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# Form 10-Q

RASER TECHNOLOGIES INC - RZ

Filed: May 10, 2010 (period: March 31, 2010)

Quarterly report which provides a continuing view of a company's financial position

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10-Q - FORM 10-Q

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

Commission File Number: 001-32661

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**RASER TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

87-0638510  
(I.R.S. Employer  
Identification No.)

5152 North Edgewood Drive, Suite 200, Provo, UT  
(Address of principal executive offices)

84604  
(Zip Code)

Registrant's telephone number, including area code: (801) 765-1200

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of May 7, 2010 was 88,562,107 shares.

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**Raser Technologies, Inc.**  
**Form 10-Q for the Period Ended March 31, 2010**

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**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

<b>Assets</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,698,758	\$ 41,782
Restricted cash	29,282,075	76,921
Federal grant receivable	—	32,990,089
Trade accounts and notes receivable, net	340,112	336,788
Restricted short-term marketable securities (held to maturity)	2,200,222	2,191,339
Prepaid expenses and short-term deposits	753,237	1,050,590
<b>Total current assets</b>	<b>35,274,404</b>	<b>36,687,509</b>
Restricted cash	3,176,361	9,074,770
Land	1,811,063	1,811,063
Geothermal property, plant and equipment, net	82,125,530	80,433,597
Power project leases and prepaid delay rentals	6,696,085	6,530,946
Geothermal well field development-in-progress	939,052	885,586
Power project construction-in-progress	8,310,897	8,278,500
Equipment, net	537,961	606,421
Intangible assets, net	1,520,913	1,552,425
Deferred financing costs, net	6,551,126	6,928,593
Other assets	1,246,104	1,402,752
<b>Total assets</b>	<b>\$ 148,189,496</b>	<b>\$ 154,192,162</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 10,825,351	\$ 16,677,632
15.00% senior secured note, net of discount of \$746,570 and \$1,232,846, respectively	19,253,430	18,767,154
Unsecured line of credit, net of discount of \$13,163 and \$33,399, respectively	5,244,390	5,528,553
Short-term portion of long-term notes	3,054,339	1,937,290
Deferred revenue	200,000	200,000
<b>Total current liabilities</b>	<b>38,577,510</b>	<b>43,110,629</b>
Asset retirement obligation	2,799,823	2,749,342
Long-term 7.00% senior secured note (non-recourse), net of discounts of \$4,363,809 and \$4,469,481, respectively	24,624,349	24,772,966
Long-term 8.00% convertible senior notes	55,000,000	55,000,000
Warrant liabilities	15,578,361	11,724,219
<b>Total liabilities</b>	<b>136,580,043</b>	<b>137,357,156</b>
Contingencies and commitments, (Notes B, C, D)		
Preferred stock, \$.01 par value, 5,000,000 shares authorized;		
Series A-1 cumulative convertible preferred stock, 5,000 shares authorized, issued and outstanding, net of discount of \$2,396,857; liquidation preference of \$5,000,000	2,603,143	—
<b>Stockholders' equity:</b>		
Common stock, \$.01 par value, 250,000,000 shares authorized, 79,873,315 and 79,266,927 shares issued and outstanding, respectively	798,733	792,669
Additional paid in capital	126,731,102	125,757,611
Accumulated deficit	(118,523,525)	(109,715,274)
<b>Total stockholders' equity</b>	<b>9,006,310</b>	<b>16,835,006</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 148,189,496</b>	<b>\$ 154,192,162</b>

See accompanying notes to condensed consolidated financial statements.

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**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	Three months ended March 31,	
	2010	2009
Revenue	\$ 1,012,125	\$ —
Cost of revenue		
Direct costs	1,377,642	—
Depreciation and amortization	613,472	—
Gross margin	(978,989)	—
Operating expenses		
General and administrative	2,452,078	2,505,422
Power project development	1,252,499	2,113,340
Research and development	256,970	657,728
Total operating expenses	3,961,547	5,276,490
Operating loss	(4,940,536)	(5,276,490)
Interest income	20,405	62,379
Interest expense	(3,034,208)	(1,415,618)
Gain (loss) on derivative instruments	583,858	(942,839)
Other	(244,531)	(131,412)
Loss before income taxes	(7,615,012)	(7,703,980)
Tax benefit (expense)	—	—
Net loss	\$ (7,615,012)	(7,703,980)
Preferred dividend	(65,305)	—
Deemed dividend - accretion of discount of Series A-1 cumulative convertible preferred stock	(1,127,933)	—
Non-controlling interest in the Thermo No. 1 subsidiary	—	1,030,571
Net loss applicable to common stockholders	\$ (8,808,250)	\$ (6,673,409)
Loss per common share-basic and diluted	\$ (0.11)	\$ (0.10)
Weighted average common shares-basic and diluted	79,567,000	64,349,000

See accompanying notes to condensed consolidated financial statements

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**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (7,615,012)	\$ (7,703,980)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and accretion expense	741,173	126,915
Deferred financing costs amortization	1,020,094	994,996
Preferred stock accretion	607,300	—
(Gain) loss on derivative instrument	(583,858)	942,839
Impairment of abandoned patent applications	79,665	64,856
Common stock, stock options and warrants issued for services	583,430	1,164,187
Loss on disposal of assets	629	1,788
Gain on extinguishment of debt	—	(68,588)
Bad debt expense	—	145,403
Increase in accounts receivable	(3,324)	—
Decrease in other assets	288,473	323,226
Decrease in accounts payable and accrued liabilities	(1,009,696)	(955,734)
Net cash used in operating activities	<u>(5,891,126)</u>	<u>(4,964,092)</u>
Cash flows from investing activities:		
Proceeds from federal grant	32,990,089	—
Decrease in deposits	152,112	708,962
Increase (decrease) in restricted cash	(23,306,746)	9,892,870
Increase in intangible assets	(54,149)	(10,975)
Purchase of equipment	(3,567)	(122,098)
Well field development costs	(2,576,184)	(8,667,720)
Construction costs	(2,701,317)	(6,630,315)
Power project lease acquisitions	(165,139)	(50,000)
Power project equipment deposits	—	124,875
Net cash provided by (used in) investing activities	<u>4,335,099</u>	<u>(4,754,401)</u>
Cash flows from financing activities:		
Proceeds from sale of Series A-1 cumulative convertible preferred stock and preferred warrants	4,619,437	—
Principal payments of 7.00% senior secured notes (non-recourse)	(222,170)	(195,260)
Incurrence of deferred financing fees	(30,546)	—
Proceeds from 10.0% line of credit	125,000	8,538,000
Principal payment of the 10.0% line of credit	(278,718)	—
Net cash provided by financing activities	<u>4,213,003</u>	<u>8,342,740</u>
Net increase (decrease) in cash and cash equivalents	2,656,976	(1,375,753)
Cash and cash equivalents at beginning of period	<u>41,782</u>	<u>1,534,820</u>
Cash and cash equivalents at end of period	<u>\$ 2,698,758</u>	<u>\$ 159,067</u>

See accompanying notes to condensed consolidated financial statements.

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**A. Basis of Presentation**

The interim consolidated financial statements include the accounts of Raser Technologies, Inc. and its subsidiaries. Unless the context requires otherwise, “Raser,” the “Company,” “we,” “our” or “us” refer to Raser Technologies, Inc. and its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying condensed consolidated balance sheet as of December 31, 2009 has been derived from audited financial statements at that date but does not include all of the information and notes required by GAAP for complete financial statements. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of our management, are necessary to present fairly the results of our operations for the periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Form 10-K for the year ended December 31, 2009. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010 or any other period.

Certain reclassifications have been made in the prior year’s consolidated financial statements to conform to the current year presentation, which has no impact on the net loss for any period presented. Events subsequent to March 31, 2010, were evaluated until the time our Quarterly Report on Form 10-Q was filed with the Securities and Exchange Commission on May 10, 2010.

***Overview***

We are an environmental energy technology company focused on geothermal power development and technology licensing. We operate two business segments: Power Systems and Transportation & Industrial. Our Power Systems segment develops clean, renewable geothermal electric power plants and is exploring opportunities to partner with developers to take advantage of potential solar and wind resources at some of our geothermal project sites. Our Transportation & Industrial segment focuses on using our Symetron™ family of technologies to improve the efficiency of electric motors, generators and power electronic drives used in electric and hybrid electric vehicle propulsion systems. Through these two business segments, we are employing a strategy to produce a positive impact on the environment and economically beneficial results for our stockholders. By executing our business strategy, we aim to become a producer of geothermal electric power as well as a provider of electric and hybrid-electric vehicle technologies and products.

***Liquidity***

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. We have incurred substantial losses since inception, and we are not operating at cash breakeven. Our ability to secure liquidity in the form of additional financing or otherwise remains crucial for the execution of our business plans and our ability to continue as a going concern. Our current cash balance, together with cash anticipated to be provided by operations, will not be sufficient to satisfy our anticipated cash requirements for normal operations, accounts payable and capital expenditures for the foreseeable future. Obligations that may exert further pressure on our liquidity situation include the obligation to repay the remaining amounts borrowed under our Unsecured Line of Credit Agreement and Promissory Note and our obligations to pay interest on our outstanding convertible notes. We may also incur “make whole” penalties of approximately 20% of the required buy down payment if we are unable to increase power output at our Thermo No. 1 plant to the levels contemplated by the financing arrangements for that project. We anticipate funding the buy down payment and “make whole” penalties, if any, from the \$33.0 million in grant proceeds we received from the U.S. Treasury under the Recovery Act (the “Grant”), which we received on February 19, 2010, \$30 million of which are in an escrow account. However, management believes that since the methodology to compute the “make whole” penalties did not contemplate the receipt of Treasury Grant funds, we are unable to reasonably estimate what, if any, the “make whole” penalties would be at June 30, 2010.

The amount and timing of our future capital needs will depend on many factors, including the timing of our development efforts, opportunities for strategic transactions, and the amount and timing of any cash flows we are able to generate. We cannot be certain that funding will be available to us on reasonable terms or at all.

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

***Significant Accounting Policies***

***Preferred Stock***

On February 3, 2010, we completed an offering of 5,000 shares of Series A-1 Cumulative Convertible Preferred Stock (the “Preferred Stock”). The initial carrying amount of the Preferred Stock issued in February 2010 was at the fair value on the date of issuance, net of closing costs and our issuance costs. The consideration for the February 2010 sale of the Preferred Stock included a forgiveness of liquidated damages totaling \$1.0 million associated with delays in registering the 2008 Fletcher equity offering. Based upon the terms of the Certificate of Designations and Preferences of the Preferred Stock, the Preferred Stock cannot be converted, redeemed or exercised into more than 9.90 % of the beneficial ownership of the holder immediately after such conversion, redemption or exercise. The Preferred Stock is subject to conditional redemption features at the sole discretion of the holder resulting in classification as temporary equity until converted or redeemed. The portion of the issuance costs related to the Preferred Stock is netted against the proceeds received. The fair value of the Preferred Stock is accreted through retained earnings to the stated value over the period from the date of issuance to the earliest redemption date.

The stock dividend paid to the holders of the Preferred Stock on a quarterly basis are recorded as a decrease to retained earnings at fair value with the corresponding increase in additional paid in capital.

***Concentration of Credit Risk***

Our current revenues consist entirely of payments from the City of Anaheim for power generated by our Thermo No. 1 plant in accordance with our power purchase agreement with the City of Anaheim. Due to the fact that we currently have a single customer, our revenues are dependent on the continued ability of the City of Anaheim to make timely payments.

***New Accounting Pronouncements***

In January 2010, the Financial Accounting Standards Board (“FASB”) issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities rather than each major category of assets and liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update will become effective with the interim and annual reporting period beginning January 1, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will become effective with the interim and annual reporting period beginning January 1, 2011. We will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update will not have a material effect on our consolidated financial statements.

**B. Contingencies and Commitments**

***Guarantees***

The financing arrangements for our Thermo No. 1 plant (the “Thermo Financing Agreements”) include a guaranty (the “Guaranty Agreement”). Under the Guaranty Agreement, we guarantee the full payment of any drilling costs in excess of the original drilling account escrow of \$5.7 million that may be required to achieve Final Completion (as defined in the Thermo Financing Agreements, as amended) by June 30, 2010. Through March 31, 2010, we have contributed an additional \$16.4 million to the drilling account escrow for completion of the well field. Although the maximum potential future payments to drill additional wells may be significant if our wells cannot produce sufficient resource (both heat and flow) so that the Thermo No. 1 plant can achieve the designated level of electricity generation, the amount of potential future payments related to drilling costs is contingent on our ability to achieve Final Completion by June 30, 2010. The drilling costs are accrued in the period in which they are incurred.

The Thermo Financing Agreements also include an engineering, procurement and construction agreement (the “EPC Agreement”) with our Thermo Subsidiary. Pursuant to the EPC Agreement, we agreed to oversee the engineering, procurement and construction of the Thermo No. 1 plant. In addition, we guaranteed the completion of the plant construction and the payment of all services performed by the subcontractors. All intercompany transactions related to the EPC Agreement are eliminated in consolidation of the financial statements. Our potential liability under this agreement will continue until the guaranteed obligation is satisfied in full. We expect to complete our construction phase at the Thermo No. 1 project prior to June 30, 2010.

We have an agreement with Pratt & Whitney Power Systems (“PWPS”) relating to the generating units purchased and installed at the Thermo No. 1 plant. PWPS is required to allow us to retain a certain portion of the purchase price of the generating units pending the successful completion of the Thermo No. 1 plant. If the Thermo No. 1 project is not successfully completed as a result of a problem with the generating units, then we will keep the retained portion of the purchase price as a liquidated damages payment. If the Thermo No. 1 project is not successfully completed as a result of any other reason, we will reimburse PWPS for any liquidated

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

damages paid by PWPS. To secure payment of our obligations to reimburse PWPS under the Amended and Restated Purchase Contract, we provided a security interest to PWPS in five patents relating to our Transportation & Industrial segment. We believe that the likelihood that we will be obligated to reimburse PWPS for liquidated damages is “remote.” Accordingly, we estimate the maximum potential obligation and the related fair value of the obligation to be immaterial at this time. Therefore, no liability was recorded at March 31, 2010. The Thermo Financing Agreements also contain a conditional redemption provision whereby the Thermo No. 1 geothermal power plant must achieve “Final Completion” as defined in the Thermo Financing Agreements by an agreed upon date. The Final Completion date was extended to June 30, 2010 pursuant to amendments to the Thermo Financing Agreements. Under the Thermo Financing Agreements, as amended, if the Thermo No. 1 plant fails to achieve certain levels of production, the debt holder could exercise its rights to require us to make a buy-down payment. Any amounts payable under the buy-down provision to the debt holder will be disbursed from the Grant proceeds of \$33.0 million, which we received on February 19, 2010, \$30 million of which are in an escrow account. In addition to the buy-down payment, we could be obligated to pay “make whole” penalties equal to approximately 20% of the amount of the buy-down payment. If the combination of the buy-down payment and “make whole” penalties is greater than \$30.0 million, we would have to make up the difference out of general corporate funds.

The buy-down payment and penalties, if any, will be paid to the then current Thermo debt holder. After payment to the Thermo debt holder, Merrill Lynch would receive up to \$20.0 million of the amount remaining in the escrow account to settle the redemption of its interest in Thermo. Due to the fact that Merrill Lynch is required to receive a distribution from the escrow account of up to \$20.0 million to the extent funds are available, this amount is classified as a short-term liability. After payments of the buy-down payment and related penalties, if any, and the redemption payment to Merrill Lynch of up to \$20.0 million, any remaining funds of up to \$4.3 million will be paid to PWPS. This amount is included in our accounts payable balance in current liabilities.

**C. Warrants**

***February 2010 Preferred Warrants***

On February 3, 2010, we completed an offering of 5,000 shares of the Preferred. As part of this offering, we issued warrants to purchase up to 14,000 additional shares of the Preferred Stock (the “Preferred Warrants”). The Preferred Warrants have an exercise price of \$1,000 per share. As of March 31, 2010, none of the Preferred Warrants had been exercised.

***February 2010 Underwriter Warrants***

As part of the February 2010 Preferred Stock offering, we issued to the underwriter warrants to acquire 171,568 shares of our common stock (the “Underwriter Warrants”) at an exercise price of \$1.275 per share. However, if the Underwriter requests a “cashless exercise”, the number of shares issued is based upon the average closing prices for the five trading days prior to, but not including, the exercise date less the exercise price of \$1.275 per share. The Underwriter Warrants expire on February 3, 2015 and become exercisable on August 3, 2010. There is no anti-dilution or pricing reset feature associated with the February 2010 Underwriter Warrants. As of March 31, 2010, none of the February 2010 Underwriter Warrants had been exercised.

During the three months ended March 31, 2010 and 2009, we recorded a gain (loss) on derivative instruments totaling \$583,858 and \$(942,839), respectively.

**D. Capital Stock**

***February 2010 Preferred Stock Offering***

On February 3, 2010, we completed an offering of 5,000 shares of the Preferred Stock and issued the Preferred Warrants. The Preferred Stock and the Preferred Warrants were purchased by Fletcher. The net proceeds, after deducting the underwriter fees and other estimated offering expenses payable by us, were approximately \$4.6 million.

