power electronics company producing advanced solar products. Previously, he served as the President and Chief Executive Officer of Solar Energy Industries Association from 2004 until 2016. From 1998 until 2004, he served as the Senior Vice President of Natural Gas Supply Association, and from 1993 until 1998 he served as the Program Manager of the United States Environmental Protection Agency – Office of Air and Radiation. From 1992 until 1993 Mr. Resch served as a Senior Analyst at Project Performance Corporation. Mr. Resch received a Bachelor of Arts, English/Natural Resources from the University of Michigan, a Master of Environmental Science from State University of New York and a Master of Public Administration, Management from the Maxwell School at Syracuse University.

Mr. Resch is qualified to serve on our Board of Directors because of his industry expertise and corporate leadership experience.

**Daniel Gross** has served as a director of the Company since March 2018. Since 2020, Mr. Gross has been Chief Investment Officer of Climate Real Impact Solutions, a serial issuer of SPACs focused on carbon avoidance, carbon removal and clean energy. Since 2015, Mr. Gross has served as an Adjunct Professor at Columbia University and since 2016 as a Lecturer at Yale University. Mr. Gross previously served as a Managing Director of Pegasus Capital Advisors from 2015 through 2016 and a Managing Director of Oaktree Capital Management from 2013 through 2015. Mr. Gross was one of the founding Partners of Hudson Clean Energy, a private equity firm with over \$1 billion in assets under management. Prior to Hudson, Mr. Gross worked in the U.S. alternative energy investment group at Goldman Sachs as well as GE Capital's Energy Financial Services unit, where he founded the renewable energy investment business. Mr. Gross is co-founder and principal of Pivotal180, a firm providing consulting, financial advisory and finance training services, with a particular emphasis on emerging markets. Mr. Gross is a Fulbright Scholar and holds a Master's degree in Environmental Management, Master's in Business Administration and Bachelor of Arts Degree (Phi Beta Kappa) from Yale University.

Mr. Gross is qualified to serve on our Board of Directors due to his substantial background in both the financial and renewable energy industries.

**Stanley Speer** has served as a director of the Company since May 2018. Since May 2020, Mr. Speer is the Chief Financial Officer for Cadiz, Inc., a publicly-held real estate and water resource management company. Additionally, Mr. Speer is the principal of Speer and Associates, LLC since 2012, a consulting firm he founded to provide practical operational, financial and strategic financial solutions to public and private businesses. Previously, Mr. Speer was a Managing Director with Alvarez & Marsal ("A&M"), in Los Angeles specializing in advising and assisting boards of directors, investment groups, management groups and lenders in a wide range of turnaround, restructuring and reorganization situations. Prior to joining A&M, Mr. Speer spent ten years as Chief Financial Officer for Cadiz and its subsidiary Sun World International, a fully-integrated agriculture company. Prior to Cadiz, Mr. Speer was a partner with Coopers & Lybrand (now PricewaterhouseCoopers), where he spent 14 years in the Los Angeles office specializing in business reorganizations and mergers and acquisitions. Mr. Speer earned his bachelor's degree in business administration from the University of Southern California.

Mr. Speer is qualified to serve on our Board of Directors due to his many years of experience advising public and private companies.

**Judith Hall** has served as a director of the Company since October 2019. Prior to joining the Board, Ms. Hall served as Chief Legal Officer and General Counsel of Recurrent Energy, LLC, one of North America's largest utility-scale solar developers. From 2000 to 2009, Ms. Hall served as Associate General Counsel of Babcock & Brown LP, a global investment and advisory firm. From 1997 to 2000, Ms. Hall served as an Associate Attorney with Pillsbury Winthrop Shaw Pittman LLP in San Francisco, California. Ms. Hall received her undergraduate degree in Mechanical Engineering from University of California Berkeley. She received her Juris Doctor from University of California Hastings and her Master of Laws from University of California Berkeley.

Ms. Hall is qualified to serve on our board of Directors because of her legal and industry experience together with her engineering education.

#### **Family Relationships**

There are no family relationships among our executive officers and directors.

#### **Involvement in Certain Legal Proceedings**

During the past ten years, none of our directors, executive officers, promoters, control persons, or nominees has been:

- the subject of any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- convicted in a criminal proceeding or is subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or any Federal or State authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
- found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law;

- the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (a) any Federal or State securities or commodities law or regulation; (b) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or (c) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

#### **Code of Conduct and Ethics**

We have adopted a code of conduct that applies to all of our directors, officers, and employees. The text of the code of conduct has been posted on our internet website and can be viewed at [www.sunworksusa.com](http://www.sunworksusa.com). Any waiver of the provisions of the code of conduct for executive officers and directors may be made only by the Audit Committee and, in the case of a waiver for members of the audit committee, by our Board of Directors. Any such waivers will be promptly disclosed to our shareholders.

#### **Committees of our Board of Directors**

*Audit Committee.* The Board has a standing Audit Committee, consisting of Messrs. Stanley Speer (Chair), Rhone Resch and Daniel Gross as members. The Audit Committee acts under a written charter, which more specifically sets forth its responsibilities and duties, as well as requirements for the Audit Committee's composition and meetings. The audit committee charter is available on the Company's website ([www.sunworksusa.com](http://www.sunworksusa.com)). The Audit Committee held five meetings during the fiscal year ended December 31, 2020.

The Audit Committee's responsibilities include (1) the integrity of the Company's financial statements and disclosures; (2) the independent auditor's qualifications and independence; (3) the performance of the Company's internal audit function and independent registered public accounting firm; (4) the adequacy and effectiveness of the Company's internal controls; (5) the Company's compliance with legal and regulatory requirements; and (6) the processes utilized by management for identifying, evaluating, and mitigating strategic, financial, operational, regulatory, and external risks inherent in the Company's business. The Audit Committee also prepares the Audit Committee report that is required pursuant to the rules of the SEC.

The Board has determined that each member of the Audit Committee is "independent," as that term is defined by applicable SEC rules. In addition, the Board has determined that each member of the Audit Committee is "independent," as that term is defined by the rules of the Nasdaq Stock Market.

The Board has determined that Mr. Speer is an "audit committee financial expert" serving on its Audit Committee, and is independent, as the SEC has defined that term in Item 407 of Regulation S-K.

*Corporate Governance/Nominating Committee.* The Board has a standing Corporate Governance/Nominating Committee. The Nominating and Governance Committee consists of Ms. Judith Hall (Chair), and Messrs. Daniel Gross and Stanley Speer as members. The Nominating and Governance Committee acts under a written charter, which more specifically sets forth its responsibilities and duties, as well as requirements for its composition and meetings. The corporate governance/nominating committee charter is available on the Company's website ([www.sunworksusa.com](http://www.sunworksusa.com)). The Corporate Governance/Nominating Committee convened in accordance with its charter during various meetings of the Board during the fiscal year ended December 31, 2020.

