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

FORM 10-Q

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from to

Cepton, Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-39959	27-2447291
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

399 West Trimble Road San Jose, California	95131
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 408-459-7579

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.00001 per share	CPTN	The Nasdaq Stock Market LLC
Redeemable warrants, exercisable for common stock at an exercise price of $11.50 per share, subject to adjustment	CPTNW	The Nasdaq Stock Market LLC

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 x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

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

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

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

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

As of May 1, 2023, 156,844,093 shares of common stock, par value $0.00001, of the registrant were issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (the "Report") includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical or current fact included in this Report are forward-looking statements. Forward-looking statements may be identified by the use of words such as "estimate," "plan," "project," "forecast," "intend," "will," "expect," "anticipate," "believe," "seek," "target," "designed to" or other similar expressions that predict or imply future events or trends or that are not statements of historical matters. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The Company cautions readers of this Report that these forward-looking statements are subject to risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control, that could cause the actual results to differ materially from the expected results. These factors include the information set forth in Part II, Item 1A, of this Report under the heading "*Risk Factors*", which we encourage you to carefully read. Forward-looking statements include, but are not limited to, statements regarding estimates and forecasts of financial and performance metrics, projections of market opportunity and market share, potential benefits and the commercial attractiveness to its customers of the Company's products and services, the potential success of the Company's marketing and expansion strategies, and the potential for the Company to achieve design awards. These statements are based on various assumptions, whether or not identified in this Report, and on the current expectations of the Company's management and are not predictions of actual performance. These forward-looking statements are provided for illustrative purposes only and are not intended to serve as, and must not be relied on by any investor as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. You are therefore cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as required by law.

Cepton, Inc.
Quarterly Report on Form 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CEPTON, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,972	$ 31,953
Short-term investments	38,066	3,703
Accounts receivable, net of allowance for credit losses of $0 and $0, respectively	1,041	1,301
Inventories	3,430	2,985
Prepaid expenses and other current assets	4,772	6,272
Total current assets	89,281	46,214
Property and equipment, net	1,521	982
Restricted cash	2,565	2,565
Other assets	11,303	555
Total assets	$ 104,670	$ 50,316
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS’ EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 1,521	$ 1,979
Operating lease liabilities, current	1,613	211
Accrued expenses and other current liabilities	2,766	2,265
Short-term debt	—	42,587
Total current liabilities	5,900	47,042
Warrant liability	347	440
Earnout liability	158	920
Operating lease liabilities, non-current	10,158	281
Total liabilities	16,563	48,683
Commitments and contingencies (Note 17)		
Convertible preferred stock:		
Convertible preferred stock – Par value $0.00001 per share – 5,000,000 shares authorized at March 31, 2023 and December 31, 2022; 100,000 shares issued and outstanding at March 31, 2023 (aggregate liquidation preference of $100.8 million at March 31, 2023); No shares issued and outstanding at December 31, 2022	98,891	—
Stockholders’ equity (deficit):		
Common stock – Par value $0.00001 per share – 350,000,000 shares authorized at March 31, 2023 and December 31, 2022; 156,844,093 and 156,747,708 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	2	2
Additional paid-in capital	90,344	88,056
Accumulated other comprehensive loss	(329)	(366)
Accumulated deficit	(100,801)	(86,059)
Total stockholders’ equity (deficit)	(10,784)	1,633
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	$ 104,670	$ 50,316

See accompanying notes to the condensed consolidated financial statements

CEPTON, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except share and per share data)
(unaudited)

	Three Months Ended March 31,	
	2023	2022
Lidar sensor and prototype revenue	$ 1,240	$ 1,485
Development revenue	245	—
Total revenue	1,485	1,485
Lidar sensor and prototype cost of revenue	1,448	1,252
Development cost of revenue	111	—
Total cost of revenue	1,559	1,252
Gross (loss) profit	(74)	233
Operating expenses:		
Research and development	7,238	7,754
Selling, general and administrative	6,731	8,043
Total operating expenses	13,969	15,797
Operating loss	(14,043)	(15,564)
Other income (expense):		
Gain on change in fair value of earnout liability	762	56,678
Gain on change in fair value of warrant liability	94	780
Foreign currency transaction loss, net	(750)	—
Loss on extinguishment of debt	(1,123)	—
Other income, net	19	2
Interest income (expense), net	299	(694)
(Loss) income before income taxes	(14,742)	41,202
Provision for income taxes	—	(4)
Net (loss) income	$ (14,742)	$ 41,198
Net (loss) income per share, basic	$ (0.09)	$ 0.36
Net (loss) income per share, diluted	$ (0.09)	$ 0.32
Weighted-average common shares, basic	156,779,565	115,865,890
Weighted-average common shares, diluted	156,779,565	127,082,423
Net (loss) income	$ (14,742)	$ 41,198
Other comprehensive income (loss), net of tax:		
Changes in unrealized gain (loss) on available-for-sale securities	17	(11)
Foreign currency translation adjustments	20	(4)
Total other comprehensive income (loss), net of tax	37	(15)
Comprehensive (loss) income	$ (14,705)	$ 41,183