The Preferred Stock has the following key terms: (i) each share of the Preferred Stock will accrue a quarterly dividend, payable in cash or shares of common stock at an annual rate equal to the Stated Value (as defined in the Certificate of Rights and Preferences of the Preferred Stock) multiplied by 3-month LIBOR plus 8%, but in no event higher than 14%, subject to adjustment, (ii) each share of the Preferred Stock will be convertible into shares of common stock at a price of \$5.00 per share, such price being subject to adjustment for stock splits, combinations, stock dividends and the like, (iii) the holders of the Preferred Stock will have the right to redeem the shares of the Preferred Stock purchased pursuant to the purchase agreement at the earlier of July 28, 2010 or the date on which the Daily Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) rises above \$2.00 per share, or the date of a public announcement of the intention or agreement to engage in a transaction or series of transactions that may result in a change of control of the Company (iv) the redemption price for each share of the Preferred Stock into shares of common stock will be the greater of (a) \$1.2277 per share of common stock and (b) 120% of the Prevailing Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) at the first redemption date, which price is subject to adjustment under certain circumstances such as certain future equity issuances. For up to one year after the redemption date of the Preferred Stock, if we sell additional shares of our stock, subject to certain conditions, we will be required to issue additional shares to the redeemed holders of the Preferred Stock based upon an adjusted redemption price of the greater of (x) \$1.0231 and (y) the lesser of \$1.2277 or the market price of the shares sold.

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

Under the Certificate of Rights and Preferences of the Preferred Stock, the number of shares of our common stock beneficially owned by Fletcher cannot exceed 9.90% of our total outstanding common shares. This provision limits the minimum number of shares of Preferred Stock that may be redeemed, converted or exercised by Fletcher to an amount that shall not cause Fletcher's ownership of our common stock to exceed 9.90%.

The holders of the Preferred Stock and Preferred Warrants are entitled to receive dividends declared on our common stock out of our assets legally available for that purpose equal to the per share dividend or distribution on our common stock multiplied by the number of shares issuable upon redemption or conversion whichever is greater on the date such a dividend is declared.

The holders of the Preferred Stock are also entitled to voting rights that require the majority vote of the outstanding Preferred Stock prior to making certain amendments or changes to our certificate of incorporation or bylaws, including the terms of the Preferred Stock. A majority vote of the Preferred Stock is also required prior to any future issuance of our securities, subject to certain exceptions, including an exception that allows us to issue up to \$25.0 million of our securities as long as we have given the holders of the Preferred Stock the exclusive right to purchase such securities prior to their issuance.

The Preferred Stock also contains certain liquidation preferences whereby, with respect to distributions upon a liquidation, the holder of the Preferred Stock would receive the greater of (a) the stated value per share of the Preferred Stock plus accrued interest on the date of such liquidation and (b) the amount the holders would receive if the holders had converted or redeemed all outstanding shares of Preferred Stock into shares of our common stock prior to any distributions to the holders of Junior Securities or Parity Securities, each as defined in the Certificate of Rights and Preferences of the Preferred Stock.

The Preferred Warrants are exercisable from time to time in full or in part in two tranches of up to 7,000 shares of Preferred Stock, at an exercise price of \$1,000 per share of Preferred Stock subject to adjustment, for up to \$7.0 million for each tranche. The right of the holder of the Preferred Warrants to exercise the second tranche is independent of the exercise, if any, of the first tranche. The first tranche of up to 7,000 shares of Preferred Stock for up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before August 3, 2010 (subject to extension under certain circumstances) so long as the Prevailing Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) rises above \$2.00 per share during such period. Otherwise, the first tranche of up to 7,000 shares of Preferred Stock for up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before February 3, 2011 (subject to extension under certain circumstances). The second tranche of up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before February 3, 2011 (subject to extension under certain circumstances) so long as the Prevailing Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) rises above \$2.00 per share during such period. Otherwise, the second tranche of up to 7,000 shares of Preferred Stock for up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before February 4, 2013 (subject to extension under certain circumstances).

As consideration for acting as underwriter, the Company paid the underwriter a cash fee of 5% of the aggregate purchase price for the Preferred Stock sold in the offering, and issued to the underwriter the Underwriter Warrants. See discussion of the Underwriter Warrants in Note C. "Warrants" above.

*Employee and Director Share Grants and Option Grants*

No shares of common stock were granted to our employees and directors during the three months ended March 31, 2010. We granted employees and directors options to purchase an aggregate of 422,745 shares of our common stock during the three months ended March 31, 2010. During the three months ended March 31, 2010, employees forfeited options to purchase 56,750 shares of our common stock and 4,500 options to purchase shares of our common stock expired. During the three months ended March 31, 2010, no shares of our common stock were issued as a result of option or warrant exercises.

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

**Third Party Share Grants**

During the three months ended March 31, 2010, we granted a total of 196,215 shares of our common stock to third party vendors to settle outstanding payables totaling \$217,395. No gain or loss was recognized with respect to the extinguishment of debt. We also delivered 121,527 shares of our common stock to our former CEO pursuant to his termination agreement and granted 92,250 shares of our common stock to our former CFO pursuant to his termination agreement. These shares were delivered in April 2010.

**E. Net Loss per Common Share**

The following table sets forth the number of shares that would be outstanding if the outstanding securities convertible into common stock were converted into common stock, whether the convertible securities were “in the money” or “out of the money” based upon the closing market price on March 31, 2010:

	“In the Money”	“Out of the Money”
Warrants granted	6,794,442	9,384,877
Vested employee options	—	2,286,280
Unvested employee options	—	1,447,998
Vested contractor options	—	95,000
Unvested contractor options	—	85,000
Convertible notes - maximum number of shares that can be converted	—	5,960,121
Convertible preferred shares - maximum number of shares that can be converted	—	1,000,000
Preferred warrants - maximum number of shares that can be converted	—	2,800,000

The following table sets forth the number of shares that would be outstanding if outstanding securities convertible into common stock were converted into common stock, whether the convertible securities were “in the money” or “out of the money” based upon the closing market price on March 31, 2009:

	“In the Money”	“Out of the Money”
Warrants granted	7,458,532	4,881,462
Vested employee options	642,250	1,551,978
Unvested employee options	48,000	1,343,705
Vested contractor options	95,000	35,000
Unvested contractor options	50,000	—
Convertible notes maximum number of shares that can be converted	—	5,960,121

Unvested stock grants totaling 237,250 and 406,276 were outstanding on March 31, 2010 and 2009, respectively. The warrants and options above were not included in the calculation of diluted net loss per share because their effect was anti-dilutive. The Preferred Stock and the Preferred Warrants contain provisions whereby the holders of the Preferred Stock and the Preferred Warrants may participate in dividends that we pay to the holders of our common stock. Accordingly, the Preferred Stock and the Preferred Warrants meet the definition of participating securities. We determined that, under the two-class method, the effect of the participating securities on the net loss per share computation was also anti-dilutive.

**F. Fair Value Measurements**

The Accounting Standards Codification provides guidance regarding fair value measurements establishes a common definition for fair value to be applied to guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. The guidance does not require any new fair value measurements, but rather applies to all other accounting guidance that requires or permits fair value measurements.

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- 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.

The following table represents the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at their entirety based upon their lowest level of input that is significant to the fair value measurement at March 31, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,698,758	\$ 0	\$ 0	\$ 2,698,758
Restricted cash	32,381,324	77,111	0	32,458,435
<b>Total assets</b>	<b>\$ 35,080,082</b>	<b>\$ 77,111</b>	<b>\$ 0</b>	<b>\$ 35,157,193</b>
Merrill Lynch 2008 Contingent Warrants	\$ 0	\$ 0	\$ 506,291	\$ 506,291
2008 Fletcher Warrants	0	0	9,451,070	9,451,070
Preferred Warrants	0	0	5,621,000	5,621,000
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 15,578,361</b>	<b>\$ 15,578,361</b>

Cash and cash equivalents and restricted cash measured using Level 1 inputs consist primarily of money market accounts that are traded on active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical instruments.

Restricted cash measured using Level 2 inputs consist of certificates of deposit. Valuations are generally obtained from third party pricing services for or comparable instruments (and validated through back testing to trade data or confirmation that the pricing service's significant inputs are observable) or determined through use of valuation methodologies using observable market inputs such as market interest rates.

#### **Warrants**

Certain of our warrants contain anti-dilution features that protect the holders from a decline in the stock price ("down round" provisions). As a result, the following warrants were not indexed to our common stock and are recorded as derivative liabilities:

- Contingent Warrants issued to Merrill Lynch, exercisable for 1,350,000 shares of our common stock, that expire January 16, 2015.
- 2008 Fletcher Warrants to acquire shares of our common stock in an aggregate value of up to \$20.0 million that may not exceed 6,794,442 shares of our common stock, exercisable at March 31, 2010 that expire November 14, 2018.
- The Preferred Warrants that are exercisable from time to time in full or in part in two tranches of up to 7,000 shares of the Preferred Stock for each tranche. The first tranche of up to 7,000 shares of the Preferred Stock will, beginning on February 3, 2010, be exercisable on or before August 3, 2010 (subject to extension under certain circumstances) so long as the Prevailing Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) rises above \$2.00 per share during such period. Otherwise, the first tranche of up to 7,000 shares of Preferred Stock for up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before February 3, 2011 (subject to extension under certain circumstances). The second tranche of up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before February 3, 2011 (subject to extension under certain circumstances) so long as the Prevailing Market Price rises above \$2.00 per share during such period. Otherwise, the second tranche of up to 7,000 shares of Preferred Stock for up to \$7.0 million will, beginning on February 3, 2010, be exercisable on or before February 4, 2013 (subject to extension under certain circumstances).

We measured the fair value of these warrants at quarter end, and recorded a \$0.6 million gain on derivatives for the quarter ended March 31, 2010 and recorded the liabilities associated with these warrants at their respective fair values as of March 31, 2010. We determined the fair values of these securities using the Binomial Lattice valuation model.

**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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*Asset Retirement Obligations*

We estimate asset retirement obligations in accordance with the Accounting Standards Codification. We utilize an income valuation technique to determine the fair value of the liability at the point of inception by applying a credit-adjusted risk-free rate, which takes into account our credit risk, the time value of money, and the current economic state, to the undiscounted expected abandonment cash flows. Given the unobservable nature of the inputs, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs. There were no asset retirement obligations measured at fair value within the accompanying condensed consolidated balance sheets at March 31, 2010.

**Recurring Level 3 Activity, Reconciliation and Basis for Valuation**

The table below provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3). The table reflects gains and losses for the quarter for all financial assets and liabilities categorized as Level 3 as of March 31, 2010.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (in thousands):

	<b>Total</b>
<b>Assets:</b>	
Balance as of January 1, 2010	\$ —
Total realized and unrealized gains (losses)	—
Balance as of March 31, 2010	\$ —
<b>Liabilities:</b>	
Balance as of January 1, 2010	\$ 11,724,219
Fair value of the Preferred Warrants issued on February 3, 2010	4,438,000
Net decrease in fair value of derivative warrants (unrealized gain)	(583,858)
Balance as of March 31, 2010	\$ 15,578,361

The carrying value and estimated fair value of our debt instruments at March 31, 2010 were as follows:

	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Estimated Fair Value</b>	<b>Carrying Cost</b>	<b>Estimated Fair Value</b>	<b>Carrying Cost</b>
Short-term 10.0% amended unsecured line of credit*	\$ 5,230,000	\$ 5,257,554	\$ 5,560,000	\$ 5,561,952
Long-term 15.00% promissory note **	19,243,000	20,000,000	18,767,154	20,000,000
Long-term 9.5% senior secured note***	25,970,000	29,850,799	26,030,000	30,072,969
Long-term 8.0% convertible senior notes	22,550,000	57,191,699	24,750,000	56,106,767
<b>Total Liabilities</b>	<b>\$ 72,993,000</b>	<b>\$ 112,300,051</b>	<b>\$ 75,107,154</b>	<b>\$ 111,741,688</b>

\* Represents face value of debt without consideration of the deferred financing costs of \$13,163 and \$33,399 at March 31, 2010 and December 31, 2009, respectively.

\*\* Represents the face value of the debt without consideration of the imputed interest rate of 15% from December 11, 2009 to June 30, 2010 resulting in a discount of \$746,570 and \$1,232,846 at March 31, 2010 and December 31, 2009, respectively.

\*\*\* Represents face value of debt without consideration of the original issue discount of \$4,363,809 and \$4,469,479 at March 31, 2010 and December 31, 2009, respectively. Due to the original issue discount, cash proceeds of debt are less than the face value of the debt. Therefore, the effective interest rate of 9.5% is greater than the 7.0% stated rate.

The estimated value of our short-term 10.00% amended unsecured line of credit, long term 15.00% promissory note, and long-term 9.50% senior secured note was determined by management who based its judgment relating to fair value on discounted cash flow analysis that were developed with the assistance of a third-party valuation consultant. Our cash flow model utilized the projected cash outflows and a discount rate, which was derived from market and non-market inputs. Our estimate of the value of our short-term 10.00% amended unsecured line of credit, long term 15.00% promissory note, and long-term 9.50% senior secured note secured note depends on judgments relating to the projected cash flows and discount rate. If these judgments prove to be incorrect, it could have a material effect on our results of operations and financial position.

To estimate the fair value of our long-term 8.00% convertible senior note, we used a third party pricing service that estimated the fair value based upon theoretical values based on assumptions that market participants would use to price the Convertible Notes.

In accordance with the current accounting guidance, we have not applied the fair value measurement provisions to nonfinancial assets and nonfinancial liabilities included in consolidated condensed balance sheets above.

**G. Business Segments**

The basis for presenting segment information results generally is consistent with our overall operating practices. We report operating segment information in accordance with the Accounting Standards Codification which establishes reporting standards for disclosure of operating segments. All consolidating items and corporate administrative costs are included in Corporate and Other.

Accordingly, the presentation below comprises financial information relating to our segments for the three months ended March 31, 2010 and 2009, respectively:

As of and for the Quarter Ended March 31, 2010	Transportation & Industrial	Power Systems	Corporate and Other	Total
Revenues	\$ —	\$ 1,012,125	\$ —	\$ 1,012,125
Segment Operating Loss	(339,908)	(2,231,488)	(2,369,140)	(4,940,536)
Depreciation, Amortization and Accretion	38,468	682,725	19,980	741,173
Interest Expense	—	1,456,688	1,577,520	3,034,208
Fixed Asset Purchases	—	1,535	2,032	3,567
Geothermal Well Field Drilling Purchases	—	182,694	—	182,694
Power Project Construction-in-Progress Purchases	—	2,204,041	—	2,204,041
Total Assets	\$ 345,745	\$ 141,076,093	\$ 6,767,658	\$ 148,189,496

As of and for the Quarter Ended March 31, 2009	Transportation & Industrial	Power Systems	Corporate and Other	Total
Revenues	\$ —	\$ —	\$ —	\$ —
Segment Operating Loss	(727,090)	(2,113,340)	(2,436,060)	(5,276,490)
Depreciation, Amortization and Accretion	54,311	49,222	23,382	126,915
Interest Expense	—	403,614	1,012,004	1,415,618

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**RASER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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As of and for the Quarter Ended March 31, 2009	Transportation & Industrial	Power Systems	Corporate and Other	Total
Fixed Asset Purchases	—	47,584	64,399	111,983
Geothermal Well Field Drilling Purchases	—	5,413,208	—	5,413,208
Power Project Construction-in-Progress Purchases	—	6,971,112	—	6,971,112
Total Assets	\$ 628,532	\$ 174,406,637	\$ 9,502,050	\$ 184,537,219

#### H. Supplemental Cash Information

For the three months ended March 31, 2010

- We paid \$527,512 for interest and \$0 for income taxes.
- We recorded three non-cash payments totaling \$217,400 for 196,215 unrestricted shares of our common stock to settle outstanding invoices from various service providers for the construction of our Thermo No. 1 geothermal power plant and development of other geothermal projects. The non-cash payments approximated the fair market value of the shares on the date the shares were granted.
- We recorded in accounts payable and accrued liabilities certain capitalized well field development and construction costs that were not paid as of March 31, 2010. These accrued capitalized costs were omitted from the statement of cash flows as non-cash items totaling \$7.4 million.
- We recorded a non-cash quarterly dividend payment for the Preferred Stock totaling \$65,305 for which we issued 70,457 shares of our common stock to the holder of the Preferred Stock. The non-cash payment approximated the fair value of the shares on the date the shares were issued.

For the three months ended March 31, 2009:

- We paid \$538,954 for interest and \$400 for income taxes.
- We recorded three non-cash payments totaling \$19,500 for 5,243 shares of our common stock issued to settle three outstanding invoices from a service provider for consulting relating to our PHEV project. The non-cash payments were equal to the fair market value of the shares on the date the shares were granted.
- We recorded a \$950,000 non-cash payment for 263,108 shares of our common stock issued to settle a promissory note with a former merger candidate that was settled on January 27, 2009. The non-cash payment resulted in a gain on extinguishment of debt totaling \$68,588.
- We recorded five non-cash payments totaling \$4,500,000 for 70,197 restricted shares of our common stock, 1,329,430 unrestricted shares of our common stock, and 122,603 warrants to acquire shares of our common stock issued to settle outstanding invoices from various service providers for construction of our Thermo No. 1 geothermal power plant. The non-cash payments approximated the fair market value of the shares on the date the shares were granted.
- We recorded in accounts payable and accrued liabilities certain capitalized well field development and construction costs that were not paid as of March 31, 2009. These accrued capitalized costs were omitted from the statement of cash flows as non-cash items totaling \$54.8 million.