The Corporate Governance/Nominating Committee has been established by the Board in order, among other things to: (1) develop and recommend to the Board the Corporate Governance Guidelines of the Company and oversee compliance therewith; (2) assist the Board in effecting Board organization, membership and function including identifying qualified Board nominees; (3) assist the Board in effecting the organization, membership and function of Board committees including the composition of Board committees and recommending qualified candidates therefor; (4) evaluate and provide successor planning for the Chief Executive Officer and other executive officers; and (5) to develop criteria for Board membership, such as independence, term limits, age limits and ability of former employees to serve on the Board and the evaluation of candidates' qualifications for nominations to the Board its committees as well as removal therefrom, respectively.

The Corporate Governance/Nominating Committee does not have a formal policy that requires it to consider any director candidates that might be recommended by shareholders but adheres to the Company's By-Laws provisions and Securities and Exchange Commission rules relating to proposals by shareholders. The Corporate Governance/Nominating Committee of our Board of Directors is responsible for identifying and selecting qualified candidates for election to our Board of Directors prior to each annual meeting of the Company's shareholders. In identifying and evaluating nominees for director, the Corporate Governance/Nominating Committee considers each candidate's qualities, experience, background and skills, as well as other factors, such as the individual's ethics, integrity and values which the candidate may bring to our Board of Directors.

The Board has determined that all the members of the Corporate Governance/Nominating Committee are "independent" under the current listing standards of NASDAQ.

*Compensation Committee.* The Board has a standing Compensation Committee. The Compensation Committee of the Board is composed entirely of directors who are not our current or former employees, each of whom meets the applicable definition of "independent" as defined by the rules of the Nasdaq Stock Market. None of the members of the Compensation Committee during fiscal 2020 (i) had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of related party transactions or (ii) was an executive officer of a company of which an executive officer of the Company is a director. The current members of the Compensation Committee are Mr. Rhone Resch (Chair), and Ms. Judith Hall. The Compensation Committee has no interlocks with other companies. The compensation committee charter is available on the Company's website ([www.sunworksusa.com](http://www.sunworksusa.com)). The Compensation Committee convened in accordance with its charter during various meetings of the Board during the fiscal year ended December 31, 2020.

The purpose of the Compensation Committee is to discharge the Board's responsibilities relating to compensation of the Company's directors and executive officers. The Committee has overall responsibility for evaluating the Company's compensation and benefit plans, policies and programs and insuring overall alignment to the corporate compensation philosophy. The Compensation Committee also is responsible for preparing any report on executive compensation required by the rules and regulations of the SEC.

The Board has determined that all the members of the Compensation Committee are "independent" under the current listing standards of NASDAQ.

#### **Board of Directors Leadership Structure and Role in Risk Oversight.**

Our Board is responsible for the selection of the Chairman of the Board and the Chief Executive Officer. Joshua Schechter served as our Chairman until January 2020. Charles Cargile served as the Chief Executive Officer and Chairman, effective January 2020 until his resignation as Chief Executive Officer in August 2020. Mr. Cargile returned to serve briefly as principal executive officer in October 2020 until our appointment of Gaylon Morris as our new Chief Executive Officer and member of the Board of Directors on January 11, 2021. Mr. Cargile continues to serve in his role as Chairman of the Board of Directors.

While management is responsible for managing the day-to-day issues faced by the Company, our Board has an active role, directly and through its committees, in the oversight of the Company's risk management efforts. The Board carries out this oversight role through several levels of review. The Board regularly reviews and discusses with members of management information regarding the management of risks inherent in the operation of the Company's business and the implementation of the Company's strategic plan, including the Company's risk mitigation efforts.

Each of the Board's committees also oversees the management of the Company's risks that are under each committee's areas of responsibility. For example, the Audit Committee oversees management of accounting, auditing, external reporting, internal controls, and cash investment risks. The Nominating and Governance Committee oversees the Company's compliance policies, Code of Conduct and Ethics, conflicts of interests, director independence and corporate governance policies. The Compensation Committee oversees risks arising from compensation practices and policies. While each committee has specific responsibilities for oversight of risk, the Board is regularly informed by each committee about such risks. In this manner, the Board can coordinate its risk oversight.

#### **Changes in Nominating Procedures**

None.

## **Item 11. Executive Compensation.**

### **Compensation Discussion and Analysis**

The following Compensation Discussion and Analysis describes the material elements of compensation for our executive officers identified in the Summary Compensation Table (“Named Executive Officers”), and executive officers that we may hire in the future. As more fully described above, the Compensation Committee is responsible for recommendations relating to compensation of the Company’s directors and executive officers.

### **Compensation Program Objectives and Rewards**

Our compensation philosophy is based on the premise of attracting, retaining, and motivating exceptional leaders, setting high goals, working toward the common objectives of meeting the expectations of customers and stockholders, and rewarding outstanding performance. Following this philosophy, in determining executive compensation, we consider all relevant factors, such as the competition for talent, our desire to link pay with performance in the future, the use of equity to align executive interests with those of our Stockholders, individual contributions, teamwork and performance, and each executive’s total compensation package. We strive to accomplish these objectives by compensating all executives with total compensation packages consisting of a combination of competitive base salary and incentive compensation.

The primary purpose of the compensation and benefits described below is to attract, retain, and motivate highly talented individuals who will engage in the behaviors necessary to enable us to succeed in our mission while upholding our values in a highly competitive marketplace. Different elements are designed to engender different behaviors, and the actual incentive amounts, which may be awarded to each Named Executive Officer, are subject to the annual review of our Board of Directors. The following is a brief description of the key elements of our planned executive compensation structure.

- Base salary and benefits are designed to attract and retain employees over time.
- Incentive compensation awards are designed to focus employees on the business objectives for a particular year.
- Equity incentive awards, such as stock options and non-vested stock, focus executives’ efforts on the behaviors within the recipients’ control that they believe are designed to ensure our long-term success as reflected in increases to our stock prices over a period of several years, growth in our profitability and other elements.
- Severance and change in control plans are designed to facilitate a company’s ability to attract and retain executives as we compete for talented employees in a marketplace where such protections are commonly offered. We currently have not given separation benefits to any of our Name Executive Officers.

### **Benchmarking**

We have not yet adopted benchmarking but may do so in the future. When making compensation decisions, our Board of Directors may compare each element of compensation paid to our Named Executive Officers against a report showing comparable compensation metrics from a group that includes both publicly-traded and privately-held companies. Our board believes that while such peer group benchmarks are a point of reference for measurement, they are not necessarily a determining factor in setting executive compensation as each executive officer’s compensation relative to the benchmark varies based on scope of responsibility and time in the position. We have not yet formally established our peer group for this purpose.

### **The Elements of Sunworks’ Compensation Program**

#### **Base Salary**

Executive officer base salaries are based on job responsibilities and individual contribution. The board reviews the base salaries of our executive officers, including our Named Executive Officers, considering factors such as corporate progress toward achieving objectives (without reference to any specific performance-related targets) and individual performance experience and expertise. Additional factors reviewed by our Board of Directors in determining appropriate base salary levels and raises include subjective factors related to corporate and individual performance. For the year ended December 31, 2020, our Board of Directors approved all executive officer base salary decisions.

Our board of directors determines base salaries for the Named Executive Officers annually, and the board, upon recommendation of the compensation committee proposes new base salary amounts, if appropriate, based on its evaluation of individual performance and expected future contributions. We adopted a 401(k) Plan in 2016 and base salary is the only element of compensation that is used in determining the amount of contributions permitted under the 401(k) Plan.