See accompanying notes to the condensed consolidated financial statements

CEPTON, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
(In thousands, except share and per share data)
(unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance — December 31, 2022	—	$ —	156,747,708	$ 2	$ 88,056	$ (366)	$ (86,059)	$ 1,633
Issuance of convertible preferred stock, net of transaction costs	100,000	98,891	—	—	—	—	—	—
Exercise of stock options and release of RSUs	—	—	96,385	—	8	—	—	8
Stock-based compensation expense	—	—	—	—	2,280	—	—	2,280
Unrealized gain on available-for-sale investments	—	—	—	—	—	17	—	17
Cumulative translation adjustment	—	—	—	—	—	20	—	20
Net loss	—	—	—	—	—	—	(14,742)	(14,742)
Balance — March 31, 2023	100,000	$ 98,891	156,844,093	$ 2	$ 90,344	$ (329)	$ (100,801)	$ (10,784)

	Convertible Preferred Stock		Preferred Stock		Common Stock		Class F Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance — December 31, 2021	21,671,491	$ 99,470	—	—	27,618,907	$ —	8,372,143	$ —	$ 7,949	$ (43)	$ (95,439)	$ (87,533)
Retroactive application of exchange ratio	31,407,080	—	—	—	40,026,282	—	12,133,201	—	—	—	—	—
Conversion of convertible preferred stock to common stock	(53,078,571)	(99,470)	—	—	53,078,571	1	—	—	99,470	—	1	99,472
Conversion of Class F stock to common stock	—	—	—	—	20,505,344	—	(20,505,344)	—	—	—	—	—
Reverse recapitalization, net of transaction costs	—	—	—	—	11,845,943	1	—	—	(33,051)	—	—	(33,050)
Exercise of Trinity warrants	—	—	—	—	237,571	—	—	—	547	—	—	547
Exercise of SVB warrants	—	—	—	—	146,954	—	—	—	—	—	—	—
Exercise of stock options	—	—	—	—	511,890	—	—	—	273	—	—	273
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,357	—	—	1,357
Unrealized loss on available-for-sale investments	—	—	—	—	—	—	—	—	—	(11)	—	(11)
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	(4)	—	(4)
Net income	—	—	—	—	—	—	—	—	—	—	41,198	41,198
Balance — March 31, 2022	—	$ —	—	$ —	153,971,462	$ 2	—	$ —	$ 76,545	$ (58)	$ (54,240)	$ 22,249

See accompanying notes to the condensed consolidated financial statements

CEPTON, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (14,742)	$ 41,198
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	110	68
Stock-based compensation	2,289	1,347
Amortization of right-of-use asset	382	311
Amortization, other	107	(294)
Gain on change in fair value of earnout liability	(762)	(56,678)
Gain on change in fair value of warrant liability	(94)	(780)
Foreign currency transaction loss, net	750	—
Loss from extinguishment of debt	1,123	—
Changes in operating assets and liabilities:		
Accounts receivable, net	260	(566)
Inventories	(453)	(254)
Prepaid expenses and other current assets	513	(739)
Other long-term assets	181	(1,945)
Accounts payable	(680)	(102)
Accrued expenses and other current liabilities	502	(662)
Operating lease liabilities	89	(389)
Other long-term liabilities	—	(2)
Net cash used in operating activities	(10,425)	(19,487)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(556)	(133)
Purchases of short-term investments	(37,806)	(20,238)
Proceeds from maturities of short-term investments	3,700	2,773
Net cash used in investing activities	(34,662)	(17,598)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible preferred stock, net of transaction costs	99,884	—
Repayment of Koito secured term loan	(45,220)	—
Proceeds from Business Combination and private offering	—	76,107
Payments of Business Combination and private offering transaction costs	—	(28,038)
Proceeds from issuance of debt and warrants, net of debt discount	—	9,724
Proceeds from issuance of common stock options	8	235
Net cash provided by financing activities	54,672	58,028
Effect of exchange rate changes on cash	434	(4)
Net increase in cash, cash equivalents and restricted cash	10,019	20,939
Cash, cash equivalents and restricted cash, beginning of period	34,518	3,654
Cash, cash equivalents and restricted cash, end of period	$ 44,537	$ 24,593