#### I. Subsequent Events

On April 1, 2010, Fletcher exercised the Fletcher Warrants on a cashless, net settlement basis. Pursuant to the exercise of the Fletcher Warrants, Fletcher received 6,794,442 shares of our common stock. Except for certain rights Fletcher may assert to obtain shares of an acquiring company's stock in connection with a change of control transaction involving us, Fletcher cannot exercise the Fletcher Warrants for any additional shares of our common stock.

On April 7, 2010, we entered into a controlled equity offering sales agreement (the "Sales Agreement") with Cantor Fitzgerald & Co. ("Cantor"), pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to \$25.0 million from time to time through Cantor acting as agent and/or principal. The sales of shares made under the Sales Agreement will be made on the New York Stock Exchange by means of ordinary brokers' transactions at market prices, in block transactions or as otherwise agreed by Cantor and us. We will pay Cantor a commission ranging between 3.0% and 4.5% of the gross sales price per share for any shares sold through it as our agent under the Sales Agreement. As of May 7, 2010, we had sold 1,802,100 shares pursuant to the Sales Agreement for an aggregate of approximately \$1.7 million. After deducting commissions, we received net proceeds of approximately \$1.6 million from the sale of these shares. On May 10, 2010, we ceased selling shares of our common stock pursuant to the controlled equity offering. We also provided notice to Cantor that we were terminating the Sales Agreement and that we had no further intention of selling shares of our common stock through the controlled equity offering.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information set forth in this report contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions or dispositions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as "believes," "expects," "may," "will," "should," "anticipates" or "intends" or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation management's examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks set forth in Part II "Item 1A. Risk Factors" and elsewhere in this report.

*Unless the context requires otherwise, all references in this annual report to "Raser," "the Company," "we," "us," "our company," "Raser Technologies" or "our" refer to Raser Technologies, Inc. and its consolidated subsidiaries.*

#### Overview

##### *Our Company*

We are an environmental energy technology company focused on geothermal power development and technology licensing. We operate two business segments: Power Systems and Transportation & Industrial. Our Power Systems segment develops geothermal electric power plants and is exploring opportunities to partner with developers to take advantage of potential solar and wind resources at some of our geothermal project sites. Our Transportation & Industrial segment focuses on using our Symetron™ family of technologies to improve the efficiency of electric motors, generators and power electronic drives used in electric and hybrid electric vehicle propulsion systems. Through these two business segments, we are employing a business strategy to produce a positive impact on the environment and economically beneficial results for our stockholders. By executing our business strategy, we aim to become a producer of geothermal electric power as well as a provider of electric and hybrid-electric vehicle technologies and products.

We have initiated the development of eight geothermal power plant projects in our Power Systems segment to date. We have placed one power plant in service to date, which we refer to as our Thermo No. 1 plant, and we are currently selling electricity generated by the Thermo No. 1 plant. The Thermo No. 1 plant is currently generating approximately 7 MW of electrical power (gross). After deducting the electricity required to power the plant, also known as parasitic load, and power for remote pumps in the well field, the net power produced by the Thermo No. 1 plant is approximately 6 MW. Both the gross output and the net output of the plant are below the amounts the plant was designed to produce, primarily due to issues related to temperature of the resource from the well field. We are working to improve the electrical output of the plant and the temperature of the resource. These efforts include the addition of a bottom cycle at the plant, which was installed on May 1, 2010 and is expected to be operational during the first two weeks of May. We also replaced the recirculation pumps on each of the 50 PureCycle generating units with more efficient pumps. The full replacement of all pumps is expected by the end of May 2010. We believe the bottom cycle and the new recirculation pumps will enhance the overall plant output. Until these measures are fully implemented and tested, we cannot predict how much the plant output will improve, but we expect electricity available for sale will be in the range of 7 to 8.5 MW.

Due to the economic downturn, a difficult financing environment, difficulties experienced at the Thermo No. 1 plant and other factors, we have had to adjust our development plans. We had anticipated to be in a position to move forward with the simultaneous development of the other seven sites we have initiated. In light of current conditions, we believe in the near term we need to focus most of our time and resources on the one or two projects we believe are best positioned for development. Thus, we intend to focus on improving the electrical output from our Thermo No. 1 plant and completing the well field development at our Lightning Dock and/or Thermo No. 2 and No. 3 projects. We will continue to undertake permitting at the other sites we have initiated. Additionally, we are exploring the sale of one or more of our geothermal power projects or interests therein.

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In connection with the development of our geothermal power projects, we intend to explore opportunities to partner with developers to take advantage of potential solar and wind resources at some of our geothermal project sites. We believe certain geothermal sites we intend to develop may be suitable for solar or wind generation. If so, we may be able to improve the overall utilization of transmission lines and other infrastructure investments associated with these projects. Until we conduct further analysis, however, we cannot predict whether any of our sites will be suitable for complementary solar or wind generating facilities.

Our ability to develop our power projects is dependent on our ability to obtain adequate financing to fund those projects. Additionally, we are exploring the sale of one or more of our projects or interests therein. We also intend to evaluate a variety of alternatives to finance the development of our projects. These alternatives could include government funding from grants, loan guarantees or private activity bonds, joint ventures, pre-paid power purchase agreements with utilities or municipalities, or a merger and/or other transaction, a consequence of which could include the sale or issuance of stock to third parties. We cannot be certain that funding from any of these sources will be available. If we are unable to secure adequate funds on a timely basis on terms acceptable to us, we may need to modify our current plans for plant construction, well field development and other development activities, extend the time frame over which these activities will take place, or cease operations.

Our ability to secure liquidity in the form of additional financing or otherwise remains crucial for the execution of our business plans and our ability to continue as a going concern. Our current cash balance, together with cash anticipated to be provided by operations, will not be sufficient to satisfy our anticipated cash requirements for normal operations, accounts payable and capital expenditures for the foreseeable future. Obligations that may exert further pressure on our liquidity situation include the obligation to repay the remaining amounts borrowed under our Unsecured Line of Credit Agreement and Promissory Note and our obligations to pay interest on our outstanding convertible notes. We may also incur "make whole" penalties of approximately 20% of the required buy down payment if we are unable to increase power output at our Thermo No. 1 plant to the levels contemplated by the financing arrangements for that project. We anticipate funding the buy down payment and "make whole" penalties, if any, from the \$33.0 million in grant proceeds we received from the U.S. Treasury under the Recovery Act (the "Grant"), which we received on February 19, 2010, \$30 million of which are in an escrow account. However, management believes that since the methodology to compute the "make whole" penalties did not contemplate the receipt of Treasury Grant funds, we are unable to reasonably estimate what, if any, the "make whole" penalties would be at June 30, 2010.

The amount and timing of our future capital needs will depend on many factors, including the timing of our development efforts, opportunities for strategic transactions, and the amount and timing of any cash flows we are able to generate. We cannot be certain that funding will be available to us on reasonable terms or at all.

### **Current Geothermal Power Projects**

Our development activities during the first quarter of 2010 consisted primarily of efforts to increase the power output of the Thermo No. 1 plant. The original financing agreements for the Thermo No. 1 project (the "Thermo Financing Agreements") contained a conditional redemption provision whereby the Thermo No. 1 geothermal power plant was required to achieve "Final Completion" as defined in the Thermo Financing Agreements by a specific date. The Final Completion date was extended to June 30, 2010 pursuant to the amendments to the Thermo Financing Agreements that we entered into in December 2009. These amendments also contemplated that we would obtain the Grant proceeds of \$33.0 million from the U.S. Treasury under the Recovery Act to fund the conditional redemption and certain other payments. We received the Grant proceeds in February 2010. Approximately \$3.8 million of the Grant was distributed to us at that time, and the remainder are in an escrow account.

While we expect power output at the Thermo No. 1 plant to improve somewhat prior to June 30, 2010, we do not expect that the electricity available for sale will exceed 8.5 MW at that time, which under the Thermo Financing Agreements, as amended, triggers a provision which requires us to review the project's debt service requirements based on the then current economics of the Thermo No. 1 plant operations. The outcome of this review could result in requiring us to make a buy-down payment to the debt holder of the Thermo No. 1 debt, which had an outstanding principal balance of \$29.9 million at March 31, 2010. Any amounts payable under the buy-down provision to the debt holder will be disbursed from the \$33.0 million in Grant proceeds we received from the U.S. Treasury on February 19, 2010 and placed in an escrow account. If the buy-down computation is greater than \$30.0 million, we will be obligated to pay the difference out of general corporate funds. Approximately \$3.8 million of the Grant proceeds were distributed to us in February 2010. The remaining proceeds received from the Grant were placed into an escrow account and will be paid out in the following order on or about June 30, 2010: (i) first Prudential will potentially receive a pre-payment, together with a pre-payment penalty, of its outstanding debt of \$29.9 million, depending on the performance of the Thermo No. 1 plant at the time; (ii) project escrow accounts will be funded as required by the Thermo Financing Agreements; (iii) Merrill Lynch will receive its redemption amount (either \$17.5 million or \$20.0 million, subject to certain conditions); (iv) Pratt & Whitney Power Systems will receive any amounts left owing to it as the turbine supplier for the Thermo No. 1 plant; and (v) any remaining amounts will be placed in a revenue escrow account and will ultimately flow through as a distribution to us. To the extent the Grant proceeds are insufficient to provide for any of the obligations described above, we will be obligated to pay these obligations out of general corporate funds. In addition, if we have insufficient funds to make the redemption payment to Merrill Lynch, we are required to comply with the terms of the promissory note to Merrill Lynch for any amount that we are unable to pay. The terms of the promissory note will require full payment in twelve (12) months.

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During the first quarter of 2010, we also continued permitting activities with respect to our Lightning Dock project. We have selected Barbour Well, Inc. of Henderson, Nevada to begin drilling in May 2010. The initial drilling activities will consist of re-entering and testing an existing well at the site. If the results of this testing are favorable, we intend to seek financing to develop the well field for this project, after which we would seek construction financing for the power plant. Ultimately, we believe the Lightning Dock site could support a power plant that could generate up to 15 MW.

Other than incremental permitting work, we did not conduct any development activities during the first quarter of 2010 at the other projects we have initiated for development. Including the eight projects we have initiated for development, we have identified 18 projects for potential development. However, we do not expect to increase our development efforts for these projects until we have made further progress at the Lightning Dock project and have sufficient resources to devote to other projects.

The timing for construction and completion of each of our projects will depend on a number of factors, including the receipt of necessary permits, timely granting of interconnection and transmission access, and the ability to obtain adequate financing for both the well-field development phase and the plant construction phase of each project. Uncertainties associated with these factors could result in unexpected delays.

## Results of Operations

	Three months ended	
	March 31,	
	2010	2009
Revenue	\$ 1,012,125	\$ —
Cost of revenue		
Direct costs	1,377,642	—
Depreciation and amortization	613,472	—
Gross margin	(978,989)	—
Operating expenses		
General and administrative	2,452,078	2,505,422
Power project development	1,252,499	2,113,340
Research and development	256,970	657,728
Total operating expenses	3,961,367	5,276,490
Operating loss	(4,940,536)	(5,276,490)
Interest income	20,405	62,379
Interest expense	(3,034,208)	(1,415,618)
Gain (loss) on derivative instruments	583,858	(942,839)
Other	(244,531)	(131,412)
Loss before income taxes	(7,615,012)	(7,703,980)
Tax benefit (expense)	—	—
Net loss	\$ (7,615,012)	(7,703,980)
Preferred dividends	(65,305)	—
Deemed dividend-accretion of discount of Series A-1 cumulative convertible preferred stock	(1,127,933)	—
Non-controlling interest in the Thermo No. 1 subsidiary	—	1,030,571
Net loss applicable to common stockholders	\$ (8,808,250)	\$ (6,673,409)
Loss per common share-basic and diluted	\$ (0.11)	\$ (0.10)
Weighted average common shares-basic and diluted	79,567,000	64,349,000

## Comparison of Three Months Ended March 31, 2010 and 2009

### Revenue

During the three months ended March 31, 2010, we recognized revenue totaling \$1.0 million. We had no revenue during the same period in 2009. During the second quarter of 2009, we began selling electricity generated by our Thermo No. 1 geothermal power plant to the City of Anaheim. During the first quarter of 2010, we generated and sold approximately 11,543 MW hours of electricity.

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*Cost of revenue.* Cost of revenue for the three months ended March 31, 2010 totaled \$2.0 million compared to zero for the same period in 2009. The increase in cost of revenue for 2009 was due to sales of electricity from the Thermo No. 1 power plant during the first quarter of 2010. Cost of revenue includes depreciation expense of \$0.6 million, parasitic load costs of \$0.4 million, quarterly accrual of annual property tax assessments totaling \$0.2 million; consulting and insurance costs of \$0.2 million; maintenance costs for generating units of \$0.3 million; and payroll related costs of \$0.1 million. Although, the gross margin was negative for the quarter ended March 31, 2010, we anticipate that as electrical output of the Thermo No. 1 plant improves, certain consulting expenses and parasitic load costs will decline sufficiently that revenue generated by the sale of electricity from the Thermo No. 1 plant will exceed the cost of revenue in future periods.

### ***Operating Expenses***

*General and Administrative.* General and administrative expenses remained relatively flat at \$2.5 million for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. Non-cash employee compensation associated with general and administrative employees decreased \$0.2 million from \$0.6 million for the three months ended March 31, 2009 to \$0.4 million for the quarter ended March 31, 2010. The decrease was primarily due to general staff reductions and accounting adjustments for forfeitures of non-cash compensation awards. Employment and office related expenses also decreased by approximately \$0.1 million due to the departures of certain key executives, which were not replaced until the first quarter of 2010. These decreases were partially offset by a \$0.2 million increase in professional services during the first quarter of 2010 compared to first quarter of 2009, primarily reflecting executive search fees that were not incurred during the prior year.

*Power Project Developments.* Power project development expenses during the three months ended March 31, 2010 totaled \$1.3 million compared to \$2.1 million for the three months ended March 31, 2009. During the first quarter of 2010, professional services decreased by approximately \$0.4 million and employment related costs also decreased approximately \$0.4 million due primarily to a difference in the classification of employment and direct consulting costs from power project development costs to cost of revenues beginning in the second quarter of 2009. The change in classification resulted from the Thermo #1 plant beginning operations in the second quarter of 2009. Equity based non-cash employee compensation associated with power project development employees and other operating costs for the three months ended March 31, 2010 remained relatively flat as compared to the first quarter of 2009.

*Research and Development.* Research and Development expense decreased from \$0.4 million in the three months ended March 31, 2009 to \$0.3 million for the three months ended March 31, 2010. Equity based non-cash employee compensation associated with research and development employees decreased by \$0.2 million during the three months ended March 31, 2010 compared to the same period in 2009. This was due primarily to decreased headcount as a result of our decision to reduce the cash requirements associated with the research and development activities at our design center. Because we reduced employment levels at the design center, cash based employee compensation associated with research and development employees decreased \$0.3 million during the three months ended March 31, 2010 from the first quarter of 2009. This decrease was partially offset by increased professional services of approximately \$0.1 million during the three months ended March 31, 2010 compared to the same period in 2009 due primarily to additional consulting work relating to enhancements of our PHEV Hummer demonstration vehicle. The portion of engineering expenses relating to testing of materials remained relatively flat during the three months ended March 31, 2010 over the comparable 2009 period.

### ***Interest and Other Income.***

Interest income for the three months ended March 31, 2010 remained relatively flat at \$20,000 as compared to the same period in 2009 reflecting relatively lower average monthly cash balances and interest rates. Interest expense during the three months ended March 31, 2010 increased \$1.6 million over the three months ended March 31, 2009 primarily due to the amortization of deferred financing fees associated with the Thermo No. 1 plant. Once the plant was placed into service in the first quarter of 2009, we no longer capitalized interest expense associated with the financing for the construction of the plant. Gain (loss) on derivative increased \$1.5 million during the three months ended March 31, 2010 compared to the first quarter of 2009 due primarily to a net decrease in the fair value of outstanding warrants that contain anti-dilutive features and our Preferred Warrants (as defined below) that were classified as liabilities. Other income also increased by \$0.1 million during the first quarter of 2010 compared to the same period in 2009 due primarily to the forgiveness of certain liquidated damages we owed to Fletcher as a result of our failure to comply with certain registration requirements relating to a prior financing transaction.

### ***Non-controlling Interest.***

Non-controlling interest decreased by \$1.0 million during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The decrease resulted from the withdrawal of Merrill Lynch as Class A Member from the Thermo Subsidiary and the redemption of its interest in the Thermo Subsidiary in connection with amendments to the Thermo No. 1 financing arrangements in December 2009. As a result, we own 100% of the Thermo Subsidiary thereby eliminating the non-controlling interest.