### **Incentive Compensation Awards**

We have in prior years paid discretionary bonuses to our Named Executive Officers as approved by our Compensation Committee. No bonuses were paid in either 2020 or 2019.

### **Equity Incentive Awards**

In March 2016, our Board of Directors adopted the 2016 Plan and in June 2016, our stockholders adopted the same. The maximum number of shares of common stock that may be issued under the 2016 Plan is 542,857. The 2016 Plan is currently administered by our Compensation Committee. The 2016 Plan authorizes grants of stock options, stock appreciation rights and restricted stock awards to officers, employees, directors of the Company as well as consultants who are selected by the Compensation Committee to receive an award. No option shall be exercisable more than 10 years after the date of grant. No option granted under the 2016 Plan is transferable by the individual or entity to whom it was granted otherwise than by will or laws of descent and distribution, and, during the lifetime of such individual, is not exercisable by any other person, but only by the recipient.

### **Benefits and Prerequisites**

We have limited benefits and prerequisites for our employees other than health insurance, 401(k) and vacation benefits that are generally comparable to those offered by other small private and public companies or as may be required by applicable state employment laws. We may confer other fringe benefits for our executive officers in the future if our business grows sufficiently to enable us to afford them.

### **Separation and Change in Control Arrangements**

On September 22, 2017, we entered into a Change of Control Agreement with Paul McDonnel, our Interim Chief Financial Officer, and another employee to provide certain severance benefits in the event the employee's employment with the Company terminates under certain circumstances.

Pursuant to the Change of Control Agreements, if within three months prior to a change of control or twenty-four months after a change of Control (the "Change of Control Period"), the employee's employment terminates as a result of an involuntary termination or a resignation for good reason, then the Company has agreed, upon the terms and subject to the conditions of the Change of Control Agreements, to pay to the employees: (i) any accrued and unpaid base salary as of the date of the employment termination; (ii) any accrued and unpaid value of unused paid time off; (iii) any accrued reimbursement for expenses incurred by the employees prior to the termination of the employee; (iv) any accrued and unpaid cash incentive bonus with respect to the most recent fiscal year; (v) severance payments to the employees as set forth in each respective Agreement; and (vi) health benefits to the employees for a period twelve months. In addition, the employee's outstanding options, stock appreciation rights, restricted stock awards and other equity-based awards as of the date of termination of the employee shall immediately vest and become exercisable.

The tables below estimate the current value of amounts payable in the event that a change in control occurred on December 31, 2020. The following tables exclude certain benefits, such as accrued vacation, that are available to all employees generally. The actual amount of payments and benefits that would be provided can only be determined at the time of a change in control and/or the qualifying separation from our Company.

Name	Base Salary (1)	Annual Incentive Bonus (2)	Value of Stock Options Accelerated (3) (4)
Paul McDonnel	\$ 202,000	-	\$ 6,300

- (1) Base salary is equal to 12 months of salary for Mr. McDonnel.
- (2) As no annual bonus amount is guaranteed, this carries zero value at December 31, 2020.
- (3) Based on the last sale price of the Company's common stock as quoted on the NASDAQ Capital Market on December 31, 2020, which was \$5.12 per share.

Upon the terms and subject to the conditions of the Change of Control Agreements, if the employee's employment with the Company terminates during the Change of Control Period other than as a result of an Involuntary Termination (as defined in the Change of Control Agreement) or a Resignation for Good Reason (as defined in the Change of Control Agreement), including termination due to employee's disability or death, then the employee shall receive his accrued and unpaid base salary, any accrued and unpaid value of unused paid time off, any accrued reimbursement for expenses incurred and any accrued and unpaid cash incentive bonus with respect to the most recent fiscal year.

#### Executive Officer Compensation

The following table sets forth the total compensation paid in all forms to the executive officers of the Company and includes our principal executive officer, our principal operating officer and our principal financial officer during the periods indicated:

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation (5)	Total
Charles Cargile, Chairman and former Chief Executive Officer	2020	\$178,800	\$ -	\$ 63,000	\$ -	-	-	71,400(5)	\$313,200
	2019	300,000	-	250,000	27,700	-	-	-	577,700
Philip Radmilovic, Chief Financial Officer (3)	2020	\$ -	\$ -	\$ -	\$ -	-	-	-	\$ -
	2019	31,800	\$ -	\$ -	\$ 700	-	-	-	\$ 32,500
Paul McDonnel, Interim Chief Financial Officer (4)	2020	\$191,800	\$ -	\$ -	\$ -	-	-	-	\$191,800
	2019	180,200	\$ -	\$ -	11,400	-	-	-	191,600

- (1) The amount reflected in this column is the stock-based compensation cost recognized by the Company during fiscal years 2020 and 2019. The fair value of each restricted stock grant is estimated on the date of grant using the closing price of our common stock on the date of the grant as reported on the NASDAQ Capital Market.
- (2) The amount reflected in this column is the stock-based compensation cost recognized by the Company during fiscal years 2020 and 2019. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model.
- (3) Philip Radmilovic resigned from his position with the Company, effective on February 22, 2019.
- (4) Paul McDonnel served as Chief financial Officer until May 28, 2019 and then served as Treasurer until February 22, 2020, when he was appointed Interim Chief Financial Officer.
- (5) Charles Cargile resigned as Chief Executive Officer effective August 21, 2020 while continuing to serve as Chairman of the Board of Directors. On October 22, 2020, Mr. Cargile briefly returned to serve as the principal executive officer of Sunworks until January 11, 2021. Mr. Cargile was paid \$59,400 in consulting fees at an hourly rate of \$100 per hour while serving as the principal executive officer and as a consultant to Sunworks during the Company's transition to our new Chief Executive Officer. These consulting fees are in addition to the compensation of \$3,000 per month received for services as a Board member, which totaled \$12,000 for 2020.

## Employment Agreements

We have entered into employment agreements with our named executive officers as follows:

On March 29, 2017, we entered into an at-will employment agreement with our then Chief Executive Officer. Pursuant to the terms of the employment agreement, Mr. Cargile received a base salary of \$300,000 per year and a discretionary bonus. The employment agreement also provided for a restricted stock grant of 71,429 shares, one third of which vested on the one-year anniversary of the grant, and the balance of which vested in twenty-four equal monthly installments commencing on the one-year anniversary of the grant.

## Outstanding Equity Awards

The following table sets forth information with respect to unexercised stock options, stock that has not vested, and equity incentive plan awards held by our executive officers outstanding as of December 31, 2020.

### Outstanding Equity Awards at Fiscal Year-End

Name and Principal Position	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares of Stock that Have not Vested	Market Value of Shares of Stock that Have not Vested
Charles Cargile Chairman and Interim CEO	7,142(1)	0	\$ 20.16	9/1/21		
	7,142(2)	0	10.50	5/17/22		
	4,922(2)	792	7.63	5/30/23		
	156(2)	2,062	2.10	1/2/24		
Paul McDonnell Interim Chief Financial Officer	4,285(2)	0	\$ 10.50	5/17/22		
	1,407(2)	1,664	3.07	8/9/24		

(1) Options granted pursuant to the 2016 Plan and vest at the rate of 1/24th per month.