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest	$	63	$	173
Cash paid for income taxes	$	—	$	1
Business Combination transaction costs, accrued but not paid	$	—	$	953
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION				
Vesting of early exercised stock options	$	—	$	38
Right-of-use assets obtained in exchange for new operating lease liabilities	$	11,190	$	1,448

See accompanying notes to the condensed consolidated financial statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Cepton, Inc., and its wholly owned subsidiaries, (collectively, the "Company") formerly known as Growth Capital Acquisition Corp. ("GCAC"), was originally incorporated in Delaware on January 4, 2010, under the name PinstripesNYS, Inc. GCAC changed its name to Growth Capital Acquisition Corp. on February 14, 2020. GCAC was a special purpose acquisition company formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. On February 2, 2021, the Company consummated its initial public offering (the "IPO"), following which its shares began trading on the Nasdaq National Market ("Nasdaq"). On August 4, 2021, GCAC entered into a Business Combination Agreement (as amended, the "Merger Agreement") with Cepton Technologies, Inc. ("Legacy Cepton") and GCAC Merger Sub Inc., a wholly owned subsidiary of GCAC ("Merger Sub"). On February 10, 2022 (the "Closing Date"), the transactions contemplated by the Merger Agreement (the "Business Combination") were consummated. In connection with the closing of the Business Combination, GCAC changed its name to Cepton, Inc. and its shares and public warrants began trading on the Nasdaq under the symbols "CPTN" and "CPTNW", respectively. As a result of the Business Combination, Cepton, Inc. became the owner, directly or indirectly, of all of the equity interests of Legacy Cepton and its subsidiaries.

The Company provides state-of-the-art, intelligent, lidar-based solutions for a range of markets such as automotive, smart cities, smart spaces, and smart industrial applications. The Company's patented lidar technology enables reliable, scalable, and cost-effective solutions that deliver long range, high resolution 3D perception for smart applications. The Company is headquartered in San Jose, California, USA, with a presence in Germany, Canada, Japan, China and India.

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The condensed consolidated financial statements include the accounts of the Company's wholly owned subsidiaries in Canada, Germany, Japan, China and the United Kingdom. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As of March 31, 2023, the Company had cash and cash equivalents of $42.0 million, short-term investment of $38.1 million, and an accumulated deficit of $100.8 million. During the three months ended March 31, 2023, the Company incurred an operating loss of $14.0 million and had negative cash flows from operating activities of $10.4 million. Although much of the negative cash flow resulted from expenses for research and development projects and administrative expenses to support growth of the Company, the Company expects to continue to invest in research and development and generate operating losses in the future.

The Company is subject to risks and uncertainties frequently encountered by early-stage companies including, but not limited to, the uncertainty of successfully developing its products, securing certain contracts, building its customer base, successfully executing its business and marketing strategy and hiring appropriate personnel.

To date, the Company has been funded primarily by equity financings, convertible promissory notes, and the net proceeds received through the Business Combination, PIPE Investment (as defined below), and private placements of the Legacy Cepton convertible preferred stock. Failure to generate sufficient revenues, achieve planned gross margins and operating profitability, control operating costs, or secure additional funding may require the Company to modify, delay, or abandon some of its planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on the Company's business, operating results, financial condition, and ability to achieve its intended business objectives.

Concentration of Risk

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and accounts receivable. The Company maintains a substantial portion of its cash and cash equivalents and short-term investments in money market funds, commercial paper, corporate debt securities, and asset backed securities. Management believes that the financial institutions that hold its cash, cash equivalents, and short-term investments are financially sound and, accordingly, represent minimal credit risk. Deposits held with banks may exceed the amount of federal insurance limits provided on such deposits.

As of March 31, 2023 and December 31, 2022, two customers each accounted for more than 10% of accounts receivable.