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[Table of Contents](#)**Preferred Stock Dividends.**

During the first quarter of 2010, we sold 5,000 shares of our Series A-1 Cumulative Convertible Preferred Stock (the "Preferred Stock") and paid a dividend to the holder of the Preferred Stock in shares of our common stock on March 31, 2010 totaling \$0.1 million. We also recorded a deemed dividend relating to the accretion of the discount of the Preferred Stock totaling \$1.1 million. No Preferred Stock dividends or deemed dividends were recorded for the three months ended March 31, 2009.

**Liquidity and Capital Resources**

<u>Cash and Cash Equivalents</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Cash	\$ 2,681,805	\$ 19,833
Money Market Account	16,953	21,949
<b>Total</b>	<b>\$ 2,698,758</b>	<b>\$ 41,782</b>
Restricted Cash	32,458,436	9,151,691
Restricted Marketable Securities	2,200,222	2,191,339
<b>Total</b>	<b>\$ 34,658,658</b>	<b>\$ 11,343,030</b>

**Liquidity and Certain Commitments**

At March 31, 2010, we had approximately \$2.7 million in cash and cash equivalents and restricted cash and marketable securities of approximately \$34.7 million. Our operating activities used approximately \$5.9 million and \$5.0 million of cash during the three months ended March 31, 2010 and 2009, respectively. We have incurred substantial losses since inception, and we are not operating at cash breakeven.

Of our restricted cash balance at March 31, 2010, \$3.2 million will be used for the operations of the Thermo No. 1 plant, completing the construction of the bottom cycle configuration of the turbines and upgrades of the recirculation pumps. \$0.1 million has been invested in a certificate of deposit for the sole purpose of covering the credit limit of our corporate credit card to minimize the credit risk to our bank. Approximately \$2.2 million relating to marketable securities will be used to pay interest payments on our Convertible Notes due on April 1, 2010.

At March 31, 2010, we had approximately \$10.8 million in accounts payable and accrued expenses, which reflects a decrease in accounts payable and accrued expenses of approximately \$5.9 million from December 31, 2009. The decrease in accounts payable and accrued expenses during the three month period was due primarily to the normal payments of outstanding vendor payables totaling \$4.7 million, the forgiveness of liquidated damages of \$1.0 million by Fletcher, as described above, and the issuance of common stock to three vendors to settle outstanding payables totaling \$0.2 million.

Approximately \$4.3 million of the \$10.8 million of accounts payable and accrued expenses represents the remaining balance owed to PWPS for power generating units purchased for our Thermo No. 1 plant. The amount owed to PWPS is expected to be paid upon successful completion of tests to be performed on the units. The remaining balance of the accounts payable and accrued expenses consists of amounts owed for well field development, other equipment and construction costs for the Thermo No. 1 project and for general and administrative costs.

Our ability to secure liquidity in the form of additional financing or otherwise remains crucial for the execution of our plans and our ability to continue as a going concern. Our current cash balance, together with cash anticipated to be provided by operations, will not be sufficient to satisfy our anticipated cash requirements for normal operations, accounts payable and capital expenditures for the foreseeable future. Obligations that may exert further pressure on our liquidity situation include the obligation to repay the remaining balance of \$5.3 million borrowed under our Line of Credit and our obligations to pay interest on the Convertible Notes.

The outstanding balance on our Line of Credit is due in July 2010 but could be due earlier if the remaining Line of Credit lender exercises his option to require repayment at any time prior to the maturity date. The principal balance, and any accrued interest thereon, can be paid in the form of cash or equity securities, at our sole discretion, subject to regulatory limitations on our ability to satisfy these obligations through the issuance of equity securities. Although the outstanding borrowings under the Line of Credit of \$5.3 million is due in July 2010, the lender is a related party and has informed us that he does not intend to exert further pressure on our liquidity situation. In addition, we may also incur "make whole" penalties of approximately 20% of the required buy down

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payment if we are unable to increase power output at our Thermo No. 1 plant to the levels contemplated by the financing arrangements for that project. We anticipate funding the buy down payment and “make whole” penalties, if any, from the \$30.0 million in Grant proceeds that are currently in an escrow account. However, management believes that since the methodology to compute the “make whole” penalties did not contemplate the receipt of the Grant funds, we are unable to reasonably estimate what, if any, the “make whole” penalties would be at June 30, 2010.

Our restricted marketable securities balance will be used to fund interest payments due on the Convertible Notes through April 1, 2010. After the April 1, 2010 payment, we will need to fund interest payments on the Convertible Notes from other sources. The Convertible Notes bear interest at the rate of 8.0% year, payable semiannually on April 1 and October 1 of each year. The Convertible Notes mature on April 1, 2013.

Our independent registered public accounting firm’s report on our financial statements as of December 31, 2009 expressed doubt about our ability to continue as a going concern. The report includes an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern due to our incurring significant losses, the use of significant cash in operations, and the lack of sufficient capital, as of the date the report was issued, to support our business plan through the end of 2010 or later.

We are not currently generating significant revenues, and our cash and cash equivalents will continue to be depleted by our ongoing development efforts, as well as our general and administrative expenses. Until we are in a position to generate significant revenues, we will need to continue to raise additional funds to continue operating as a going concern. In an effort to raise additional funds, we are exploring the sale of one or more of our projects or interests therein. We may also seek additional funding through the issuance of debt, preferred stock, equity or a combination of these instruments. We may also seek to obtain financing through government funding from grants, loan guarantees and private activity bonds, joint ventures, the sale of one or more of our projects or interests therein, entry into pre-paid power purchase agreements with utilities or municipalities, or a merger and/or other transaction, a consequence of which could include the sale or issuance of stock to third parties. We cannot be certain that funding from any of these sources will be available on reasonable terms or at all. If we are unable to secure adequate funds on a timely basis on terms acceptable to us, we may need to curtail or cease operations, modify our current plans for plant construction, well field development and other development activities, or extend the time frame over which these activities will take place.

In addition, we may encounter difficulties in raising additional funds because of the deficiency notice that we received from the New York Stock Exchange (the “NYSE”) on April 27, 2010. We received the deficiency notice because we fell below the continued listing standard regarding price criteria for common stock under Section 802.01C of the NYSE’s Listed Company Manual. Section 802.01 C requires that a company’s common stock have a minimum average closing price of \$1.00 per share during a consecutive 30-day trading period. Under the NYSE’s rules, we have six months from the date of the notice to bring our average common stock price over a 30-day trading period back above \$1.00 or we will be delisted from the NYSE.

### **Recent Financing Activities**

In April 2010, we announced that we had filed a prospectus supplement under which we may sell shares of common stock having an aggregate offering price of up to \$25.0 million, from time to time, through a Controlled Equity Offering, or “at-the-market” program. Since the offering was announced on April 8, 2010, we have sold 1,802,100 shares of our common stock and we have received proceeds, net of commissions, totaling approximately \$1.6 million. On May 10, 2010, we ceased selling shares of our common stock pursuant to the controlled equity offering. We also provided notice to Cantor that we were terminating the Sales Agreement and that we had no further intention of selling shares of our common stock through the controlled equity offering.

On February 3, 2010, we completed an offering of 5,000 shares of the Preferred Stock at a negotiated price of \$1,000 per share for a total purchase price of \$5,000,000. As part of this offering, we issued warrants to purchase up to 14,000 additional shares of the Preferred Stock (the “Preferred Warrants”). These securities were purchased by Fletcher. The Preferred Warrants have an exercise price of \$1,000 per share. The net proceeds to us from the sale of the Preferred Stock, after deducting the underwriter fees of \$250,000 and other direct legal expenses, were approximately \$4.6 million. The holder of the Preferred Stock is entitled to a quarterly dividend payable in cash or shares of our common stock at an annual rate equal to LIBOR plus 8%, but in no event higher than 14%, subject to adjustment. Each share of Preferred Stock is convertible into shares of our common stock at a price of \$5.00 per share. The holders of the Preferred Stock may also redeem the shares of Preferred Stock at the earlier of July 28, 2010 or the date on which the Daily Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) exceeds \$2.00 per share. The redemption price is the greater of (a) \$1.2277 per share and (b) 120% of the Prevailing Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock), subject to certain adjustments. As consideration for acting as underwriter in the Preferred Stock transaction with Fletcher, we paid to CapStone underwriter fees of \$250,000 and issued to Capstone a warrant (the “Private Underwriter Warrant”) to purchase 171,568 shares of our common stock, at an exercise price of \$1.275 per share. The Private Underwriter Warrant is exercisable at the option of the holder for a period of five years commencing 181 days after the issue date of the Private Underwriter Warrant.

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Although we were able to obtain limited financing through the sources described above, these sources of funding alone will be insufficient for us to properly execute our current business plan. We have substantial short-term and long-term obligations, and need to obtain additional financing to meet these obligations. However, the current economic environment makes it challenging for us to obtain the financing that we need, on terms acceptable to us. If we are unable to secure adequate funds on a timely basis on terms acceptable to us, we will be unable to satisfy our existing obligations, or execute our plans. In such case, we would be required to curtail or cease operations, liquidate or sell assets, modify our current plans for plant construction, well field development and other development activities, or extend the time frame over which these activities will take place, or pursue other actions that could adversely affect future operations.

### *Consolidated Statements of Cash Flows*

*Operating Activities.* Cash consumed by operating activities for the three months ended March 31, 2010 consisted primarily of a net loss of approximately \$7.6 million, adjusted for approximately \$0.6 million of stock-based compensation and stock issued for services, deferred financing amortization relating to raising capital through debt issuances totaling \$1.0 million and depreciation, amortization and accretion expenses totaling \$0.7 million. We also adjusted our net loss by approximately \$0.6 million due to the amortization of discounts of the Preferred Stock issued in February 2010. Accounts payable and accrued liabilities decreased \$5.9 million from December 31, 2009 to \$10.8 million at March 31, 2010 primarily resulting from normal vendor payments, forgiveness of our liquidated damages and equity based vendor payments as described above. Other assets decreased by approximately \$0.3 million due to applying certain professional service retainers to the appropriate expenses when the related services were completed. We also adjusted our net loss for the net gain on derivatives totaling \$0.6 million that was recognized due to the net decreases in the fair value of our warrants and the Preferred Warrants that have been classified as liabilities.

Cash consumed by operating activities for the three months ended March 31, 2009 consisted primarily of a net loss of approximately \$7.7 million, adjusted for approximately \$1.2 million of stock-based compensation and stock issued for services and deferred financing amortization relating to raising capital through debt issuances totaling \$1.0 million. Accounts payable and accrued liabilities decreased \$8.0 million to \$56.5 million at March 31, 2009. This decrease was primarily due to the use of restricted cash to pay outstanding accounts payable relating to well field development and the purchase of power systems equipment. Other assets decreased by approximately \$0.4 million due to the refund of a deposit relating to completion of the Thermo No. 1 transmission lines. We also adjusted our net loss for a loss on derivatives totaling \$0.9 million due to increases in the fair value of our warrants that have been classified as liabilities due to containing price reset features.

*Investing Activities.* We purchase investments in marketable debt securities as a means of temporarily investing the proceeds from financings until the funds are needed for operating purposes. Due to the nature of these investments, we consider it reasonable to expect that their fair market values will not be significantly impacted by a change in interest rates, and that they can be liquidated for cash on short notice. Our investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield in relationship to our investment guidelines and market conditions. Concentration of credit risk is normally managed by diversifying investments among a variety of high credit-quality issuers. As of March 31, 2010, over 92% of our cash, cash equivalents and restricted cash, or \$32.4 million, is deposited in money market accounts invested with JP Morgan Funds earning 0.1 percent interest. Cash from our checking account is swept nightly into a variable rate interest bearing account earning 0.75 percent per annum. Our checking account balance totaled \$2.7 million at March 31, 2010.

Investing activities provided approximately \$4.3 million of cash in the three months ended March 31, 2010. During the three months ended March 31, 2010, we received proceeds from the Grant totaling \$33.0 million and certain deposits were applied to well field drilling costs totaling \$0.2 million. Our net restricted cash increased approximately \$23.3 million during the three months ended March 31, 2010. We paid \$2.7 million for construction costs relating to the Thermo No. 1 geothermal power plant and \$2.6 million relating to drilling the Thermo No. 1 well field. We also purchased approximately 40,000 acres of leased property in Utah through a BLM auction totaling \$0.2 million. We also purchased certain water rights and easements in New Mexico related to our Lightning Dock project totaling \$0.1 million.

Investing activities consumed approximately \$4.8 million in the three months ended March 31, 2009. During the first quarter of 2009, we purchased two new power project leases totaling \$0.1 million in Oregon and Utah. We also paid \$8.7 million for construction costs relating to the Thermo No. 1 geothermal power plant and \$6.6 million relating to drilling the Thermo No. 1 well field. As a result, these construction and well field expenses were primarily paid through our Thermo No. 1 restricted cash account totaling \$9.9 million. During the first quarter of 2009, we received a refund of deposits that were previously held with a sub-contractor for the construction of the Thermo No. 1 transmission lines totaling \$0.7 million.

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*Financing Activities.* Financing activities provided approximately \$4.2 million and \$8.3 million of cash in the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010, we completed an offering of 5,000 shares of the Preferred Stock and issued the Preferred Warrants to purchase an additional 14,000 shares of Preferred Stock for a total purchase price of \$5,000,000. The net proceeds, after deducting the underwriter fees and other estimated offering expenses payable by us were approximately \$4.6 million. We also received proceeds from our Line of Credit totaling \$0.1 million as a bridge financing for certain administrative expenses. During the quarter ended March 31, 2010, we made principal payments against the outstanding Line of Credit totaling \$0.3 million and against the 7.0% senior secured note (non-recourse) totaling \$0.2 million.

During the three months ended March 31, 2009, we obtained our Line of Credit to provide working capital for general corporate purposes. As of March 31, 2009, we had borrowed a total of \$8.5 million under the Line of Credit. During the three months ended March 31, 2009, we also made principal payments against the 7.00% senior secured note (non-recourse) totaling \$0.2 million.

*Dividends.* We are required to pay a quarterly dividend to the holders of our Preferred Stock, payable in cash or shares of common stock equal to an annual rate of LIBOR plus 8%, but in no event higher than 14%, subject to adjustment. We are limited in dividend payments that we can make to our common stockholders unless such dividend payment is made equally to the holders of the Preferred Stock as if such holders had converted or redeemed (whichever is greater) their Preferred Stock for shares of our common stock immediately prior to the payment of such dividend. We have never declared or paid any cash dividends with respect to our common stock. We currently anticipate that we will retain all future earnings for the operation and expansion of our business and do not intend to declare dividends with respect to our common stock in the foreseeable future. On March 31, 2010, the quarterly dividend payment totaled \$65,305. In accordance with the sales agreement, we settled the quarterly dividend with the issuance of 70,457 shares of our common stock. We also recorded a deemed dividend relating to the accretion of the discount of the Preferred Stock totaling \$1.1 million.

During the three months ended March 31, 2010, there were no dividend payments to our common stockholders.

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

As of March 31, 2010, we had the following off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of SEC Regulation S-K.

As described above, if there are insufficient funds remaining in the project accounts on the Final Completion Date, after the payout of any potential buy-down amounts, to pay the remaining amounts owed to PWPS, we will reimburse PWPS for any remaining unpaid amounts owed to it. To secure payment of our obligations to reimburse PWPS, we provided a security interest PWPS in five patents relating to our Transportation & Industrial segment. We are unable to estimate the maximum potential obligation we may have for future reimbursement payments to PWPS at this time. We believe that the likelihood that we will be obligated to reimburse PWPS for liquidated damages under our amended agreements is "remote" and, accordingly, no liability was recorded for the quarter ended March 31, 2010.

### **Contractual Obligations and Commitments**

We lease our corporate office located at 5152 North Edgewood Drive, Suite 200, Provo, Utah. Our corporate office lease expires on December 31, 2011. We also lease our Symetron™ testing facility in Utah County, Utah. Our testing facility lease is a rolling two month lease which expires on May 31, 2010. We are currently evaluating whether to extend this lease. The corporate offices and facilities are well maintained and in good condition.

During 2008, we entered into an agreement with a private land owner adjacent to our geothermal leased property in Hidalgo County, New Mexico. Under the agreement, we are permitted to store our power generating units, cooling tower equipment, pumps and other equipment that have been delivered to New Mexico for construction of our Lightning Dock geothermal power plant. All equipment is stored outside and the agreement continues on a month-to-month basis until all equipment is removed from the property.

Total rent expense for all of our office space, testing facilities and outdoor storage site leases for the three months ended March 31, 2010 and 2009 was approximately \$124,600 and \$159,000 respectively.

On April 21, 2008, our wholly-owned subsidiary entered into a Road Construction and Maintenance Agreement with Beaver County, Utah to post an improvement bond, or mutually agreed upon equivalent, in the amount of \$100,000. We are currently in the process of securing the improvement bond.