(2) Options granted pursuant to the 2016 Plan and vest at the rate of 1/36th per month.



## Restricted Stock

The Company entered into an RSGA, with its Chief Executive Officer, Charles Cargile, effective March 29, 2017, which was subject to the 2016 Plan. All shares issued under the RSGA were valued as of the grant date at \$10.50 per share. The RSGA provided for the issuance of up to 71,429 shares of the Company's common stock. The restricted shares vested as follows: 23,810 of the restricted shares vested on the one (1) year anniversary of the effective date, and the balance, or 47,619 restricted shares, vested in twenty-four (24) equal monthly instalments commencing on the one (1) year anniversary of the effective date.

## Option Exercises and Stock Vested

During the fiscal year ended December 31, 2020, the Directors utilized a net option exercise. On a combined basis, options for 17,415 gross shares of common stock were exercised resulting in 8,796 net shares of common stock being issued in exchange.

## Director Compensation

The following table sets forth certain information regarding the compensation paid to our non-employee directors during the fiscal year ended December 31, 2020:

Director Compensation					
Name	Fees earned or cash paid	Stock Awards	Option Awards	All other compensation	Total
Rhone Resch	\$ 33,000	-	-	\$ -	\$ 33,000
Daniel Gross	\$ 33,000	-	-	\$ -	\$ 33,000
Stanley Speer	\$ 33,000	-	-	\$ -	\$ 33,000
Charles Cargile (1)	\$ 12,000	5,952	-	\$ 59,400(1)	\$ 71,400
Judith Hall	\$ 33,000	-	-	\$ -	\$ 33,000

(1) Charles Cargile resigned as Chief Executive Officer effective August 21, 2020 while continuing to serve as Chairman of the Board of Directors. On October 22, 2020, Mr. Cargile briefly returned to serve as the principal executive officer of Sunworks until January 11, 2021. Mr. Cargile was paid \$59,400 in consulting fees at an hourly rate of \$150 per hour while serving as the principal executive officer and as a consultant to Sunworks during the Company's transition to our new Chief Executive Officer. These consulting fees are in addition to the compensation of \$3,000 per month received for services as a Board member, which totaled \$12,000 for 2020.

The compensation paid to non-employee Board members was \$3,000 per month. Per agreement, each of the independent directors elected to not be paid their monthly fee for April 2020. No option awards were granted to directors of the Company pursuant to the Company's 2016 Equity Incentive Plan during 2020. Directors may also be reimbursed their expenses for traveling, hotel and other expenses reasonably incurred in connection with attending board or committee meetings or otherwise in connection with the Company's business.

As of December 31, 2020, there are no other cash compensation arrangements in place for members of the Board of Directors acting as such.

Effective April 1, 2021, the compensation paid to non-employee Board members increases to a minimum of \$6,000 per month. The Audit Committee Chairperson will receive \$7,000 per month. The Board Chairperson will receive \$8,000 per month. In addition, Board members will receive a \$40,000 bonus for 2020 to be paid during the first quarter of 2021. Directors may also be reimbursed their expenses for traveling, hotel and other expenses reasonably incurred in connection with attending board or committee meetings or otherwise in connection with the Company's business.

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

The following table sets forth certain information regarding beneficial ownership of shares of our common stock as of March 26, 2021, by (i) each person known to beneficially own more than 5% of our outstanding common stock, (ii) each of our directors, (iii) each of our named executive officers, and (iv) all of our directors and executive officers as a group. Except as otherwise indicated, the persons named in the table below have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws, where applicable.

<b>Name of Beneficial Owner (1)</b>	<b>Common Stock</b>	
	<b>Number of Shares Owned (2)</b>	<b>Percentage Owned (2)(3)</b>
Paul McDonnel (4)	8,335	0.0%
Charles Cargile (5)	21,004	0.1%
Rhone Resch (6)	12,325	0.0%
Daniel Gross (7)	8,731	0.0%
Stanley Speer (8)	8,755	0.0%
Judith Hall (9)	2,710	0.0
All officers and directors as a group (6 persons)	61,860	0.0%

(1) The address for our officers and directors is c/o the Company, 2270 Douglas Blvd., Suite 216, Roseville, California 95661.

(2) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of March 26, 2021 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(3) Percentage based on 27,047,744 shares of common stock issued and outstanding at March 26, 2021.

(4) Includes (a) 2,218 shares of common stock, (b) 6,117 shares underlying options that are vested and currently exercisable and options which may be exercisable in the next 60 days.

(5) Includes (a) 0 shares of common stock, (b) 21,004 shares underlying options that are vested and currently exercisable and options which may be exercisable in the next 60 days.

(6) Includes (a) 1,613 shares of common stock, (b) 10,712 shares underlying options that are vested and currently exercisable and options which may be exercisable in the next 60 days.

(7) Includes (a) 1,589 shares of common stock, (b) 7,142 shares underlying options that are vested and currently exercisable and options which may be exercisable in the next 60 days.

(8) Includes (a) 1,613 shares of common stock, (b) 7,142 shares underlying options that are vested and currently exercisable and options which may be exercisable in the next 60 days.

(9) Includes (a) 1,528 shares of common stock, (b) 1,182 shares underlying options that are vested and currently exercisable and options which may be exercisable in the next 60 days

**Securities authorized for issuance under equity compensation plans.**

The following table reflects information for equity compensation plans and arrangements for any and all directors, officers, employees and/or consultants through December 31, 2020.

**Equity Compensation Plan Information**

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans excluding securities included in column (a)</b>
Equity compensation plans approved by security holders	88,441	\$ 11.02	319,015
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>88,441</b>	<b>\$ 11.02</b>	<b>319,015</b>

In March 2016, our Board of Directors adopted the 2016 Equity Incentive Plan (the "2016 Plan") and in June 2016, the shareholders adopted the same. The maximum number of shares of common stock that may be issued under the 2016 Plan is 542,858. The 2016 Plan is currently administered by the Company's Compensation Committee. The 2016 Plan authorizes grants of stock options, stock appreciation rights and restricted stock awards to officers, employees, directors of the Company as well as consultants who are selected by the Compensation Committee to receive an award. No option shall be exercisable more than 10 years after the date of grant. No option granted under the 2016 Plan is transferable by the individual or entity to whom it was granted otherwise than by will or laws of descent and distribution, and, during the lifetime of such individual, is not exercisable by any other person, but only by the recipient.

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

The following is a description of transactions since January 1, 2019, to which we have been a party in which the amount involved exceeded or will exceed \$120,000 and in which any of our directors, executive officers, beneficial holders of 5% or more of our capital stock, or entities affiliated with them, had or will have a direct or indirect material interest:

In April 2018, we entered into a Loan Agreement with CrowdOut Capital, Inc., pursuant to which we issued an aggregate of \$3.75 million in promissory notes, of which \$3 million are Senior Notes and \$750,000 are Subordinated Notes. The Subordinated Notes were funded by our Chief Executive Officer, Charles Cargile, and our Vice President of Commercial Operations, Kirk Short. The Loan Agreement provided for the appointment of Joshua Schechter to our Board of Directors and the right of CrowdOut Capital, Inc. to at any time designate a replacement for Mr. Schechter. CrowdOut Capital, Inc.'s right to designate a director to our Board of Directors terminates upon the satisfaction of all of our obligations under the Loan Agreement.