Customers with revenue equal to or greater than 10% of total revenue for the periods indicated were as follows:

	Three Months Ended March 31,	
	2023	**2022**
Customer A	58 %	30 %
Customer B	21 %	— %
Customer C	11 %	20 %
Customer D	— %	27 %

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, inventory valuation and reserves, warranty reserves, valuation allowance for deferred tax assets, valuation of earnout and warrant liabilities, stock-based compensation, useful lives of property, plant and equipment, income tax uncertainties, and other loss contingencies. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. Actual results could differ from those estimates, and such differences could be material to the Company's condensed consolidated financial condition and results of operations.

Product Warranties

The Company typically provides a one-year warranty on its products. Estimated future warranty costs are accrued and charged to cost of goods sold in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Through March 31, 2023, there were immaterial changes to the accrued warranty liability which was recorded in accrued expenses and other current liabilities on the condensed consolidated balance sheet.

Reclassifications

Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications.

The condensed consolidated statements of convertible preferred stock and stockholders' equity (deficit) included in this Report for the three months ended March 31, 2022 differ from our previously filed Quarterly Report on Form 10-Q for the three months ended March 31, 2022 by reflecting the immaterial error correction for the misclassification of $1.6 million from prepaid expenses and other current assets to additional paid-in capital for the Lincoln Park Capital Fund, LLC ("Lincoln Park" or "LPC") commitment fee obligation as of March 31, 2022. The Company corrected the error in the condensed consolidated financial statements for the nine months ended September 30, 2022. The Company believes the correction of the error is immaterial to the previously issued condensed consolidated financial statements for prior periods.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Standards Accounting Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changes the way entities recognize credit losses and impairment of financial assets recorded at amortized cost. Currently, the credit loss and impairment model for loans and leases is based on incurred losses, and investments are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. Under the new current expected credit loss ("CECL") model, the standard requires immediate recognition of estimated credit losses expected to occur over the remaining life of the asset. As the

Company is an emerging growth company, the standard will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted this standard on January 1, 2023 utilizing the modified retrospective method, and the adoption did not have a material impact on its condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 amends the diluted earnings per share guidance, including the requirement to use the if-converted method for all convertible instruments. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements, and information about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning after December 15, 2023 for smaller reporting companies. The Company is currently evaluating the potential impact on its condensed consolidated financial statements and related disclosures from the adoption of this standard.

Note 2. Business Combination

On February 10, 2022, the Business Combination was consummated and the following disclosure has been retained from our previously filed Form 10-K for the comparative prior period in 2022.

The Business Combination was accounted for as a reverse recapitalization as Legacy Cepton was determined to be the accounting acquirer under FASB ASC Topic 805, Business Combinations (ASC 805). The determination is primarily based on the evaluation of the following facts and circumstances:

- the equity holders of Legacy Cepton hold the majority of voting rights in the Company;
- the board of directors of Legacy Cepton represent a majority of the members of the board of directors of the Company or were appointed by Legacy Cepton;
- the senior management of Legacy Cepton became the senior management of the Company; and
- the operations of Legacy Cepton comprise the ongoing operations of the Company.

In connection with the Business Combination, outstanding capital stock of Legacy Cepton was converted into common stock of Legacy Cepton and then subsequently converted into Class A common stock of the Company, representing a recapitalization, and the net assets of the Company were acquired at historical cost, with no goodwill or intangible assets recorded. Legacy Cepton was deemed to be the predecessor of the Company, and the consolidated assets and liabilities and results of operations prior to the Closing Date are those of Legacy Cepton. The shares and corresponding capital amounts prior to the Business Combination, have been retroactively restated as shares reflecting the Exchange Ratio (defined below). Operations prior to the Business Combination were those of Legacy Cepton in future reports of the combined entity.

Recapitalization

In connection with the Business Combination, the following occurred to recapitalize the Company:

- Shares of Legacy Cepton convertible preferred stock and Class F stock issued and outstanding, were converted into common stock of Legacy Cepton, and thereafter, all shares of Legacy Cepton common stock were subsequently converted into the Company's Class A common stock, par value $0.0001 per share, at a rate of approximately 2.449 (the "Exchange Ratio");
- Vested stock options to purchase or receive shares of Legacy Cepton common stock (see Note 12) converted into options to purchase or receive shares of the Company's Class A common stock, par value $0.0001 per share, in accordance with the Exchange Ratio;