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The table below summarizes our operating lease obligations pursuant to our non-cancelable leases, our long-term debt and our executed purchase obligations as of March 31, 2010:

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating Lease Obligations	\$ 755,771	\$ 431,770	\$ 324,001	\$ —	\$ —
Long Term Debt (principal and interest)	150,304,242	12,984,922	36,851,485	62,810,637	37,657,198
Purchase Obligations	21,293,465	12,393,063	3,062,059	3,249,473	2,588,870
Asset Retirement Obligations	2,799,823	225,285	—	—	2,574,538
Total	\$ 175,153,301	\$ 26,035,040	\$ 40,237,545	\$ 66,060,110	\$ 42,820,606

The contractual purchase obligations set forth above are not recorded as liabilities in our consolidated financial statements. Our equipment purchase obligations are recorded as liabilities when the equipment is received by us or the risk of loss has been legally transferred to us. Amounts payable pursuant to our operating leases are expensed during the reporting period in which the amounts are due and payable. The operating lease obligations include operating leases for our corporate headquarters and our testing facility.

The purchase obligations set forth in the table above include our amended agreements with PWPS for the purchase of power generating units and certain other agreements with vendors of equipment and services. As of March 31, 2010, we were obligated to pay the vendors approximately \$12.4 million in 2010; \$1.5 million in 2011; \$1.6 million in 2012; \$1.6 million in 2013; and \$1.6 million in 2014, as reflected in the table above. Since our geothermal lease agreements are not considered to be operating leases the purchase obligations also include delay rental payments that we have agreed to make in order to maintain our granted rights to the leased properties.

The asset retirement obligations set forth in the table above include our future obligation to dismantle the geothermal power plant, plug and abandoned our production-sized wells that we have drilled and restore the property to its original state at the end of the power plant's useful life which is estimated at 35 years. We have also incurred an obligation to plug and abandon certain wells at our Lightning Dock project and our Thermo No. 1 plant within one year. Therefore, we have estimated the present value of the asset retirement liabilities for the Thermo No. 1 plant and for each of the respective wells. In connection with our asset retirement obligation, we have posted drilling bonds with the Nevada Department of Minerals totaling \$50,000, the Utah Division of Water Rights totaling \$50,000, the State of New Mexico Oil Conservation Division totaling \$65,000 and the Oregon Department of Geology & Mineral Industries totaling \$25,000 to ensure that we comply with the local plug and abandonment requirements associated with drilling wells.

We have employment commitments with our chief executive officer and our chief financial officer. However, amounts due under these employment contracts are not reflected in the table above.

## Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities rather than each major category of assets and liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update will become effective with the interim and annual reporting period beginning January 1, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will become effective with the interim and annual reporting period beginning January 1, 2011. We will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update will not have a material effect on our consolidated financial statements.

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### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### *Disclosures About Market Risk*

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market prices and rates. We do not enter into derivative or other financial instruments for trading or speculative purposes.

Changes in interest rates may also affect our ability to obtain tax equity financing for the development of power projects. In general, as interest rates rise, the tax equity investor's hurdle rate for their investments increases. As the hurdle rate increases, the amount of tax credit equity that can be raised for a project decreases.

We are exposed to losses in the event of nonperformance by the counterparties on the instruments described above.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2010, our disclosure controls and procedures were, subject to the limitations noted above, effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### *Changes in Internal Control Over Financial Reporting*

We continued to formalize documentation and perform testing of our financial processes during the period covered by this Quarterly Report on Form 10-Q. Our Chief Financial Officer resigned in January 2010. As a result of the management turnover, individual responsibilities for certain internal controls over financial reporting temporarily changed until our new Chief Financial Officer assumed the related responsibilities in March 2010. None of the temporary changes in our internal control over financial reporting during the first quarter of 2010, materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On August 17, 2009, Kay Mendenhall ("Mendenhall"), an individual, and Spindyne, Inc. ("Spindyne"), a Utah corporation, filed a complaint in Fourth Judicial District Court, Utah County, Utah against Jack H. Kerlin, an individual, Kraig Higginson, an individual, and Raser Technologies, Inc. Mendenhall and Spindyne allege that, around the time that Raser was formed, Kerlin, on behalf of Spindyne, assigned to Raser the rights to use certain proprietary technology that was owned by Spindyne. Mendenhall and Spindyne allege that they were not properly compensated for that technology. In general, the complaint alleges, among other claims, breach of contract, breach of implied covenant of good faith and fair dealing, and intentional interference with contract and prospective economic relations. The complaint seeks damages in an amount to be determined at trial for the value of the alleged technology. Neither Spindyne nor Mendenhall have any relationship with us or Mr. Higginson, our Chairman. The alleged technology at issue in the complaint is not currently in use and has never been used by us or, to the knowledge of the Company, Mr. Higginson. We believe the complaint to be completely without merit and are vigorously defending it. We, along with Messrs Higginson and Kerlin, filed a motion to dismiss the complaint. On February 17, 2010, the Fourth Judicial Court held a hearing on the motion to dismiss and the matter was taken under advisement. The Fourth Judicial Court has yet to decide upon our motion to dismiss.

On May 26, 2009, Bakersfield Pipe and Supply, Inc. ("Bakersfield") filed a complaint in Fifth Judicial District Court, Beaver County, Utah against Thermo No. 1 BE-01, LLC, Intermountain Renewable Power, LLC and Raser Technologies, Inc., alleging breach of contract and attempting to foreclose on a mechanic's lien. During the first quarter of 2010, the court declared judgment in favor of Bakersfield in the amount of \$1.1 million, plus interest from the date of the judgment. As of May 8, 2010, we had paid \$1.5 million to Bakersfield in full satisfaction of the judgment against us. We have no remaining obligations to Bakersfield, and the mechanics lien is in the process of being removed.

Raser is not subject to any other legal proceedings, and we are unaware of any proceedings presently contemplated against Raser by any federal, state or local government agency.

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### **Item 1A. Risk Factors.**

The following risk factors, among others, could cause our financial performance to differ significantly from the goals, plans, objectives, intentions, beliefs and expectations expressed in this report. If any of the following risks and uncertainties or other risks and uncertainties not currently known to us or not currently considered to be material actually occur, our business, financial condition or operating results could be harmed substantially.

***We will need to secure additional financing and if we are unable to secure adequate funds on terms acceptable to us, we will be unable to support our business requirements, build our business or continue as a going concern.***

At March 31, 2010, we had approximately \$2.7 million in cash and cash equivalents and \$34.7 million in restricted cash and marketable securities. As such, our cash balances are not sufficient to satisfy our anticipated cash requirements for normal operations and capital expenditures for the foreseeable future. Our operating activities used approximately \$23.5 million of cash for the year ended December 31, 2009 and approximately \$5.9 million of cash during the three months ended March 31, 2010. We have incurred substantial losses since inception and we are not operating at cash breakeven. Obligations that may exert further pressure on our liquidity situation include the obligation to repay remaining amounts borrowed under our Line of Credit, which are due in July 2010, unless the remaining Line of Credit lender exercises his option to require repayment at any time prior to the maturity date.

From time to time, we have raised additional capital through the sale of equity and equity-related securities. Most recently, on February 3, 2010, we completed the sale of \$5.0 million of the Preferred Stock to Fletcher. Our proceeds from the sale of the Preferred Stock were approximately \$4.6 million, after deducting underwriters' fees, legal fees and expenses.

Our continuation as a going concern is dependent on efforts to secure additional funding, increase revenues, reduce expenses, and ultimately achieve profitable operations. The current economic environment will make it challenging for us to access the funds that we need, on terms acceptable to us, to successfully pursue our development plans and operations. The cost of raising capital in the debt and equity capital markets has increased substantially while the availability of funds from those markets generally has diminished significantly. If we are unable to raise sufficient, additional capital on reasonable terms, we may be unable to satisfy our existing obligations, or to execute our plans. In such case, we would be required to curtail or cease operations, liquidate or sell assets, modify our current plans for plant construction, well field development or other development activities, or pursue other actions that would adversely affect future operations. Further, reduction of expenditures could have a negative impact on our business. A reduction of expenditures would make it more difficult for us to execute our plans to develop geothermal power plants in accordance with our expectations. It would also make it more difficult for us to conduct adequate research and development and other activities necessary to commercialize our Symetron™ technologies.

In order to execute our business strategy and continue our business operations, we will need to secure additional funding from other sources through the issuance of debt, preferred stock, equity or a combination of these instruments. We may also seek to obtain financing through a joint venture, the sale of one or more of our projects or interests therein, entry into pre-paid power purchase agreements with utilities or municipalities, a merger and/or other transaction, a consequence of which could include the sale or issuance of stock to third parties. We cannot be certain that funding that we seek from any of these sources will be available on reasonable terms or at all.

If we raise additional capital through the issuance of equity or securities convertible into equity, our stockholders may experience dilution. Any new securities we issue may have rights, preferences or privileges senior to those of the holders of our common stock, such as dividend rights or anti-dilution protections. We have previously issued warrants to acquire our common stock in connection with certain transactions. Some of these warrants continue to be outstanding and contain anti-dilution provisions. Pursuant to these anti-dilution provisions, the exercise price of the applicable warrants will be adjusted if we issue equity securities or securities convertible into equity securities at a price lower than the exercise price of the applicable warrants.

We may also seek to secure additional financing by incurring indebtedness. However, as a result of concerns about the stability of financial markets generally, and the solvency of counterparties specifically, the cost of obtaining money from the credit markets generally has increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at maturity on terms that are similar to existing debt, and reduced, or in some cases ceased, to provide funding to borrowers. In addition, any indebtedness we incur could constrict our liquidity, result in substantial cash outflows, and adversely affect our financial health and ability to obtain financing in the future. Any such debt would likely contain restrictive covenants that may impair our ability to obtain future additional financing for working capital, capital expenditures, acquisitions, general corporate or other purposes, and a substantial portion of cash flows, if any, from our operations may be dedicated to interest payments and debt repayment, thereby reducing the funds available to us for other purposes. Any failure by us to satisfy our obligations with respect to these potential debt obligations would likely constitute a default under such credit facilities.

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### *Financing needed to develop geothermal power projects may be unavailable.*

A substantial capital investment will be necessary to develop each geothermal power project our Power Systems segment seeks to develop. Our continued access to capital through project financing or other arrangements is necessary for us to complete the geothermal power projects we plan to develop. We have had difficulty raising the capital we need in the current economic environment, and our future attempts to secure capital on acceptable terms may not be successful.

Market conditions and other factors may not permit us to obtain financing for geothermal projects on terms favorable to us. Our ability to arrange for financing on a substantially non-recourse or limited recourse basis, and the costs of such financing, are dependent on numerous factors, including general economic and capital market conditions, credit availability from banks, investor confidence, the success of our projects, the credit quality of the projects being financed, the political situation in the state in which the project is located and the continued existence of tax and securities laws which are conducive to raising capital. If we are not able to obtain financing for our projects on a substantially non-recourse or limited recourse basis, or if we are unable to secure capital through partnership or other arrangements, we may have to finance the projects using recourse capital such as direct equity investments, which would have a dilutive effect on our common stock. Also, in the absence of favorable financing or other capital options, we may decide not to pursue certain projects. Any of these alternatives could have a material adverse effect on our growth prospects and financial condition.

In addition, the tax benefits originating from geothermal power projects are anticipated to provide a significant portion of the funding of the geothermal projects. This tax equity has traditionally been driven by the tax liability of the major financial industry companies. Many of these companies are currently experiencing significantly reduced income or incurring substantial losses. As a result, they are seeking fewer tax-advantaged investments and this may reduce the amount of readily available tax credit equity available for our geothermal projects or reduce the amount of tax equity that can be obtained as these investors seek higher rates of return for the tax equity they invest.

The United States Congress recently passed the Recovery Act that was subsequently signed into law by President Obama. The Recovery Act provides certain economic incentives, such as clean energy grants, that are designed to provide developers of geothermal and other clean energy projects with cash to help fund the projects. These incentives are designed, in part, to address some of the current problems in the tax equity markets and provide an alternative funding mechanism. Accordingly, part of our short-term strategy to obtain additional funding includes applications for loan guarantees and government grants.

In February of 2010, we received the Grant from the U.S. Treasury under the Recovery Act totaling \$33.0 million. Approximately \$3.8 million will be used by us for general and administrative purposes. The remaining proceeds received from the Grant will be placed into an escrow account and paid out in the following order on or about June 30, 2010: (i) first Prudential will potentially receive a pre-payment, together with a pre-payment penalty, of its outstanding debt, depending on the performance of the Thermo No. 1 plant at the time; (ii) the project escrow accounts will be funded as required by the Thermo Financing Agreements; (iii) Merrill Lynch will receive its redemption amount (either \$17.5 million or \$20.0 million, subject to certain conditions); (iv) Pratt & Whitney Power Systems will receive any amounts left owing to it as the turbine supplier for the Thermo No. 1 plant; and (v) any remaining amounts will be placed in a revenue escrow account and will ultimately flow through as a distribution to us.

One of our applications for loan guarantees was denied and we were not awarded small grants for three projects that we applied for in connection with certain exploration activities. We cannot predict whether we will be able to successfully obtain additional grants or loan guarantees under these new government programs.

Although we are seeking loan guarantees and grants from the government, we will still need to obtain financing from other sources for the development of our projects. Many of our projects will require funding for early-stage development activities, such as drilling, as well as more traditional project financing for the construction of the power plant.

We recently terminated our Commitment Letter with Merrill Lynch to finance up to 155 MW of future projects. The Commitment Letter was terminated as part of an overall restructuring of the project finance and tax equity agreements for the Thermo No. 1 plant. We are currently seeking other financing arrangements to fund the development of additional projects.

Early-stage development activities, such as drilling at potential project sites, preliminary engineering, permitting, legal fees and other expenses can be difficult to finance. Project financing is not typically available for these preliminary activities. As a result, we have generally had to fund these activities out of funds available for general corporate purposes. On December 7, 2009, we entered into the Co-Development Agreement with Evergreen, which could provide an alternative source of funding for drilling or other early-stage development activities at certain projects. Evergreen's funding obligations with respect to each site selected for development are subject to the satisfaction of a number of conditions, including satisfactory due diligence, the completion of certain milestones, the granting of a security interest, and the negotiation of definitive agreements relating to the financing of each project. Under the terms of the Co-Development Agreement, Evergreen would receive warrants to purchase shares of our common stock in connection with the funding of each project selected for development. The total amount of warrants to be issued will be dependent upon the amount of funding provided.

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Evergreen is a newly formed clean-energy fund in the process of raising capital for its first investments in renewable energy projects. Evergreen has informed us that it is in discussions with institutional investors interested in making capital commitments to Evergreen. In connection with these discussions, we have provided diligence materials to Evergreen and Evergreen's potential investors relating to our Thermo and Lightning Dock projects. The ability of Evergreen to perform its obligations and provide funding for one or more of our projects under the Co-Development Agreement is dependent upon Evergreen's ability to obtain sufficient capital commitments from investors. Evergreen's efforts to raise the funds it is seeking are beyond our control, and we cannot predict whether Evergreen will be able to successfully raise sufficient capital to fund one or more of our projects.

### ***The terms of our outstanding Preferred Stock and certain other rights we have granted security holders may make it more difficult for us to sell additional securities.***

Certain terms and conditions included in securities that we have sold, or rights granted to purchasers of securities we have sold, may make it more difficult for us to negotiate and complete sales of our securities in the future. The terms of our outstanding securities could also require us to issue additional shares to purchasers of securities we have sold, or adjust the price of outstanding warrants to purchase our common stock.

The terms of our outstanding Preferred Stock provide that each share of Preferred Stock is entitled to a quarterly dividend, payable in cash or shares of our common stock at an annual rate equal to the 3-month London Interbank Rate ("LIBOR") plus 8%, but in no event higher than 14%. The terms of the Preferred Stock restrict our ability to pay dividends to our common stockholders unless we are current in our dividend obligations to the Preferred Stock and any dividend payment to our common stockholders is made equally to the holders of the Preferred Stock as if such holders had converted or redeemed their Preferred Stock for shares of our common stock. In addition, the holders of the Preferred Stock may redeem the shares of Preferred Stock at the earlier of July 28, 2010 or the date on which the price of our common stock exceeds \$2.00 per share, or the date of a public announcement of the intention or agreement to engage in a transaction or series of transactions that may result in a change of control. The preferential dividend and redemption rights of the Preferred Stock may make investments in our securities less attractive to potential investors.

The holders of the Preferred Stock are also entitled to voting rights that require the majority vote of the outstanding Preferred Stock prior to making certain amendments or changes to our certificate of incorporation or bylaws, including the terms of the Preferred Stock. A majority vote of the Preferred Stock is also required prior to any future issuance of our securities, subject to certain exceptions, including an exception that allows us to issue up to \$25.0 million of our securities as long as we have given the holders of the Preferred Stock the exclusive right to purchase such securities prior to their issuance. We cannot predict whether we will be able to obtain any approvals required by these voting requirements, and the uncertainties associated with these voting requirements could adversely affect our ability to negotiate with potential investors.

In connection with an offering of securities that we completed in July 2009, we granted the purchasers of those securities the right, subject to certain exceptions, to participate in any future equity financing by us prior to December 30, 2010. The participation right allows the investors to purchase up to 35% of any equity securities we offer. These participation rights may make investments in our securities less attractive to potential investors and could adversely affect our ability to negotiate with potential investors.