On January 27, 2020, our Board of Directors received written notice from Joshua Schechter of his resignation as director and Chairman of our Board of Directors, effective immediately.

On January 28, 2020 we entered into a second amendment to the Loan Agreement, pursuant to which the Loan Agreement was amended to permit the partial prepayment of \$1.5 million without prepayment fees. The Loan Amendment also provides that, unless an event of default occurs under the Loan Agreement, CrowdOut will no longer have the right to designate a member to our Board of Directors.

Effective with the Loan Amendment, our Board of Directors appointed Charles Cargile as Chairman to fill the vacancy resulting from Mr. Schechter's resignation. On January 29, 2020 we paid CrowdOut \$1.5 million as a prepayment of the \$3 million Senior Note.

On December 4, 2020, the Company paid the remaining outstanding balance of the \$1,500 Senior Note and \$750 of Subordinated Notes together with the \$435 exit fee. The Subordinated Notes were funded by the Company's Chairman and former Chief Executive Officer and the Company's President of Commercial Operations. No balance or obligations remain outstanding as of December 31, 2020.

*Director Independence*

Our Board of Directors presently consists of six members. Our Board of Directors has determined that each of Messrs. Speer, Gross and Resch and Ms. Judith Hall are "independent," as defined by SEC rules adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and as determined in accordance with Rule 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market, Inc.

#### Item 14. Principal Accountant Fees and Services.

##### Audit Fees and Services

The Company engaged KMJ Corbin & Company LLP to serve as its independent registered public accounting firm for the fiscal year ended December 31, 2020. The Company previously engaged Liggett & Webb, P.A. as its independent registered public accounting firm for the fiscal year ended December 31, 2019 continuing through the first quarter of 2020.

Set forth below are the fees paid to KMJ Corbin & Company LLP and Liggett & Webb, P.A. for each of the last two fiscal years:

##### Audit Fees

Set below are the aggregate fees billed for each of the last two fiscal years for professional services rendered by the Company's principal accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

Auditor:	2020	2019
KMJ Corbin & Company LLP	\$ 32,800	\$ -
Liggett & Webb, P.A.	\$ 129,500	\$ 147,500

##### Audit-Related Fees

Set forth below are the aggregate fees billed in each of the last two fiscal years for assurance and related services by the Company's principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees" above. Primarily related to consent fees.

Auditor:	2020	2019
KMJ Corbin & Company LLP	\$ 7,000	\$ -
Liggett & Webb, P.A.	\$ 5,000	\$ 17,500

##### Tax Fees

Set forth below are the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. The Company has retained other accountants for these tax services for the fiscal year ended December 31, 2020.

	2020	2019
KMJ Corbin & Company LLP	\$ -	\$ -
Liggett & Webb, P.A.	\$ 15,000	\$ 15,000

##### All Other Fees

Set forth below are the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported above.

	2020	2019
KMJ Corbin & Company LLP	\$ -	\$ -
Liggett & Webb, P.A.	\$ 1,000	\$ -

The fees above are related to registration statements.

##### Pre-Approval Policies and Procedures of Audit and Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee's policy is to pre-approve all audit, and tax fees, typically at the beginning of our fiscal year, all audit, audit related and non-audit services, other than de minimis non-audit services, to be provided by an independent registered public accounting firm. These services may include, among others, audit services, audit-related services, tax services and other services and such services are generally subject to a specific budget. During 2020, 97% of all accounting fees incurred were pre-approved by the audit committee. The independent registered public accounting firm and management are required to periodically report to the full Board of Directors regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. As part of the Board's review, the Board will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and approve or reject each service, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor's independence from management. At Audit Committee meetings throughout the year, the auditor and management may present subsequent services for approval. Typically, these would be services such as due diligence for an acquisition, that would not have been known at the beginning of the year.

The Audit Committee has considered the provision of non-audit services provided by our independent registered public accounting firm to be compatible with maintaining their independence. The audit committee will continue to approve all audit and permissible non-audit services provided by our independent registered public accounting firm.

##### Percentage of Services Approved by Audit Committee

All services were approved by the Audit Committee.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

#### (1) Financial Statements.

The financial statements required by item 15 are submitted in a separate section of this report, beginning on Page F-1, incorporated herein and made a part hereof.

#### (2) Financial Statement Schedules.

Schedules have been omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements or notes thereto.

#### (3) Exhibits.

The following exhibits are filed with this report, or incorporated by reference as noted:

##### (a)

- 1.1 [At Market Issuance Sales Agreement, dated June 6, 2020, between Sunworks, Inc. and B. Riley FBR, Inc. \(Incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2020\).](#)
- 1.2 [Sales Agreement, dated February 10, 2021, between Sunworks, Inc. and Roth Capital Partners, LLC \(incorporated by reference to the current report on Form 8-K with the Securities and Exchange Commission on February 11, 2021\).](#)
- 2.1 [Agreement and Plan of Merger dated August 6, 2015 with Plan B Enterprises, Inc. d/b/a Universal Racking Solutions, Kirk R. Short and Elite Solar Acquisition Sub., Inc. \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on August 12, 2015\).](#)
- 2.2 [Agreement and Plan of Merger, dated August 10, 2020, by and among Sunworks, Inc., The Peck Company Holdings and Peck Mercury, Inc \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on August 10, 2020\).](#)
- 2.2 [Amendment No. 1 dated October 30, 2015 to Agreement and Plan of Merger dated August 6, 2015 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2015\).](#)
- 2.3 [Amendment No. 2 dated November 30, 2015 to Agreement and Plan of Merger dated August 6, 2015 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2015\).](#)
- 3.1\* [Amended and Restated Certificate of Incorporation.](#)
- 3.2 [Bylaws \(incorporated by reference to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission, dated August 1, 2005\).](#)
- 3.3 [Certificate of Amendment of Bylaws \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on August 10, 2020\).](#)
- 4.1 [Form of Warrant Agreement between Sunworks, Inc., Computershare Inc., and Computershare Trust Company, N.A. \(incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on March 5, 2015\).](#)
- 4.2# [Sunworks, Inc. 2016 Equity Compensation Plan \(incorporated by reference to Schedule 14A filed with the Securities and Exchange Commission on May 18, 2016\).](#)