- Outstanding warrants, whether vested or unvested, to purchase shares of Legacy Cepton common stock (see Note 14) converted into shares of the Company's Class A common stock, par value $0.0001 per share, in accordance with the Exchange Ratio;
- Outstanding unvested stock options to purchase or receive shares of Legacy Cepton common stock (see Note 12) converted into unvested stock options to purchase or receive shares of the Company's Class A common stock upon the same terms and conditions that were in effect with respect to such stock options immediately prior to the Business Combination, after giving effect to the Exchange Ratio;
- The Company's certificate of incorporation was amended and restated to, among other things, increase the total number of authorized shares of capital stock to 355,000,000 shares, of which 350,000,000 shares were designated common stock, $0.00001 par value per share, and of which 5,000,000 shares were designated preferred stock, $0.00001 par value per share and to reclassify each share of Class A common stock and Class B common stock into one share of common stock.

PIPE Investment

Contemporaneously with the execution of the Merger Agreement, GCAC entered into subscription agreements with certain investors (the "PIPE Investors"), pursuant to which the PIPE Investors agreed to purchase an aggregate of 5,950,000 shares of common stock at a purchase price of $10.00 per share, or an aggregate purchase price of $59.5 million (the "PIPE Investment").

Redemption

Prior to the closing of the Business Combination on February 10, 2022, certain GCAC public shareholders exercised their right to redeem certain of their outstanding shares for cash, resulting in the redemption of 15,589,540 shares of GCAC Class A common stock for an aggregate payment of $155.9 million.

Public and Private Placement Warrants

GCAC warrants issued in connection with the IPO ("Public Warrants") and in connection with the private placement units held by the Sponsor ("Private Placement Warrants") remained outstanding after the closing of the Business Combination. The warrants became exercisable to purchase shares of the Company's common stock at an exercise price of $11.50 per share 30 days after the completion of the Business Combination, subject to other conditions, including with respect to the effectiveness of a registration statement covering the shares of common stock underlying such warrants, and will expire five years after the completion of the Business Combination or earlier upon redemption or liquidation. The Public Warrants are equity-classified and were valued based on the instruments' publicly listed trading price as of the Closing Date. The Private Placement Warrants are liability-classified and are valued on a recurring basis with changes in fair value recognized as a gain or loss upon remeasurement (see Note 14).

Transaction Costs

For the three months ended March 31, 2022, the Company incurred direct and incremental costs of approximately $31.7 million in connection with the Business Combination and the related equity issuance, consisting primarily of investment banking, legal, accounting, and other professional fees, which were recorded to additional paid-in capital as a reduction of proceeds. An approximate additional $2.6 million of transaction costs were recorded in general and administrative expense related to the liability classified instruments assumed subsequent to the Business Combination.

Transaction Proceeds

Upon closing of the Business Combination, the Company received gross proceeds of $76.1 million from the Business Combination and PIPE Investment, offset by total transaction costs of $40.7 million.

Note 3. Revenue

The Company disaggregates its revenue from contracts with customers by country of domicile based on the shipping location of the customer. Total revenue disaggregated by country of domicile is as follows (dollars in thousands):

	Three Months Ended March 31,			
	2023		2022	
	Revenue	% of Revenue	Revenue	% of Revenue
Revenue by country of domicile:				
Japan	$ 1,036	70 %	$ 801	54 %
United States	115	8 %	613	41 %
China	317	21 %	—	— %
Other	17	1 %	71	5 %
Total	$ 1,485	100 %	$ 1,485	100 %

As of March 31, 2023 and December 31, 2022, the Company had $0.4 million and $0.5 million of contract liabilities included in accrued expenses and other current liabilities, respectively, and no contract assets.

Note 4. Fair Value Measurement

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis, by level, within the fair value hierarchy (in thousands):

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market fund	$ 8	$ —	$ —	$ 8
Total cash equivalents	$ 8	$ —	$ —	$ 8
Short-term investments:				
Commercial paper	$ —	$ 22,377	$ —	$ 22,377
U.S. treasury securities	—	2,951	—	2,951
U.S. government agency securities	—	9,772	—	9,772
Corporate debt securities	—	2,966	—	2,966
Total short-term investments	$ —	$ 38,066	$ —	$ 38,066
Total assets measured at fair value	$ 8	$ 38,066	$ —	$ 38,074
Liabilities:				
Warrant liability	$ —	$ 347	$ —	$ 347
Earnout liability	—	—	158	158
Total liabilities measured at fair value	$ —	$ 347	$ 158	$ 505