Outstanding warrants to purchase 6,794,422 shares of our common stock contain an exercise price reset feature that may be triggered upon certain events, such as the issuance of shares of common stock at a price below the maximum warrant exercise price. If triggered, the exercise price reset feature results in a downward adjustment to the maximum warrant exercise price to an amount equal to the average of the then current maximum exercise price and the lowest price at which shares of our common stock are issued on the date when the event occurred. Other outstanding warrants to purchase 1,350,000 shares of our common stock provide for anti-dilution protection, which adjusts the exercise price of each warrant, from time to time upon the occurrence of certain events, including the issuance of shares of common stock at a price lower than the exercise price, stock splits, dividends, recapitalizations and similar events. These price adjustment provisions may result in dilution to potential investors, which could make investments in our securities less attractive to potential investors, and could adversely affect our ability to negotiate with potential investors.

We have agreed to issue additional shares to one institutional investor, Fletcher, if, prior to any exercise of warrants by Fletcher that we issued in 2008, we announce the sale of additional equity securities. The issuance of additional shares to Fletcher pursuant to this agreement may result in dilution to potential investors, which could make investments in our securities less attractive to potential investors, and could adversely affect our ability to negotiate with potential investors.

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### ***The geothermal power production development activities of our Power Systems segment may not be successful.***

We are devoting a substantial amount of our available resources to the power production development activities of our Power Systems segment. To date, we have placed one geothermal power plant in service, and we continue our efforts to ramp up production of that plant. However, our ability to successfully complete that plant and develop additional projects is uncertain.

In connection with our first power plant, Thermo No. 1, we have experienced unexpected difficulties and delays in developing a well field that will produce sufficient heat to operate the plant at full capacity. While we have gained valuable experience that could benefit future projects, we could experience similar unexpected difficulties at future projects, which could adversely affect the economics of those projects. As a result, we cannot be certain that we will be able to operate any of our plants at full capacity on an economic basis.

Our success in developing a particular geothermal project is contingent upon, among other things, locating and developing a viable geothermal site, negotiation of satisfactory engineering, procurement and construction agreements, negotiation of satisfactory power purchase agreements, receipt of required governmental permits, obtaining interconnection rights, obtaining transmission service rights, obtaining adequate financing, and the timely implementation and satisfactory completion of construction. We may be unsuccessful in accomplishing any of these necessary requirements or doing so on a timely basis.

### ***We have limited operating experience and revenue, and we are not currently profitable. We expect to continue to incur net losses for the foreseeable future, and we may never achieve or maintain profitability.***

We have a limited operating history and, from our inception, we have earned limited revenue from operations. We have incurred significant net losses in each year of our operations, including a net loss applicable to common stockholders of approximately \$20.2 million and \$8.8 million for the year ended December 31, 2009 and the three months ended March 31, 2010, respectively. As a result of ongoing operating losses, we had an accumulated deficit of approximately \$118.5 million on cumulative revenues from inception of approximately \$4.2 million as of March 31, 2010. In addition, at March 31, 2010, we had negative working capital totaling \$3.3 million.

Under our current growth plan, we do not expect that our revenues and cash flows will be sufficient to cover our expenses unless we are able to successfully place a number of power plants in service. As a result, we expect to continue to incur substantial losses until we are able to generate significant revenues. Our ability to generate significant revenues and become profitable will depend on many factors, including our ability to:

- secure adequate capital;
- identify and secure productive geothermal sites;
- verify that the properties in which we have acquired an interest contain geothermal resources that are sufficient to generate electricity;
- acquire electrical transmission and interconnection rights for geothermal plants we intend to develop;
- enter into power purchase agreements for the sale of electrical power from the geothermal power plants we intend to develop at prices that support our operating and financing costs;
- enter into additional tax equity partner agreements with potential financing partners that will provide for the allocation of tax benefits to them and for the contribution of capital by them to our projects or to successfully utilize new incentive provisions being implemented by the United States government;
- finance and complete the development of multiple geothermal power plants;
- manage construction, drilling and operating costs associated with our geothermal power projects;
- successfully license commercial applications of our motor, generator and drive technologies;
- enforce and protect our intellectual property while avoiding infringement claims;
- comply with applicable governmental regulations; and
- attract and retain qualified personnel.

### ***Our independent registered public accounting firm's report on our 2009 financial statements questions our ability to continue as a going concern.***

Our independent registered public accounting firm's report on our financial statements as of December 31, 2009 and 2008 and for the three year period ended December 31, 2009 expresses doubt about our ability to continue as a going concern. Their report includes an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern due to the lack of sufficient capital, as of the date their report was issued, to support our business plan through the end of 2010.

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We will need to secure additional financing in the future and if we are unable to secure adequate funds on terms acceptable to us, we will be unable to support our business requirements, build our business or continue as a going concern. Accordingly, we can offer no assurance that the actions we plan to take to address these conditions will be successful. Inclusion of a “going concern qualification” in the report of our independent accountants or any future report may have a negative impact on our ability to obtain financing and may adversely impact our stock price.

***The current worldwide political and economic conditions, specifically disruptions in the capital and credit markets, may materially and adversely affect our business, operations and financial condition.***

Recently, general worldwide economic conditions have experienced a downturn due to the credit conditions resulting from the subprime-mortgage turmoil and other factors, slower economic activity, concerns about inflation and deflation, decreased consumer confidence, reduced corporate profits and capital spending, recent international conflicts, recent terrorist and military activity, and the impact of natural disasters and public health emergencies. If the current market conditions continue or worsen, our business, operations and financial condition will likely be materially and adversely affected.

The United States credit and capital markets have become increasingly volatile as a result of adverse conditions that have caused the failure and near failure of a number of large financial services companies. If the capital and credit markets continue to experience volatility and the availability of funds remains limited, our ability to obtain needed financing on favorable terms could be severely limited. In the current environment, lenders may seek more restrictive lending provisions and higher interest rates that may reduce our ability to obtain financing and increase our costs. Also, lenders may simply be unwilling or unable to provide financing.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to capital needed for our operations and development plans. If we are unable to obtain adequate financing, we could be forced to reduce, delay or cancel planned capital expenditures, sell assets or seek additional equity capital, or pursue other actions that could adversely affect future operations. Failure to obtain sufficient financing or a reduction of expenditures may cause delays and make it more difficult to execute our plans to develop geothermal power plants in accordance with our expectations. It would also make it more difficult to conduct adequate research and development and other activities necessary to commercialize our Symetron™ technologies.

***The market price for our common stock has experienced significant price and volume volatility and is likely to continue to experience significant volatility in the future. Such volatility may cause investors to experience dramatic declines in our stock price from time to time, may impair our ability to secure additional financing and may otherwise harm our business.***

The closing price of our common stock declined significantly over the last twelve months. The closing price fluctuated from a low of \$0.89 per share to a high of \$4.71 per share during the period from January 1, 2009 to March 31, 2010. Our stock price is likely to experience significant volatility in the future as a result of numerous factors outside of our control, including the level of short sale transactions. As a result, the market price of our stock may not reflect our intrinsic value. In addition, following periods of volatility in our stock price, there may be increased risk that securities litigation, governmental investigations or enforcement proceedings may be instituted against us. Any such litigation, and investigation or other procedures, regardless of merits, could materially harm our business and cause our stock price to decline due to potential diversion of management attention and harm to our business reputation.

In addition, if the market price for our common stock remains below \$5.00 per share, our common stock may be deemed to be a penny stock, and therefore subject to rules that impose additional sales practices on broker-dealers who sell our securities. For example, broker-dealers must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. Also, a disclosure schedule must be delivered to each purchaser of a penny stock, disclosing sales commissions and current quotations for the securities. Monthly statements are also required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Because of these additional conditions, some brokers may choose to not effect transactions in penny stocks. This could have an adverse effect on the liquidity of our common stock.

The volatility in our stock price could impair our ability to raise additional capital. Further, to the extent we do raise additional funds through equity financing, we may need to issue such equity at a substantial discount to the market price for our stock. This, in turn, could contribute to the volatility in our stock price. In addition, in connection with future equity financing transactions, we may be required to issue additional shares of stock to investors who purchased securities from us in prior transactions, and future equity financings may result in adjustments to the exercise price of our outstanding warrants. These factors could also contribute to volatility in our stock price.

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### *The financial performance of our Power Systems segment is subject to changes in the legal and regulatory environment.*

Our geothermal power projects will be subject to extensive regulation. Changes in applicable laws or regulations, or interpretations of those laws and regulations, could result in increased compliance costs and require additional capital expenditures. Future changes could also reduce or eliminate certain benefits that are currently available.

Federal and state energy regulation is subject to frequent challenges, modifications, the imposition of additional regulatory requirements, and restructuring proposals. We may not be able to obtain or maintain all regulatory approvals or modifications to existing regulatory approvals that may be required in the future. In addition, the cost of operation and maintenance and the financial performance of geothermal power plants may be adversely affected by changes in certain laws and regulations, including tax laws.

In order to promote the production of renewable energy, including geothermal energy, the federal government has created several significant tax incentives. These tax incentives are instrumental to our ability to finance and develop geothermal power plants by providing increased economic benefits. If the available tax incentives were reduced or eliminated, the economics of the projects would be adversely affected and there could be reductions in our overall profitability or the amount of funding available from tax equity partners. Some projects may not be viable without these tax incentives.

Available federal tax incentives include deductibility of intangible drilling costs, accelerated depreciation, depletion allowances and the investment tax credit ("ITC"), all of which currently are permanent features of the Internal Revenue Code with respect to geothermal power projects. In addition, the Recovery Act extended the availability of the PTC for geothermal projects placed in service before 2014 and created a new grant program for geothermal projects that are placed in service in 2009 or 2010, regardless of when construction begins, or for which construction begins in 2009 or 2010 and which are placed in service before 2014.

The ITC is claimed in the year in which the qualified project is placed in service, and the amount of the credit is a specified percentage (10% or 30%) of the eligible costs of the facility. All or some of the ITC is subject to recapture if the property eligible for the credit is sold or otherwise disposed, or ceases to be eligible property, within five years after being placed in service. In lieu of claiming the ITC, a project owner generally can claim the PTC during the first ten years after the project is placed in service. The amount of the PTC is adjusted for inflation. For 2009, the amount was \$21.00 per megawatt hour of electricity produced from the facility and sold to unrelated parties. As extended by the Recovery Act, the PTC applies to qualifying facilities that are placed in service before 2014. The amount of the PTC also is subject to phase-out if the national average price of electricity produced from qualified energy resources exceeds an inflation adjusted threshold.

In addition, pursuant to the Recovery Act, an owner may elect to receive a grant from the U.S. Treasury Department in lieu of claiming either the ITC or the PTC. For a geothermal project, the amount of the grant is 30% of the cost of qualifying geothermal property placed in service in 2009 or 2010, or placed in service before 2014 if construction begins in 2009 or 2010. Grants are to be paid 60 days after the date the U.S. Treasury Department deems the application is properly submitted and complete. All or some of the grant is subject to recapture if the property eligible for the grant is sold or otherwise disposed, or ceases to be eligible property within, five years after being placed in service. None of the grant should be included in federal taxable income, but may be included in applicable state taxable income.

Owners of projects also are permitted to depreciate for tax purposes most of the cost of the power plant on an accelerated basis, generally, over a five-year period. If an owner elects to receive a grant from the U.S. Treasury Department in lieu of claiming either the ITC or PTC, or if the owner elects to receive the ITC, the basis of the property for depreciation purposes is reduced by an amount equal to 50 percent of the grant or ITC, whichever is applicable.

All of these programs are subject to review and change by Congress from time to time. For example, recent legislation has been introduced to remove equipment sourced outside of the United States from the eligible basis used in calculating the Section 1603 grant. In addition, several of the programs are currently scheduled to expire, and continuation of those incentives will require affirmative Congressional action. Moreover, there are ambiguities as to how some of the provisions of the Recovery Act will operate.

Many of the tax incentives associated with geothermal power projects generally are beneficial only if the owners of the project have sufficient taxable income to utilize the tax incentives. Due to the nature and timing of these tax incentives, it is likely that the tax incentives available in connection with our geothermal power plants (other than the grant in lieu of the ITC and PTC) will exceed our ability to efficiently utilize these tax benefits for at least several years of operations. Therefore, an important part of our strategy involves partnering with investors that are able to utilize the tax incentives to offset taxable income associated with their operations unrelated to our geothermal power plants. For example, a corporation in an unrelated industry may be willing to finance the development of a geothermal power plant in exchange for receiving the benefit of the tax incentives, which it could then use to reduce the tax liability associated with its regular operations.

Tax reform has the potential to have a material effect on our business, financial condition, future results and cash flow. Tax reform could reduce or eliminate the value of the tax subsidies currently available to geothermal projects. Any restrictions or tightening of the rules for lease or partnership transactions, whether or not part of major tax reform, could also materially affect our

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business, financial condition, future results and cash flow. In addition, changes to the Internal Revenue Code could significantly increase the regulatory-related compliance and other expenses incurred by geothermal projects which, in turn, could materially and adversely affect our business, financial condition, future results and cash flow. Any such changes could also make it more difficult for us to obtain financing for future projects.

A significant part of our business strategy is to utilize the tax and other incentives available to developers of geothermal power generating plants to attract strategic alliance partners with the capital sufficient to complete these projects. Many of the incentives available for these projects are new and highly complex. There can be no assurance that we will be successful in structuring agreements that are attractive to potential strategic alliance partners. If we are unable to do so, we may be unable to complete the development of our geothermal power projects and our business could be harmed.

***The exploration, development, and operation of geothermal energy resources by our Power Systems segment is subject to geological risks and uncertainties, which may result in decreased performance, increased costs, or abandonment of our projects.***

Our Power Systems segment is involved in the exploration, development and operation of geothermal energy resources. These activities are subject to uncertainties, which vary among different geothermal resources. These uncertainties include dry holes, flow-constrained wells, wells that become obstructed during drilling, uncontrolled releases of pressure and temperature decline, and other factors, all of which can increase our operating costs and capital expenditures or reduce the efficiency of our power plants. In addition, the high temperature and high pressure in geothermal energy resources requires special resource management and monitoring. Because geothermal resources are complex geological structures, we can only estimate their geographic area. The viability of geothermal projects depends on different factors directly related to the geothermal resource, such as the heat content (the relevant composition of temperature and pressure) flow of the geothermal resource, the useful life (commercially exploitable life) of the resource and operational factors relating to the extraction of geothermal fluids. Although we believe our geothermal resources will be fully renewable if managed appropriately, the geothermal resources we intend to exploit may not be sufficient for sustained generation of the anticipated electrical power capacity over time. Further, any of our geothermal resources may suffer an unexpected decline in capacity. In addition, we may fail to find commercially viable geothermal resources in the expected quantities and temperatures, which would adversely affect our development of geothermal power projects.

The operation of geothermal power plants depends on the continued availability of adequate geothermal resources. Although we believe our geothermal resources will be fully renewable if managed properly, we cannot be certain that any geothermal resource will remain adequate for the life of a geothermal power plant. If the geothermal resources available to a power plant we develop become inadequate, we may be unable to perform under the power purchase agreement for the affected power plant, which in turn could reduce our revenues and materially and adversely affect our business, financial condition, future results and cash flow. If we suffer degradation in our geothermal resources, our insurance coverage may not be adequate to cover losses sustained as a result thereof.

Our ability to operate a geothermal plant at full capacity depends significantly on the characteristics of the production wells we drill to use for the plant. The wells need to provide sufficient heat at flow rates that can be maintained without a significant increase in the parasitic load associated with the plant. The parasitic load refers to the amount of electricity used by the plant and well field to maintain operations. A significant portion of the parasitic load results from pumps and other equipment used to maintain the flow of geothermal water from the earth through the plant and back into the earth through reinjection wells. Generally, water with a higher temperature will allow the plant to operate with a slower rate of flow, which results in a decrease in the parasitic load because less electricity is required to maintain the necessary flow rate. Water with lower temperatures, on the other hand, requires a higher flow rate to operate the plant, which increases the parasitic load. Unless the water produced by a well is hot enough to increase the amount of power generated by the plant without a corresponding increase to the parasitic load, the well will not result in a net increase in the amount of power available for sale from the plant. Therefore, the overall temperature of the water produced by the production wells is critical to our ability to operate the plant at full capacity. Similarly, a deeper resource increases parasitic load because the pumps have to lift the water a greater distance. We cannot be certain whether wells will increase net production at a plant until the wells are brought online and the impact to the parasitic load at the plant has been determined.

***We have experienced certain delays and cost overruns on the Thermo No. 1 plant, and we may experience similar delays and cost overruns on subsequent projects.***

We completed major construction of the cooling towers and transmission lines and installed the power generating units at the Thermo No. 1 plant in the fourth quarter of 2008. We completed the commissioning of the plant in the first quarter of 2009. In April 2009, we began selling electricity generated by the Thermo No. 1 plant to the City of Anaheim pursuant to a power purchase agreement we previously entered into with Anaheim.