- 4.3 [Description of Registrant's Capital Stock \(incorporated by reference from the annual report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission on March 30, 2020\).](#)
- 10.1# [Form of Indemnification Agreement \(incorporated by reference from the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on October 31, 2020\).](#)
- 10.2# [Non-statutory Stock Option Agreement with James B. Nelson, dated July 22, 2010 \(incorporated by reference from the current report on Form 8-K filed by the Company with the Securities and Exchange Commission on August 5, 2010\).](#)
- 10.3# [Restricted Stock Grant Agreement, dated September 23, 2013, by and between Solar 3D, Inc., a Delaware corporation, as Grantor, and James B. Nelson, as Grantee \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on September 26, 2013\).](#)
- 10.4# [Stock Purchase Agreement by and among Solar United Network, Inc., Emil Beitpolous, Abe Emard, Richard Emard, Mikhail Podnebesnyy, and Solar 3D, Inc., dated October 31, 2013 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on November 6, 2013\).](#)
- 10.5# [Addendum to Stock Purchase Agreement by and among Solar United Network, Inc., Emil Beitpolous, Abe Emard, Richard Emard, Mikhail Podnebesnyy, and Solar 3D, Inc., dated January 31, 2014 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on January 31, 2014\).](#)
- 10.6# [Amendment to Restricted Stock Grant Agreement, dated May 1, 2014 by and between Solar 3D, Inc. and James B. Nelson \(incorporated by reference to the current report on current report on Form 8-K filed with the Securities and Exchange Commission on May 2, 2014\).](#)
- 10.7# [Second Amendment to Restricted Stock Grant Agreement, dated August 26, 2014 by and between Solar 3D, Inc. and James B. Nelson \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on August 29, 2014\).](#)
- 10.8# [Form of Restricted Stock Grant Agreement in connection with grants to Abe Emard, Emil Beitpolous and Mikhail Podnebesnyy dated October 1, 2014 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on October 3, 2014\).](#)
- 10.9 [Asset Purchase Agreement dated November 3, 2014 between MD Energy, LLC, Daniel Mitchell, Andrea Mitchell and Solar 3D, Inc. \(incorporated by reference to the quarterly report on Form 10-Q filed on November 10, 2014\).](#)
- 10.10 [Amended and Restated Asset Purchase Agreement dated February 28, 2015 between MD Energy, LLC, Daniel Mitchell, Andrea Mitchell and Solar 3D, Inc. \(incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on March 3, 2015\).](#)
- 10.11 [Convertible Promissory Note issued February 28, 2015 \(incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on March 3, 2015\).](#)
- 10.12# [Employment Agreement effective as of March 29, 2017 between Sunworks, Inc. and Charles Cargile \(incorporated by reference to the annual report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2019\).](#)
- 10.13# [Form of Change of Control Agreement dated as of September 26, 2017 between Sunworks, Inc. and Charles Cargile. \(incorporated by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on September 28, 2017\).](#)
- 10.14# [Form of Change of Control Agreement dated as of September 26, 2017 between Sunworks, Inc. and the officers party thereto \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on September 28, 2017\).](#)
- 10.15 [Loan Agreement dated April 27, 2019 between CrowdOut Capital, Inc. and Sunworks, Inc. \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on April 27, 2019\).](#)
- 10.16 [Senior Promissory Note issued April 27, 2019 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on April 27, 2019\).](#)
- 10.17 [Subordinated Promissory Note issued April 27, 2019 \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on April 27, 2019\).](#)
- 10.18 [Security Agreement dated April 27, 2019 between CrowdOut Capital, Inc. and Sunworks, Inc. \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on April 27, 2019\).](#)

- 10.19 [Subordinated Agreement dated April 27, 2019 between CrowdOut Capital, Inc. and Sunworks, Inc. \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on April 27, 2019\).](#)
- 10.20 [First Amendment to Loan Agreement dated June 3, 2020 between CrowdOut Capital, LLC and Sunworks, Inc. \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2020\).](#)
- 10.21 [Loan Agreement made April 25, 2020 between Sunworks United, Inc. and Tri Counties Bank with U.S. Small Business Administration Guarantee \(incorporated by reference to the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2020\).](#)
- 10.22 [U.S. Small Business Administration, Note and SBA Loan # 1319647201 between Sunworks United, Inc. and Tri Counties Bank \(incorporated by reference to the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2020\).](#)
- 10.23 [Third Amendment to Loan Agreement, dated April 28, 2020 between CrowdOut Capital LLC and Sunworks, Inc \(incorporated by reference to the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 10, 2020\).](#)
- 10.24# [Employment Agreement effective as of January 11, 2021 between Sunworks, Inc. and Gaylon Morris \(incorporated by reference to the current report on Form 8-K filed with the Securities and Exchange Commission on January 13, 2021\).](#)
- 14.1 [Sunworks, Inc. Code of Conduct, adopted May 2018 \(incorporated by reference to the current report filed on June 5, 2019\).](#)
- 21.1\* [Subsidiaries](#)
- 31.1\* [Certification of Principal Executive Officer](#)
- 31.2\* [Certification of Principal Financial Officer](#)
- 32.1\*\* [Section 1350 Certificate of President and Chief Financial Officer](#)

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  
101.LABXBRL Taxonomy Extension Labels Linkbase Document  
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

# Denotes management compensatory plan or arrangement.

\*\* The certifications attached as Exhibit 32.1 accompany this Annual Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the registrant for purposes of Section 18 of the Exchange Act and are not to be incorporated by reference into any of the registrant's filings under the Securities Act or the Exchange Act, irrespective of any general incorporation language contained in any such filing.

(b) Exhibits.

See (a)(3) above.

(c) Financial Statement Schedules.

See (a)(2) above.

## SIGNATURES

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

### SUNWORKS, INC.

By: /s/ Charles F. Cargile

Chairman  
Principal Executive Officer

By: /s/ Paul McDonnel

Interim Chief Financial Officer  
Principal Financial and Accounting Officer

Date: March 26, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles F. Cargile</u> Charles F. Cargile	Chairman (Principal Executive Officer)	March 26, 2021
<u>/s/ Gaylon Morris</u> Gaylon Morris	Chief Executive Officer & Director	March 26, 2021
<u>/s/ Paul McDonnel</u> Paul McDonnel	Interim Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 2021
<u>/s/ Judith Hall</u> Judith Hall	Director	March 26, 2021
<u>/s/ Daniel Gross</u> Daniel Gross	Director	March 26, 2021
<u>/s/ Stanley Speer</u> Stanley Speer	Director	March 26, 2021
<u>/s/ Rhone Resch</u> Rhone Resch	Director	March 26, 2021



**Exhibit 3.1****As Updated Amended and Restated Certificate of Incorporation**

AS UPDATED

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

SUNWORKS, INC.

Sunworks, Inc. (the "Corporation"), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: The name of this corporation is SUNWORKS, INC.

SECOND: The address of this Corporation's registered office in the State of Delaware is 615 South DuPont Highway, City of Dover, County of Kent, State of Delaware 19901. National Corporate Research, Ltd., is the Corporation's registered agent at that address.

THIRD: The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware.

FOURTH:

A. CAPITALIZATION. The total number of shares of all classes of capital stock which the Corporation shall have the authority to issue is Fifty Five Million (55,000,000) shares, consisting of (a) Fifty Million (50,000,000) shares of Common Stock, par value \$0.001 per share ("Common Stock"), and (b) Five Million (5,000,000) shares of Preferred Stock, par value \$0.001 per share ("Preferred Stock").

B. REVERSE STOCK SPLIT. Effective at 4:00 p.m. Eastern Time on August 29, 2019 (the "Effective Time"), each seven (7) shares of Common Stock then issued and outstanding, or held in the treasury of the Corporation, immediately prior to the Effective Time shall automatically be reclassified and converted into one (1) share of Common Stock, without any further action by the Corporation or the respective holders of such shares (the "Reverse Stock Split"). No fractional shares shall be issued in connection with the Reverse Stock Split. A holder of Common Stock who would otherwise be entitled to receive a fractional share as a result of the Reverse Stock Split will receive one whole share of Common Stock in lieu of such fractional share.