	December 31, 2022							
	Level 1		Level 2		Level 3		Total	
Assets:								
Cash equivalents:								
Money market fund	$	10,437	$	—	$	—	$	10,437
Total cash equivalents	$	10,437	$	—	$	—	$	10,437
Short-term investments:								
U.S. government agency securities	$	—	$	2,493	$	—	$	2,493
Corporate debt securities		—		1,210		—		1,210
Total short-term investments	$	—	$	3,703	$	—	$	3,703
Total assets measured at fair value	$	10,437	$	3,703	$	—	$	14,140
Liabilities:								
Warrant liability	$	—	$	440	$	—	$	440
Earnout liability		—		—		920		920
Total liabilities measured at fair value	$	—	$	440	$	920	$	1,360

Cash equivalents consist primarily of money market funds with original maturities of three months or less at the time of purchase, and the carrying amount is a reasonable estimate of fair value. Short-term investments consist of investment securities with original maturities greater than three months but less than twelve months and are included as current assets in the condensed consolidated balance sheets. For short-term investments, the fair value as of March 31, 2023 and December 31, 2022 approximates amortized cost basis.

Because the transfer of Private Placement Warrants to non-permitted transferees would result in the Private Placement Warrants having substantially the same terms as the Public Warrants, the Company determined that the fair value of each Private Placement Warrant is consistent with that of a Public Warrant. Accordingly, the Private Placement Warrants are classified as Level 2 financial instruments under warrant liability.

The value of the earnout liability is classified as Level 3 under the fair value hierarchy because it has been valued based on significant inputs not observable in the market.

Changes in Level 3 liabilities related to earnout liability measured at fair value for three months ended March 31, 2023 (in thousands):

	Three Months Ended March 31, 2023	
Balance as of December 31, 2022	$	920
Gain on change in fair value of earnout liability		(762)
Balance as of March 31, 2023	$	158

The gain on change in the fair value of the earnout liability was shown in the condensed consolidated statement of operations and comprehensive income (loss).

Note 5. Inventories

Inventories consist of the following as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023		December 31, 2022	
Raw materials	$	1,529	$	1,179
Work-in-process		1,004		1,141
Finished goods		897		665
Total inventories	$	3,430	$	2,985

Inventories are carried and depicted above at the lower of cost or net realizable value. Write-downs were immaterial for the three months ended March 31, 2023 and 2022.

Note 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023	December 31, 2022
Prepaid insurance	$ 2,732	$ 2,533
Other prepaid expenses	1,440	1,376
Deferred transaction costs	—	993
Payroll tax receivable	120	865
Other current assets	480	505
Total prepaid expenses and other current assets	$ 4,772	$ 6,272

Note 7. Property and Equipment, Net

Property and equipment, net, consists of the following as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023	December 31, 2022
Machinery and equipment	$ 2,094	$ 1,445
Automobiles	101	101
Leasehold improvements	189	189
Computer and equipment	116	116
Total property and equipment	2,500	1,851
Less: accumulated depreciation and amortization	(979)	(869)
Total property and equipment, net	$ 1,521	$ 982

Depreciation and amortization related to property and equipment was immaterial for the three months ended March 31, 2023 and 2022.

Note 8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023	December 31, 2022
Accrued payroll	$ 1,763	$ 1,300
Accrued expenses and taxes	563	375
Deferred revenue	355	525
Warranty reserve	85	65
Total accrued expenses and other current liabilities	$ 2,766	$ 2,265

Note 9. Debt

Trinity Loan Agreement

On January 4, 2022, Legacy Cepton entered into a loan and security agreement and subsequent amendments ("Trinity Loan Agreement") with Trinity Capital Inc. ("Trinity") to borrow up to $25.0 million through January 1, 2023 at a floating per annum rate equal to the greater of (i) 10.75% or (ii) the prime rate plus 7.0%. The loan had a maturity date of February 1,

2026. In connection with the Trinity Loan Agreement, Legacy Cepton issued a warrant to purchase 96,998 shares of common stock with an exercise price of $16.89 per share (see Note 14). The fair value of the warrant was estimated to be $1.3 million on the date of issuance. On January 4, 2022, Legacy Cepton borrowed $10.0 million under the agreement, incurring $0.3 million in transaction costs which were accounted for as a debt discount. Legacy Cepton also recognized a pro rata portion of the warrant fair value as a debt discount related to the $10.0 million loan. Amortization of debt discounts, in accordance with the effective interest method, are recorded as interest expense in the accompanying condensed consolidated statement of operations and comprehensive income (loss) during 2022. Obligations under the Trinity Loan Agreement were secured by interests in substantially all of the Company's assets. The agreement contained customary affirmative and negative covenants.