During the three months ended March 31, 2010, we delivered 11,543 MW hours of electricity to the City of Anaheim. The Thermo No. 1 plant is currently transmitting approximately 6 MW of electricity to the City of Anaheim, which represents approximately two-thirds of the plant's designed capacity. Thus far, we have been unable to operate the plant at full capacity due to

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insufficient heat and flow from the production wells that provide geothermal water to the plant. In the fall of 2009 we undertook a comprehensive review of the plant and well field operations at the Thermo No. 1 plant and, together with outside experts and our financing partners, developed a plan for increasing the output of the Thermo No. 1 plant. The key component of this plan was to re-work certain wells in order to eliminate down flow of a shallower, cooler zone of geothermal fluids which was mixing with the deeper, hotter zones. In general, this cooler zone contains geothermal fluids in the range of 200 Fahrenheit, while the deeper zone contains temperatures greater than 300 Fahrenheit. We believe that well field work and optimization of certain operations at the plant, have the potential to significantly increase the net power production from the plant during 2010. However, we have not completed all of the necessary drilling, stimulation work and testing, and we cannot be certain the additional modifications to the well field will allow us to operate the Thermo No. 1 plant at full capacity.

The Thermo No. 1 plant is the first ever large-scale commercial application of the PWPS Pure-Cycle units and the first plant built under our rapid-deployment approach so delays and overruns are not entirely unexpected. Some of the key drivers of the delays and cost overruns are as follows:

### Well Field Development:

- Increased costs to broaden previous well field plans.
- Complications encountered by drilling contractors.
- High demand for drilling services and related materials due to the rapid increase in the price of oil.
- Higher than expected loads for well field pumps.

### Construction:

- Wider than necessary step-outs for injection wells, which increased piping and electrical costs, due to concerns of lenders.
- Construction of primary access road improvements to accommodate wider access to Thermo No. 1 than previously anticipated.
- Additional costs incurred to connect piping from additional production wells to the plant.
- Additional costs incurred relating to establishing the greater Thermo area.
- Increased prices for steel, concrete and other commodities due to high demand.
- Payment of overtime and other additional costs in order to accelerate the construction schedule.

### Equipment:

- Expenses associated with installing PWPS power generating units for the first time, which allowed us to identify design changes for the benefit of future plants.

### Transmission:

- In anticipation of future plants, we built a larger transmission infrastructure.

If we are unable to find adequate solutions for the problems we are encountering with the construction and operation of the Thermo No. 1 plant, we may experience similar delays and cost overruns on subsequent projects.

### ***Our Power Systems segment operations may be materially adversely affected if we fail to properly manage and maintain our geothermal resources.***

Our geothermal power plants use geothermal resources to generate electricity. When we develop a geothermal power plant, we conduct hydrologic and geologic studies. Based on these studies, we consider all of the geothermal resources used in our power plants to be fully renewable.

Unless additional hydrologic and geologic studies confirm otherwise, there are a number of events that could have a material adverse effect on our ability to generate electricity from a geothermal resource and/or shorten the operational duration of a geothermal resource, which could cause the applicable geothermal resource to become a non-renewable wasting asset. These events include:

- Any increase in power generation above the amount our hydrological and geological studies indicate that the applicable geothermal resource will support;

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- Failure to recycle all of the geothermal fluids used in connection with the applicable geothermal resource; and
- Failure to properly maintain the hydrological balance of the applicable geothermal resource.

While we intend to properly manage and maintain our geothermal resources in order to ensure that they are fully renewable, our ability to do so could be subject to unforeseen risks and uncertainties beyond our control.

***Our Power Systems segment may be materially adversely affected if we are unable to successfully utilize certain heat transfer technologies in our geothermal power projects.***

Our Power Systems segment intends to utilize certain heat transfer technologies in its geothermal power projects. One of the providers of these heat transfer technologies is PWPS. PWPS's heat transfer technologies are designed to enable the generation of power from geothermal resources that are lower in temperature than those resources used in traditional flash steam geothermal projects.

PWPS's heat transfer technologies have a limited operating history and have only been deployed in a limited number of geothermal power projects. Although we are using these technologies in our Thermo No. 1 plant, that power plant has only been operating for a short time. As a result, we cannot be certain that PWPS's heat transfer technologies or other vendors' heat transfer technologies can be successfully implemented. If we are not able to successfully utilize heat transfer technologies in our geothermal power projects and we are unable to utilize appropriate substitute technologies, we may be unable to develop our projects and our business, prospects, financial condition and results of operations could be harmed.

***The costs of compliance with environmental laws and of obtaining and maintaining environmental permits and governmental approvals required for construction and/or operation of geothermal power plants are substantial, and any non-compliance with such laws or regulations may result in the imposition of liabilities, which could materially and adversely affect our business, financial condition, future results and cash flow.***

Our geothermal power projects are required to comply with numerous federal, regional, state and local statutory and regulatory environmental standards. Geothermal projects must also maintain numerous environmental permits and governmental approvals required for construction and/or operation. Environmental permits and governmental approvals typically contain conditions and restrictions, including restrictions or limits on emissions and discharges of pollutants and contaminants, or may have limited terms. If we fail to satisfy these conditions or comply with these restrictions, or we fail to comply with any statutory or regulatory environmental standards, we may become subject to a regulatory enforcement action and the operation of the projects could be adversely affected or be subject to fines, penalties or additional costs.

***The geothermal power projects developed by our Power Systems segment could expose us to significant liability for violations of hazardous substances laws because of the use or presence of such substances.***

The geothermal power projects developed by our Power Systems segment will be subject to numerous federal, regional, state and local statutory and regulatory standards relating to the use, storage and disposal of hazardous substances. We may use industrial lubricants, water treatment chemicals and other substances at our projects that could be classified as hazardous substances. If any hazardous substances are found to have been released into the environment at or near the projects, we could become liable for the investigation and removal of those substances, regardless of their source and time of release. If we fail to comply with these laws, ordinances or regulations or any change thereto, we could be subject to civil or criminal liability, the imposition of liens or fines, and large expenditures to bring the projects into compliance. Furthermore, we can be held liable for the cleanup of releases of hazardous substances at other locations where we arranged for disposal of those substances, even if we did not cause the release at that location. The cost of any remediation activities in connection with a spill or other release of such substances could be significant.

***In order to finance the development of our geothermal power projects, we may transfer a portion of our equity interest in the individual projects to a third party and enter into long-term fixed price power purchase agreements. Under generally accepted accounting principles, this may result in the deconsolidation of these subsidiaries, and the reflection of only our net ownership interests in our financial statements.***

Each of the geothermal power projects our Power Systems segment develops will likely be owned by a separate subsidiary. The geothermal power projects developed by these subsidiaries will likely be separately financed. To obtain the financing necessary to develop the geothermal power projects, we may transfer a portion of our equity interest in the individual subsidiaries to a third party and enter into long-term fixed price power purchase agreements. Depending upon the nature of these arrangements and the application of generally accepted accounting principles, we may be required to deconsolidate one or more or all of these subsidiaries, which would result in our share of the net profits or loss generated by the deconsolidated entities being presented as a net amount in our financial statements. As a result, our financial statements would not reflect the gross revenues and expenses of the deconsolidated entities. However, we do not expect the effect of such deconsolidation, if required, to have an impact on our stockholders' equity (deficit), net income/loss or earnings/loss per share.

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***Our foreign projects expose us to risks related to the application of foreign laws, taxes, economic conditions, labor supply and relations, political conditions, and policies of foreign governments, any of which risks may delay or reduce our ability to profit from such projects.***

We have accumulated a large portfolio of geothermal interests in four western continental states and a geothermal concession in Indonesia. These geothermal interests are important to our ability to develop geothermal power plants. We continue to accumulate additional interests in geothermal resources for potential future projects. Our foreign operations are subject to regulation by various foreign governments and regulatory authorities and are subject to the application of foreign laws. Such foreign laws or regulations may not provide for the same type of legal certainty and rights, in connection with our contractual relationships in such countries, as are afforded to our projects in the United States, which may adversely affect our ability to receive revenues or enforce our rights in connection with our foreign operations. Furthermore, existing laws or regulations may be amended or repealed, and new laws or regulations may be enacted or issued. In addition, the laws and regulations of some countries may limit our ability to hold a majority interest in some of the projects that we may develop or acquire, thus limiting our ability to control the development, construction and operation of such projects. Our foreign operations are also subject to significant political, economic and financial risks, which vary by country, and include:

- changes in government policies or personnel;
- changes in general economic conditions;
- restrictions on currency transfer or convertibility;
- changes in labor relations;
- political instability and civil unrest;
- changes in the local electricity market;
- breach or repudiation of important contractual undertakings by governmental entities; and
- expropriation and confiscation of assets and facilities.

***Our foreign projects may expose us to risks related to fluctuations in currency rates, which may reduce our profits from such projects.***

Risks attributable to fluctuations in currency exchange rates can arise when any of our foreign subsidiaries borrow funds or incur operating or other expenses in one type of currency but receive revenues in another. In such cases, an adverse change in exchange rates can reduce such subsidiary's ability to meet its debt service obligations, reduce the amount of cash and income we receive from such foreign subsidiary or increase such subsidiary's overall expenses. In addition, the imposition by foreign governments of restrictions on the transfer of foreign currency abroad, or restrictions on the conversion of local currency into foreign currency, would have an adverse effect on the operations of our foreign projects and foreign manufacturing operations, and may limit or diminish the amount of cash and income that we receive from such foreign projects and operations.

***A significant portion of our net revenue is attributed to payments made by power purchasers under power purchase agreements. The failure of any such power purchaser to perform its obligations under the relevant power purchase agreement or the loss of a power purchase agreement due to a default would reduce our net income and could materially and adversely affect our business, financial condition, future results and cash flow.***

A significant portion of our net revenue is attributed to revenues derived from power purchasers under the relevant power purchase agreements. The City of Anaheim has accounted for 100%, of our revenues for the three months ended March 31, 2010. We do not make any representations as to the financial condition or creditworthiness of any purchaser under a power purchase agreement, and nothing in this annual report should be construed as such a representation.

There is a risk that the City of Anaheim or any future power purchasers may not fulfill their respective payment obligations under their power purchase agreements. If any of the power purchasers fails to meet its payment obligations under its power purchase agreements, it could materially and adversely affect our business, financial condition, future results and cash flow.

***If any of our domestic projects loses its current qualifying facility status under PURPA, or if amendments to PURPA are enacted that substantially reduce the benefits currently afforded to qualifying facilities, our domestic operations could be adversely affected.***

Most of our domestic projects are qualifying facilities pursuant to PURPA and are eligible for regulatory exemptions from most provisions of the Federal Power Act ("FPA") and certain state laws and regulations, which largely exempt the projects from the FPA, and certain state and local laws and regulations regarding rates and financial and organizational requirements for electric utilities.

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If any of our domestic projects were to lose its qualifying facility status, such project could become subject to the full scope of the FPA and applicable state regulation. The application of the FPA and other applicable state regulation to our domestic projects could require our operations to comply with an increasingly complex regulatory regime that may be costly and greatly reduce our operational flexibility.

In addition, pursuant to the FPA, Federal Energy Regulatory Commission (“FERC”) has exclusive rate-making jurisdiction over wholesale sales of electricity and transmission of public utilities in interstate commerce. These rates may be based on a cost of service approach or may be determined on a market basis through competitive bidding or negotiation. Qualifying facilities are largely exempt from the FPA. If a domestic project were to lose its qualifying facility status, it would become a public utility under the FPA, and the rates charged by such project pursuant to its power purchase agreements would be subject to the review and approval of FERC. FERC, upon such review, may determine that the rates currently set forth in such power purchase agreements are not appropriate and may set rates that are lower than the rates currently charged. In addition, FERC may require that some or all of our domestic projects refund amounts previously paid by the relevant power purchaser to such project. Such events would likely result in a decrease in our future revenues or in an obligation to disgorge revenues previously received from our domestic projects, either of which would have an adverse effect on our revenues. Even if a project does not lose its qualifying facility status, pursuant to a final rule issued by FERC for projects above 20 MW, if a project’s power purchase agreement is terminated or otherwise expires, and the subsequent sales are not made pursuant to a state’s implementation of PURPA, that project will become subject to FERC’s ratemaking jurisdiction under the FPA. Moreover, a loss of qualifying facility status also could permit the power purchaser, pursuant to the terms of the particular power purchase agreement, to cease taking and paying for electricity from the relevant project or, consistent with FERC precedent, to seek refunds of past amounts paid. This could cause the loss of some or all of our revenues payable pursuant to the related power purchase agreements, result in significant liability for refunds of past amounts paid, or otherwise impair the value of our projects. If a power purchaser were to cease taking and paying for electricity or seek to obtain refunds of past amounts paid, there can be no assurance that the costs incurred in connection with the project could be recovered through sales to other purchasers or that we would have sufficient funds to make such payments. In addition, the loss of qualifying facility status would be an event of default under the financing arrangements currently in place for some of our projects, which would enable the lenders to exercise their remedies and enforce the liens on the relevant project.

Pursuant to the Energy Policy Act of 2005, FERC was also given authority to prospectively lift the mandatory obligation of a utility under PURPA to offer to purchase the electricity from a qualifying facility if the utility operates in a workably competitive market. Existing power purchase agreements between a qualifying facility and a utility are not affected. If the utilities in the regions in which our domestic projects operate were to be relieved of the mandatory purchase obligation, they would not be required to purchase energy from the project in the region under Federal law upon termination of the existing power purchase agreement or with respect to new projects, which could materially and adversely affect our business, financial condition, future results and cash flow.

***Some of our leases will terminate if we do not achieve commercial production during the primary term of the lease, thus requiring us to enter into new leases or secure rights to alternate geothermal resources, none of which may be available on terms as favorable to us as any such terminated lease, if at all.***

Most of our geothermal resource leases are for a fixed primary term, and then continue for so long as we achieve commercial production or pursuant to other terms of extension. The land covered by some of our leases is undeveloped and has not yet achieved commercial production of the geothermal resources. Leases that cover land which remains undeveloped and does not achieve commercial production and leases that we allow to expire, will terminate. In the event that a lease is terminated and we determine that we will need that lease once the applicable project is operating, we would need to enter into one or more new leases with the owner(s) of the premises that are the subject of the terminated lease(s) in order to develop geothermal resources from, or inject geothermal resources into, such premises or secure rights to alternate geothermal resources or lands suitable for injection, all of which may not be possible or could result in increased cost to us, which could materially and adversely affect our business, financial condition, future results and cash flow.

***Claims have been made that some geothermal plants cause seismic activity and related property damage.***

There are approximately two-dozen geothermal plants operating within a fifty-square-mile region in the area of Anderson Springs, in Northern California, and there is general agreement that the operation of these plants causes a generally low level of seismic activity. Some residents in the Anderson Springs area have asserted property damage claims against those plant operators. There are significant issues whether the plant operators are liable, and to date no court has found in favor of such claimants. While we do not believe the areas that we are developing, as noted above, will present the same geological or seismic risks, there can be no assurance that we would not be subject to similar claims and litigation, which may adversely impact our operations and financial condition.

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### ***Our Transportation & Industrial segment may be unable to successfully license our intellectual property.***

A significant part of our long-term business strategy for our Transportation & Industrial segment is based upon the licensing of our Symetron™ technologies to electric motor, controller, alternator and generator manufacturers, suppliers and system integrators. We expect the sales cycle with respect to the licensing of our technology to be lengthy, and there can be no assurance that we will achieve meaningful licensing revenues in the time frames that we expect.

Our Symetron™ technologies are relatively new and commercially unproven. While we have completed some laboratory testing, our technologies have not yet been durability tested for long-term applications. We can provide no assurance that our technologies will prove suitable for our target business segments. Our potential product applications require significant and lengthy product development efforts. To date, we have not developed any commercially available products. It may be years before our technology is proven viable, if at all. During our product development process, we may experience technological issues that we may be unable to overcome. Superior competitive technologies may be introduced or potential customer needs may change resulting in our technology or products being unsuitable for commercialization. Because of these uncertainties, our efforts to license our technologies may not succeed.

We are currently focusing on commercializing our Symetron™ technologies in the transportation and industrial markets. We cannot predict the rate at which market acceptance of our technologies will develop in these markets, if at all. Additionally, we may focus our product commercialization activities on a particular industry or industries, which may not develop as rapidly as other industries, if at all. The commercialization of our products or the licensing of our intellectual property in an industry or industries that are not developing as rapidly as other industries could harm our business, prospects, financial condition and results of operations.

The demand for our technologies may be dependent on government regulations and policies such as standards for Corporate Average Fuel Economy, or CAFE, Renewable Portfolio Standards, or RPS, the Clean Air Act and Section 45 of the Internal Revenue Code. Changes in these regulations and policies could have a negative impact on the demand for the power we plan to generate and our technologies. Any new government regulations or policies pertaining to our products or technologies may result in significant additional expenses to us and our potential customers and could cause a significant reduction in demand for our technologies and thereby significantly harm our Transportation & Industrial segment.

The recent economic downturn has had a dramatic, adverse effect on the automotive industry and other large industrial manufacturers that would be in a position to use and benefit from our technologies. As a result, we believe our ability to commercialize our Symetron™ technologies will be limited until economic conditions improve. We intend to evaluate the prospects for our Transportation & Industrial segment on an ongoing basis. If we believe there are attractive opportunities, we will devote the resources to pursue those opportunities to the extent we believe appropriate. If, on the other hand, we determine that the risks and uncertainties for this business segment are too great in light of the current economic climate, we may choose to further reduce the resources devoted to these efforts. We may also be required to develop a new long-term business strategy for the Transportation & Industrial segment, or discontinue operating this business segment.