C. PREFERRED STOCK. The Board of Directors of the Corporation (the "Board of Directors") is authorized to provide, by resolution, for one or more series of Preferred Stock to be comprised of authorized but unissued shares of Preferred Stock. Except as may be required by law, the shares in any series of Preferred Stock need not be identical to any other series of Preferred Stock. Before any shares of any such series of Preferred Stock are issued, the Board of Directors shall fix, and is hereby expressly empowered to fix, by resolution, the rights, preferences and privileges of, and qualifications, restrictions and limitations applicable to, such series.

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The Board of Directors is authorized to increase the number of shares of the Preferred Stock designated for any existing series of Preferred Stock by a resolution adding to such series authorized and unissued shares of the Preferred Stock not designated for any other series of Preferred Stock. The Board of Directors is authorized to decrease the number of shares of the Preferred Stock designated for any existing series of Preferred Stock by a resolution, subtracting from such series unissued shares of the Preferred Stock designated for such series.

D. COMMON STOCK.

(i) Except as otherwise required by law, and subject to any special voting rights which may be granted to any additional series of Preferred Stock in the Board of Directors resolutions which create such series, each holder of Common Stock shall be entitled to one vote for each share of Common Stock standing in such holder's name on the records of the Corporation on each matter submitted to a vote of the stockholders. Holders of Common Stock shall not have the right to cumulative voting in the election of directors of the Corporation.

(ii). Subject to the rights of the holders of the Preferred Stock, if any, the holders of the Common Stock shall be entitled to receive such dividends and other distributions, in cash, securities or property of the Corporation, as may be declared thereon from time to time by the Board of Directors, out of the assets and funds of the Corporation legally available therefor.

FIFTH: The incorporator of this Corporation is Michael E. Pfau, whose mailing address is 1421 State Street, Santa Barbara, California 93101.

SIXTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation. Election of Directors need not be by written ballot unless the Bylaws of the Corporation so provide.

SEVENTH: Unless and except to the extent that the Bylaws of the Corporation shall so require, the election of Directors of the Corporation need not be by written ballot.

EIGHTH: A Director of the Corporation shall not liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended. Any amendment, modification, or repeal of the foregoing sentence shall not adversely affect any right or protection of a Director of the corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification, or appeal.

NINTH: The Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and other provisions authorized at any time by the laws of the State of Delaware may be added to this Certificate of Incorporation in the manner now or hereafter prescribed by law. All rights, preferences, and privileges of whatsoever nature conferred upon stockholders, Directors, or other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article.

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TENTH: Effective on April 3, 2009, there shall be a one-for-five split of all issued and outstanding Common Stock of the Corporation such that for every five shares of Common Stock outstanding on such recording date, the shareholder of that Common Stock of record on such recording date shall thereafter own one share of Common Stock.

ELEVENTH: Effective on August 30, 2010, there shall be a one-for-five split of all issued and outstanding Common Stock of the Corporation such that for every five shares of Common Stock outstanding on such recording date, the shareholder of that Common Stock of record on such recording date shall thereafter own one share of Common Stock.

TWELFTH: The authorized number of directors of the Corporation shall be not less than one (1) nor more than fifteen (15) as fixed from time to time by resolution of a majority of the Board of Directors.

IN WITNESS WHEREOF, I have signed this Amended and Restated Certificate this 18<sup>th</sup> day of September, 2020.

**SUNWORKS, INC.**

/s/ Charles F. Cargile  
Chief Executive Officer

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**CERTIFICATE OF DESIGNATION  
OF  
SERIES A PREFERRED STOCK  
OF  
SOLAR3D, INC.**

James B. Nelson hereby certifies as follows:

1. He is the President and the Secretary of Solar3D, Inc., a Delaware corporation (the "Company").
2. The number of authorized shares of Preferred Stock is 5,000,000, none of which has been issued. The authorized number of shares of Series A Preferred Stock is 4,400, none of which has been issued.
3. The Board of Directors has duly adopted the following resolution at a meeting of the Board of Directors:

WHEREAS, the Certificate of Incorporation, as amended, authorizes the Preferred Stock of the Company to be issued in series and authorize the Board of Directors to determine the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and to fix the number of shares and the designation of any such series.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issue of the first series of Preferred Stock of the Company and does hereby fix and determine the rights, preferences, restrictions and other matters relating to said initial series of Preferred Stock as follows:

**1. Designation**

There is hereby designated a series of Preferred Stock to be known as "Series A Preferred Stock" and the authorized number of shares of Series A Preferred Stock shall be 4,400 shares, with the rights, preferences, privileges, and restrictions set forth in this Certificate.

**2. Dividends**

The holders of the Series A Preferred Stock will not participate in the receipt of any dividends which may be declared by the Board of Directors or paid by the Company.

**3. Voting Rights**

On all matters submitted to a vote of the shareholders of the Company, each share of Series A Preferred Stock will have 100,000 votes and the holders of the Series A Preferred Stock will vote with the holders of the Common Stock as one class.

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#### 4. No Liquidation Preference

The holders of the Series A Preferred Stock will have no right to participate in the distribution of any assets of the Company upon its liquidation or in any other transaction involving the distribution of any of the Company's assets.

#### 5. Redemption and Conversion

Each share of Series A Preferred Stock will be (a) automatically redeemed and converted by the Company upon the listing of the Company's common stock for trading on the NASDAQ Capital Market or (b) converted at the option of any holder, in each case, into one share of the Company's common stock.

#### 6. Notices

Any notice required by the provisions hereof to be given to the holders of shares of Series A Preferred Stock shall be deemed given when personally delivered to such holder or five business days after the same has been deposited in the United States mail, certified or registered mail, return receipt requested, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Company.

IN WITNESS WHEREOF, said Solar3D, Inc. has caused this Certificate to be signed by duly authorized officers on this 9th day of January 2015.

By: /s/ James B. Nelson

James B. Nelson, President and Secretary

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**CERTIFICATE OF DESIGNATION  
OF  
SERIES B PREFERRED STOCK  
OF  
SOLAR3D, INC.**

*Pursuant to Section 151 of the General Corporation Law of the State of Delaware*

The undersigned DOES HEREBY CERTIFY that the following resolutions establishing a new series of preferred stock were duly adopted by the Board of Directors (the "Board of Directors") of Solar3D, Inc., a Delaware corporation (the "Corporation"), at a meeting duly convened and held, at which a quorum was present and acting throughout:

RESOLVED, that pursuant to the authority conferred on the Board of Directors of this Corporation by Article Fourth of the Corporation's Certificate of Incorporation, as amended, the Board of Directors of this Corporation hereby establishes a series of the authorized preferred stock of this Corporation, \$0.001 par value per share, which series will be designated as "Series B Preferred Stock," and which will consist of 1,700,000 shares and will have the following rights, preferences, privileges and restrictions (capitalized terms not defined herein shall have the meaning given to such terms in the Certificate of Incorporation, as amended, of this Corporation):

A. **Dividends and Distributions.** The holders of outstanding shares of the Series B Preferred Stock shall be entitled to receive dividends, if, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefor, at the rate of \$0.01 per share per annum (as adjusted for any combinations, consolidations, stock distributions or stock dividends with respect to such shares), payable in preference and priority to any payment of any dividend on the Common Stock and payable as the Board of Directors may from time to time determine. The right to such dividend on the Series B Preferred Stock shall not be cumulative, and no right to such dividends shall accrue to the holders of the Series B Preferred Stock by reason of the Board's failure to declare and set apart dividends thereon for any given period as herein provided. If the Board of Directors shall elect to make further distribution of dividends after all dividends on the Series B Preferred Stock, as required by this Section 1 shall have been paid or declared and set apart for payment to holders of the Series B Preferred Stock, such dividends shall be made equally to all outstanding shares, preferred and common.