On November 7, 2022, the Company repaid all outstanding principal and accrued interest under and terminated the Trinity Loan Agreement including a 1.5% prepayment penalty and 2.5% end of term payment.

Secured Term Loan Agreement with Koito

On October 27, 2022, the Company entered into an Investment Agreement (the "Investment Agreement") with Koito Manufacturing Co., Ltd. ("Koito") (See Note 10). Concurrently with the execution of the Investment Agreement, the Company entered into a Secured Term Loan Agreement with Koito to borrow Japanese Yen ¥5.8 billion (approximately $39.4 million) (the "Secured Term Loan Agreement"). The loan accrued interest at a rate equal to 1.0% per annum and was payable at maturity. The Secured Term Loan Agreement entered into with Koito was a related party transaction issued at a below market interest rate. To reflect what a similar debt instrument would be issued at with a market interest rate, the Company recorded a $2.0 million debt discount accounted for as a capital contribution within additional paid-in capital in the condensed consolidated balance sheet as of December 31, 2022. Amortization of the debt discount, in accordance with the effective interest method, was recorded as interest expense in the accompanying condensed consolidated statement of operations and comprehensive income (loss). The loan was set to mature on the earlier of three business days after the closing of the transactions contemplated by the Investment Agreement and the date on which the Investment Agreement is terminated in accordance with its terms. On November 7, 2022, the Company borrowed Japanese Yen ¥5.8 billion (approximately $39.4 million) under the Secured Term Loan Agreement. Obligations under the Secured Term Loan Agreement were secured by interests in substantially all of the Company's assets, including all patents. The agreement contained customary affirmative and negative covenants. On January 24, 2023, the Company repaid all outstanding principal and accrued interest under the Secured Term Loan Agreement.

During the three months ended March 31, 2023, the Company recognized $0.3 million in interest expense in connection with the borrowings under the Secured Term Loan Agreement. Additionally, the Company recognized a $0.8 million foreign currency transaction loss on repayment using the applicable exchange rate on January 24, 2023 and a $1.1 million loss on extinguishment of debt.

Note 10. Convertible Preferred Stock

Convertible Preferred Stock Prior to Business Combination

As discussed in Note 2, the Company has retroactively adjusted the shares issued and outstanding prior to February 10, 2022 to give effect to the Exchange Ratio to determine the number of shares of common stock into which they were converted.

Prior to the Business Combination, Legacy Cepton had shares of $0.00001 par value Series A, Series B, Series B-1, and Series C preferred stock outstanding, all of which were convertible into shares of common stock of Legacy Cepton on a 1:1 basis, subject to certain anti-dilution protections.

The authorized, issued, and outstanding shares of Convertible Preferred Stock, and liquidation preferences prior to February 10, 2022 were as follows:

	Issuance Date	Shares Authorized	Shares Issued and Outstanding	Original Issue Price per Share	Aggregate Liquidation Preference
Series A	July 6, 2016	8,000,000	8,000,000	$ 1.0000	$ 8,000,000
Series B	July 13, 2018	4,069,600	4,069,600	$ 6.2500	25,435,000
Series B-1	July 13, 2018	3,272,475	3,272,475	$ 3.1250	10,226,484
Series C	February 4, 2020	7,463,934	6,329,416	$ 8.3736	52,999,998
		22,806,009	21,671,491		$ 96,661,482

Upon the closing of the Business Combination, the 21,671,491 shares of convertible preferred stock issued and outstanding were converted into 53,078,571 shares of common stock at the Exchange Ratio.

Convertible Preferred Stock with Koito

On October 27, 2022, the Company entered into the Investment Agreement with Koito pursuant to which, among other things, at the closing of the transactions, and based on the terms and subject to the conditions set forth therein, the Company issued and sold to Koito, 100,000 shares of Series A Convertible Preferred Stock, par value $0.00001 per share (the “Preferred Stock”), for a purchase price of $100.0 million (the “Initial Liquidation Preference”). The issuance and sale of the Preferred Stock and related matters were approved by the Company’s stockholders on January 11, 2023, and the Preferred Stock issued to Koito on January 19, 2023 (the “Closing Date”). In connection with the issuance of the Preferred Stock, the Company incurred direct and incremental expenses of $1.1 million, comprised of transaction fees, and financial advisory and legal expenses, which reduced the carrying value of the Preferred Stock.