### ***We may not be able to enforce or protect the intellectual property that our Transportation & Industrial segment is seeking to license.***

The success of our Transportation & Industrial segment is dependent upon protecting our proprietary technology. We rely primarily on a combination of copyright, patent, trade secret and trademark laws, as well as confidentiality procedures and contractual provisions to protect our proprietary rights. These laws, procedures and provisions provide only limited protection. We have applied for patent protection on most of our key technologies. We cannot be certain that our issued United States patents or our pending United States and international patent applications will result in issued patents or that the claims allowed are or will be sufficiently broad to protect the inventions derived from our technology or prove to be enforceable in actions against alleged infringers. Also, additional patent applications that we may file for our current and future technologies may not be issued. We have received three trademark registrations in the United States and ten trademark registrations internationally. We have also applied for five additional trademark registrations in the United States and one additional trademark registration internationally which may never be granted.

The contractual provisions we rely on to protect our trade secrets and proprietary information, such as our confidentiality and non-disclosure agreements with our employees, consultants and other third parties, may be breached and our trade secrets and proprietary information may be disclosed to the public. Despite precautions that we take, it may be possible for unauthorized third parties to copy aspects of our technology or products or to obtain and use information that we regard as proprietary. In particular, we may provide our licensees with access to proprietary information underlying our licensed applications which they may improperly appropriate. Additionally, our competitors may independently design around patents and other proprietary rights we hold.

Policing unauthorized use of our technology may be difficult and some foreign laws do not protect our proprietary rights to the same extent as United States laws. Litigation may be necessary in the future to enforce our intellectual property rights or determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and management attention resulting in significant harm to our business.

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If third parties assert that our current or future products infringe their proprietary rights, we could incur costs and damages associated with these claims, whether the claims have merit or not, which could significantly harm our business. Any future claims could harm our relationships with existing or potential customers. In addition, in any potential dispute involving our intellectual property, our existing or potential customers could also become the targets of litigation, which could trigger indemnification obligations under license and service agreements and harm our customer relationships. If we unsuccessfully defend an infringement claim, we may lose our intellectual property rights, which could require us to obtain licenses which may not be available on acceptable terms or at all.

***We license patented intellectual property rights from third party owners. If such owners do not properly maintain or enforce the patents underlying such licenses, our competitive position and business prospects could be harmed. Our licensors may also seek to terminate our licenses.***

We are a party to licenses that give us rights to third-party intellectual property that is necessary or useful to our business. Our success will depend in part on the ability of our licensors to obtain, maintain and enforce our licensed intellectual property. Our licensors may not successfully prosecute the patent applications to which we have licenses. Even if patents are issued in respect of these patent applications, our licensors may fail to maintain these patents, may determine not to pursue litigation against other companies that are infringing these patents, or may pursue such litigation less aggressively than we would. Without protection for the intellectual property we license, other companies might be able to offer substantially identical products for sale, which could adversely affect our competitive business position and harm our business prospects.

Our licensors may allege that we have breached our license agreement with them, and accordingly seek to terminate our license. If successful, this could result in our loss of the right to use the licensed intellectual property, which could adversely affect our ability to commercialize our technologies, products or services, as well as harm our competitive business position and our business prospects.

***Our Transportation & Industrial segment could incur significant expenses if products built with our technology contain defects.***

If our Transportation & Industrial segment successfully licenses our technology, products built with that technology may result in product liability lawsuits for any defects that they may contain. Detection of any significant defects may result in, among other things, loss of, or delay in, market acceptance and sales of our technology, diversion of development resources, injury to our reputation, or increased service and warranty costs. A material product liability claim could significantly harm our business, result in unexpected expenses and damage our reputation.

***We face significant competition in each of our business segments. If we fail to compete effectively, our business will suffer.***

Our Power Systems segment faces significant competition from other companies seeking to develop the geothermal opportunities available. Some of our competitors for geothermal projects have substantial capabilities and greater financial and technical resources than we do. As a result, we may be unable to acquire additional geothermal resources or projects on terms acceptable to us.

Our Power Systems segment also competes with producers of energy from other renewable sources. This competition may make it more difficult for us to enter into power purchase agreements for our projects on terms that are acceptable to us.

We believe our Transportation & Industrial segment will face significant competition from existing manufacturers, including motor, controller, alternator, and transportation vehicle companies. We may also face significant competition from our future partners. These partners may have better access to information regarding their own manufacturing processes, which may enable them to develop products that can be more easily incorporated into their products. If our potential partners improve or develop technology that competes directly with our technology, our business will be harmed.

In each of our business segments, we face competition from companies that have access to substantially greater financial, engineering, manufacturing and other resources than we do, which may enable them to react more effectively to new market opportunities. Many of our competitors may also have greater name recognition and market presence than we do, which may allow them to market themselves more effectively to new customers or partners.

***We may pursue strategic acquisitions that could have an adverse impact on our business.***

Our success depends on our ability to execute our business strategies. Our Power Systems segment is seeking to develop geothermal power plants. Our Transportation & Industrial segment is seeking to license our intellectual property to electric motor and controller manufacturers, suppliers and system integrators. Executing these strategies may involve entering into strategic transactions to acquire complementary businesses or technologies. In executing these strategic transactions, we may expend significant financial and management resources and incur other significant costs and expenses. There is no assurance that the execution of any strategic transactions will result in additional revenues or other strategic benefits for either of our business segments. The failure to enter into strategic transactions, if doing so would enable us to better execute our business strategies, could also harm our business, prospects, financial condition and results of operations.

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We may issue company stock as consideration for acquisitions, joint ventures or other strategic transactions, and the use of common stock as purchase consideration could dilute each of our current stockholder's interests. In addition, we may obtain debt financing in connection with an acquisition. Any such debt financing could involve restrictive covenants relating to capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and pursue business opportunities, including potential acquisitions. In addition, such debt financing may impair our ability to obtain future additional financing for working capital, capital expenditures, acquisitions, general corporate or other purposes, and a substantial portion of cash flows, if any, from our operations may be dedicated to interest payments and debt repayment, thereby reducing the funds available to us for other purposes and could make us more vulnerable to industry downturns and competitive pressures.

***If we are unable to effectively and efficiently maintain our controls and procedures to avoid deficiencies, there could be a material adverse effect on our operations or financial results.***

As a publicly-traded company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002. These requirements may place a strain on our systems and resources. Our management is required to evaluate the effectiveness of our internal control over financial reporting as of each year end, and we are required to disclose management's assessment of the effectiveness of our internal control over financial reporting, including any "material weakness" (within the meaning of Public Company Accounting Oversight Board, or PCAOB, Auditing Standard No. 5) in our internal control over financial reporting. On an on-going basis, we are reviewing, documenting and testing our internal control procedures. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required.

No material weaknesses were identified in connection with the audit of our 2009 financial statements. However, weaknesses or deficiencies could be identified in the future. If we fail to adequately address any deficiencies, it could have a material adverse effect on our business, results of operations and financial condition. Ultimately, if not corrected, any deficiencies could prevent us from releasing our financial information and periodic reports in a timely manner, making the required certifications regarding, and complying with our other obligations with respect to our consolidated financial statements and internal controls under the Sarbanes-Oxley Act. Any failure to maintain adequate internal controls over financial reporting and provide accurate financial statements may subject us to litigation and would cause the trading price of our common stock to decrease substantially. Inferior controls and procedures could also subject us to a risk of delisting by the New York Stock Exchange and cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

***We recently received a deficiency notice from the New York Stock Exchange stating that we are not in compliance with one of its listing standards. If we fail to cure this listing standard deficiency and maintain our listing on the New York Stock Exchange, our business could be materially harmed and our stock price could decline.***

Our shares of common stock are listed on the NYSE. Pursuant to the Sarbanes-Oxley Act of 2002, national securities exchanges, including the NYSE, have adopted more stringent listing requirements. On April 27, 2010, we received notice from the NYSE that we had fallen below the continued listing standard regarding price criteria for common stock under Section 802.01C of the NYSE's Listed Company Manual. Section 802.01 C requires that a company's common stock have a minimum average closing price of \$1.00 per share during a consecutive 30-day trading period. Under the NYSE's rules, we have six months from the date of the notice to bring our average common stock price over a 30-day trading period back above \$1.00 or we will be delisted from the NYSE. In addition, in order to maintain our listing on the NYSE, we must continue to meet the minimum-market capitalization rule and other continued listing criteria.

We may not be able to cure our current listing standard deficiency or maintain our compliance with all of the other listing standards of the NYSE. Any failure by us to maintain our listing on the NYSE could materially harm our business, cause our stock price to decline, and make it more difficult for our stockholders to sell their shares.

***We rely on key personnel and the loss of key personnel or the inability to attract, train, and retain key personnel could have a negative effect on our business.***

We believe our future success will depend to a significant extent on the continued service of our executive officers and other key personnel. Of particular importance to our continued operations are our executive management and technical staff. We do not have key person life insurance for any of our executive officers, technical staff or other employees. If we lose the services of one or more of our current executive officers or key employees, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with us, our business could be harmed.

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In recent years we have experienced turnover in certain key positions. On August 5, 2009, our Chief Executive Officer resigned due to health reasons. He has since been replaced by Nick Goodman effective January 25, 2010. On January 15, 2010 our former Chief Financial Officer resigned. On March 22, 2010, John T. Perry began his duties as our new Chief Financial Officer. The replacement of our Chief Executive Officer and our Chief Financial Officer could result in transitional issues that could make it more difficult to execute our business plans in a timely manner.

Our future success also depends on our ability to attract, train, retain and motivate highly skilled technical and administrative personnel. Since we have limited resources to attract qualified personnel, we may not be successful in recruiting, training, and retaining personnel in the future, which would impair our ability to maintain and grow our business.

Our limited cash resources have in the past required us to rely heavily on equity compensation to hire and retain key personnel, and we expect this to continue in the future. This practice may result in significant non-cash compensation expenses and dilution to our stockholders.

### ***We may record impairment charges which would adversely impact our results of operations.***

We review our intangible assets and long-lived assets for impairment annually and whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable as required by generally accepted accounting principles.

One potential indicator of impairment is whether our fair value, as measured by our market capitalization, has remained below our net book value for a significant period of time. Whether our market capitalization triggers an impairment charge in any future period will depend on the underlying reasons for the decline in stock price, the significance of the decline, and the length of time the stock price has been trading at such prices.

In the event that we determine in a future period that impairment exists for any reason, we would record an impairment charge in the period such determination is made, which would adversely impact our financial position and results of operations.

### ***The large number of shares eligible for public sale could cause our stock price to decline.***

The market price of our common stock could decline as a result of the resale of shares of common stock that were previously restricted under Rule 144. In addition, if our officers, directors or employees sell previously restricted shares for tax, estate planning, portfolio management or other purposes, such sales could be viewed negatively by investors and put downward pressure on our stock price. Approximately 68.7 million shares were free of restrictive legend as of March 31, 2010, up from approximately 67.1 million as of December 31, 2009. The occurrence of such sales, or the perception that such sales could occur, may cause our stock price to decline.

On February 3, 2010, we completed the sale of 5,000 shares of the Preferred Stock, pursuant to which we raised \$5.0 million, before deducting underwriters' fees, legal fees and other expenses. Each share of the Preferred Stock will pay a quarterly dividend, payable in cash or shares of common stock equal to an annual rate of LIBOR plus 8%, but in no event higher than 14%, subject to adjustment. Each share of the Preferred Stock will be convertible into shares of our common stock at a price of \$5.00 per share, such price being subject to adjustment for stock splits, combinations, stock dividends and the like. The holders of the Preferred Stock will have the right to redeem the shares of the Preferred Stock purchased at the earlier of six months after the issue date or the date on which the price of our common stock equals or exceeds \$2.00 per share, or the date of a public announcement of the intention or agreement to engage in a transaction or series of transactions that may result in a change of control of our Company. The redemption price for each share of the Preferred Stock into shares of our common stock will be at least \$1.22 per share of our common stock, subject to adjustment under certain circumstances and (b) 120% of the Prevailing Market Price (as defined in the Certificate of Rights and Preferences of the Preferred Stock) at the first redemption date. We also issued the Preferred Warrants to purchase up to an additional 14,000 shares of the Preferred Stock. The issuance of any additional shares of common stock pursuant to the terms of the Preferred Stock will dilute the holders of our common stock and the possibility of these additional issuances of common stock may put downward pressure on our stock price.

Sales of a substantial number of shares of our common stock or other securities in the public markets, or the perception that these sales may occur, could cause the market price of our common stock or other securities to decline and could materially impair our ability to raise capital through the sale of additional securities.

### ***Our reported financial results may be adversely affected by changes in United States generally accepted accounting principles.***

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our financial results. For example, prior to January 1, 2009, we were required to record certain warrants with exercise price reset features

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as equity, if the warrants were considered to be indexed to our own stock. However, for periods after January 1, 2009, we are required to record certain warrants with exercise price reset features as derivative liabilities and record the quarterly changes in fair market value as gains or losses in the financial statements. A significant increase in the fair value of the warrants liability can result in a significant loss recorded during the corresponding period in the financial statements.

*We have never declared or paid dividends on our common stock and we do not anticipate paying dividends on our common stock in the foreseeable future.*

Our business requires significant funding, and we currently invest more in project development than we earn from operating our projects and sales of our technology. In addition, the agreements governing our debt and the terms of our Preferred Stock restrict our ability to pay dividends on our common stock. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently plan to invest all available funds and future earnings in the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be the sole source of potential gain for our common stockholders in the foreseeable future.

### **Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description of Document</b>
4.1	Certificate of Rights and Preferences of Series A-1 Cumulative Convertible Preferred Stock of Raser Technologies, Inc. dated February 3, 2010 (incorporated by reference to Exhibit 4.1 to our current report on Form 8-K filed February 8, 2010)
4.2	Form of Preferred Warrant (incorporated by reference to Exhibit 4.2 to our current report on Form 8-K filed February 8, 2010)
4.3	Form of Private Underwriter Warrant (incorporated by reference to Exhibit 4.3 to our current report on Form 8-K filed February 8, 2010)
10.1	Employment Agreement, dated January 7, 2010, between Nicholas Goodman and Raser Technologies, Inc. (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed January 13, 2010)
10.2	Amended and Restated Agreement among Raser Technologies, Inc., CapStone Investments and Fletcher International, Ltd. dated February 3, 2010 (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed February 8, 2010)
10.3	Schedule Z Amendment, dated as of February 16, 2009, among Thermo No. 1 BE-01, LLC, Deutsche Bank Trust Company Americas, The Prudential Insurance Company of America, Intermountain Renewable Power, LLC, Merrill Lynch, Pierce, Fenner and Smith Incorporated, Raser Technologies, Inc., and Raser Power Systems, LLC (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed February 22, 2010)
10.4	First Amendment to Redemption Agreement, dated February 16, 2010, among Thermo No. 1 BE-01, LLC, Intermountain Renewable Power, LLC, Raser Technologies, Inc. and Merrill Lynch, Pierce, Fenner & Smith Inc. (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed February 22, 2010)
10.5	Amended and Rested Promissory Note of Raser Technologies, Inc. dated February 16, 2010 (incorporated by reference to Exhibit 10.3 to our current report on Form 8-K filed February 22, 2010)
10.6	Employment Agreement, dated February 19, 2010, between John Perry and Raser Technologies, Inc. (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed February 25, 2010)
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

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\* To be filed herewith.

**SIGNATURES**

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

May 10, 2010

**RASER TECHNOLOGIES, INC.**

(Registrant)

\_\_\_\_\_  
/s/ JOHN T. PERRY

**John T. Perry,**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
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4.2	Form of Preferred Warrant (incorporated by reference to Exhibit 4.2 to our current report on Form 8-K filed February 8, 2010)
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31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

\* To be filed herewith.

## CERTIFICATION

I, Nicholas Goodman, certify that:

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

May 10, 2010

/s/ Nicholas Goodman  
Nicholas Goodman,  
Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, John T. Perry, certify that:

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

May 10, 2010

/s/ John T. Perry

John T. Perry,

Chief Financial Officer

(Principal Financial and Accounting Officer)

**Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Nicholas Goodman, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report of Raser Technologies, Inc. on Form 10-Q for the quarterly period ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Raser Technologies, Inc.

Date: May 10, 2010

\_\_\_\_\_  
/s/ Nicholas Goodman  
Nicholas Goodman  
Chief Executive Officer  
(Principal Executive Officer)

**Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

I, John T. Perry, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report of Raser Technologies, Inc. on Form 10-Q for the quarterly period ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Raser Technologies, Inc.

Date: May 10, 2010

\_\_\_\_\_  
/s/ John T. Perry  
John T. Perry  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

A signed original of each of the above-written statements required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Raser Technologies, Inc. and will be retained by Raser Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.

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Source: RASER TECHNOLOGIES INC, 10-Q, May 10, 2010