**B. Liquidation Preference.**

i. In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary, subject to the rights of any other series of Preferred Stock to be established by the Board of Directors of this Corporation (collectively, the "Senior Preferred Stock"), the holders of the Series B Preferred Stock shall be entitled to receive, after any distribution with respect to the Senior Preferred Stock and prior to and in preference to any distribution of any of the assets of this Corporation to the holders of Common Stock by reason of their ownership thereof, \$0.0001 for each share (as adjusted for any stock split, stock division or consolidation) of Series B Preferred Stock then-outstanding.

ii. Upon the completion of the distribution required by subparagraph (i) of this Section B, the remaining assets of this Corporation available for distribution to stockholders shall be distributed among the holders of Series B Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each (assuming conversion of all such Series B Preferred Stock).

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C. **Voting.** Each holder of outstanding Shares of Series B Preferred Stock shall be entitled to vote with holders of outstanding shares of Common Stock, voting together as a single class, with respect to any and all matters presented to the stockholders of the Corporation for their action or consideration (whether at a meeting of stockholders of the Corporation, by written action of stockholders in lieu of a meeting or otherwise), except as provided by law. In any such vote, each Share of Series B Preferred Stock shall be entitled to a number of votes equal to the number of shares of Common Stock into which each Share of Series B is convertible pursuant to Section E herein, as of the record date for such vote or written consent or, if there is no specified record date, as of the date of such vote or written consent. Each holder of outstanding Shares of Series B Preferred Stock shall be entitled to notice of all stockholder meetings (or requests for written consent) in accordance with the Corporation's bylaws.

D. **Protective Provisions.** So long as at least 100,000 shares of Series B Preferred Stock remain outstanding, without the consent of the holders of at least a majority of the shares of Series B Preferred Stock then outstanding, in their sole discretion, voting as a separate series, given in writing or by vote at a meeting of such called for such purpose, this Corporation will not:

i. amend, alter or repeal any provision of the Certificate of Incorporation or bylaws of this Corporation or this Certificate of Designations, each as amended, so as to adversely affect any of the rights, preferences, privileges, limitations or restrictions provided for the benefit of the holders of the Series B Preferred Stock; or

ii. issue or sell, or obligate itself to issue or sell, any additional shares of Series B Preferred Stock, or any securities that are convertible into or exchangeable for shares of Series B Preferred Stock.

E. **Conversion.**

i. **Conversion at Election of Holder.** The shares of Series B Preferred Stock may be converted into shares of Common Stock as set forth herein, at the election of the holders at any time and from time to time after the original issuance, at the option of each Holder thereof, into that number of shares of Common Stock set forth in Section E(ii). Holders shall effect conversions by providing the Corporation with notice in the form of conversion notice attached hereto as Annex A.

ii. **Conversion Rate.** Each share of Series B Preferred Stock shall be convertible into one share of Common Stock, subject to adjustment from time to time as provided in this Certificate of Designation. All references to the Conversion Rate herein mean the Conversion Rate as so adjusted.

iii. **Subdivisions; Combinations.** In the event this Corporation should at any time prior to the conversion of the Series B Preferred Stock fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock, then, as of such record date (or the date of such dividend, distribution, split or subdivision if no record date is fixed), the Conversion Rate shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the number of shares of Common Stock outstanding at any time prior to the conversion of the Series B Preferred Stock is decreased by a reverse split or combination of the outstanding shares of Common Stock, then, following the record date for such reverse split or combination, the Conversion Rate shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

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iv. **Recapitalizations.** If at any time or from time to time after the effective date of this Certificate of Designations there is a recapitalization, reclassification, reorganization or similar event, then in any such event each holder of a share of Series B Preferred Stock shall have the right thereafter to convert such share into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification, reorganization or other change by a holder of the number of shares of Common Stock into which such share of Series B Preferred Stock could have been converted immediately prior to such recapitalization, reclassification, reorganization, or other change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

v. **No Impairment.** This Corporation will not, by amendment of its Certificate of Incorporation or this Certificate of Designations (except in accordance with applicable law) or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Section E by this Corporation, but will in good faith assist in the carrying out of all the provisions of this Section E and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of Series B Preferred Stock against impairment.

vi. **Reservation.** This Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, to effect conversions, such number of duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series B Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B Preferred Stock, in addition to such other remedies as shall be available to the holder of the Series B Preferred Stock, this Corporation will take such corporate action as may, in the opinion of counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Corporation's Certificate of Incorporation.

F. **Redemption by this Corporation.** The Series B Preferred Shares shall not be redeemable by this Corporation.

G. **Reacquired Shares.** Any shares of Series B Preferred Stock which will have been converted will be retired and cancelled promptly after the acquisition thereof. All such shares will upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other certificate of designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

RESOLVED, FURTHER, that the officers of this Corporation be, and each of them hereby is, authorized and empowered on behalf of this Corporation to execute, verify and file a certificate of designation in accordance with Delaware law.

IN WITNESS WHEREOF, Solar3D, Inc. has caused this certificate to be duly executed by its duly authorized officers this 24th day of November 2015.

SOLAR3D, INC.

By: */s/ James B. Nelson*

James B. Nelson, Chief Executive Officer

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**EXHIBIT 21.1**

**LIST OF SUBSIDIARIES**

<u>NAME OF SUBSIDIARY</u>	<u>STATE OF INCORPORATION</u>
Sunworks United, Inc.	California
MD Energy, Inc.	California
Plan B Enterprises, Inc., a California corporation d/b/a Universal Racking Solutions	California

## EXHIBIT 31.1

## CERTIFICATION

I, Charles F. Cargile, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sunworks, Inc.;

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

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

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

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

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

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

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

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

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

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

*/s/ Charles F. Cargile*

**Chairman**  
**(Principal Executive Officer)**

Date: March 26, 2021

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## EXHIBIT 31.2

## CERTIFICATION

I, Paul McDonnel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sunworks, Inc.;

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

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

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

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

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

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

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

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

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

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

*/s/ Paul McDonnel*

**Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)**

Date: March 26, 2021

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## EXHIBIT 32.1

**Certification**  
**Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002**  
**(Subsections (A) And (B) Of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Sunworks, Inc., (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Charles F. Cargile*

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**Chairman**  
**(Principal Executive Officer)**

Dated: March 26, 2021

*/s/ Paul McDonnel*

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**Interim Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

Dated: March 26, 2021

The foregoing Certifications are being furnished solely to accompany the Form 10-K pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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