As of March 31, 2023, the Company had authorized 5,000,000 shares of preferred stock, each with a par value of $0.00001. As of March 31, 2023, there were 100,000 shares of preferred stock issued and outstanding.

Dividend Provisions

The Preferred Stock ranks senior to the Company’s common stock with respect to payment of dividends and rights on the distribution of assets on any liquidation, dissolution or winding up of the affairs of the Company and ranks junior to all secured and unsecured indebtedness. The Preferred Stock has an Initial Liquidation Preference of $100.0 million, representing an aggregate Liquidation Preference (as defined below) of $100.0 million upon issuance. At the Company’s election, the Preferred Stock carries a 4.250% per annum dividend if paid in kind or a 3.250% per annum dividend if paid in cash, in each case payable quarterly in arrears. Holders of the Preferred Stock are entitled to the dividend regardless of whether declared by the Company’s board of directors. Such dividends shall accrue and compound quarterly in arrears from the date of issuance of the shares. The Preferred Stock is also entitled to fully participate in any dividends paid to the holders of common stock in cash, in stock or otherwise, on an as-converted basis.

Liquidation Rights

In the event of any Liquidation, holders of the Preferred Stock are entitled to receive an amount per share equal to the greater of (1) the Initial Liquidation Preference per share plus any accrued or declared but unpaid dividends on such shares (the “Liquidation Preference”) or (2) the amount payable if the Preferred Stock were converted into common stock. The Preferred Stock will have distribution and liquidation rights senior to all other equity interests of the Company. As of March 31, 2023, the Liquidation Preference of the Preferred Stock was $100.8 million.

Conversion Feature

The Preferred Stock may be converted, at any time in whole or in part at the option of the holder, beginning on January 19, 2024, into shares of the Company’s common stock equal to the quotient obtained by dividing the sum of the Liquidation Preference by the conversion price of $2.585 (the “Conversion Price”).

Anti-Dilution Provisions

The Conversion Price of the Preferred Stock has customary anti-dilution provisions for stock splits, stock dividends, sales of shares through a tender or exchange offer, including under the Purchase Agreement with Lincoln Park, subject to customary exceptions for issuances pursuant to current or future equity-based incentive plans or arrangements (including upon the exercise of employee stock options).

Optional Redemption

The Company has the option, upon 30 days' advance notice, to (A) repurchase all (but not less than all) of the outstanding Preferred Stock held by Koito or a Permitted Transferee (as defined in the Investment Agreement) on or after the second anniversary of the closing occurring after the end of the applicable fiscal year for which the Company has recorded positive net income, if the Company has recorded positive net income pursuant to GAAP in its audited financial statements for any fiscal year the end date of which falls after the fifth anniversary of the closing and (B) all or any portion of the outstanding Preferred Stock not held by Koito or a Permitted transferee any time after the seventh anniversary of the closing.

Fundamental Change Put Right

Upon occurrence of a fundamental change event, each holder of outstanding shares of the Preferred Stock has the right to require the Company to repurchase any or all of their Preferred Stock at a purchase price per share equal to the Liquidation Preference or in lieu of a repurchase, elect to convert the Preferred Stock into the Company's common stock equal to the quotient obtained by dividing 110% of the Liquidation Preference by the Conversion Price.

A fundamental change is defined as either the direct or indirect sale, or other disposition of all or substantially all assets of the Company and its subsidiaries to any third party or the consummation of any transaction, the result of which is that any third party or group of third parties become the beneficial owner of more than 50% of the voting power of the Company. Solely with respect to shares held by Koito, the definition of a fundamental change is expanded to include agreements entered by the Company to issue equity exceeding 10% of the Company's common stock, or any strategic alliance partnership, or joint venture agreement to a third party deemed to be a competitor with Koito (subject to certain exceptions).

Note 11. Stockholders' Equity (Deficit)

Common Stock

Holders of common stock were entitled to one vote per share, and to receive dividends when, as and if declared by the board of directors, and, upon liquidation or dissolution, were entitled to receive all assets available for distribution to stockholders. The holders had no preemptive or other subscription rights and there were no redemption or sinking fund provisions with respect to such shares.

Upon the closing of the Business Combination, the 27,618,907 shares of Legacy Cepton common stock issued and outstanding were converted into 67,645,189 shares of common stock at the Exchange Ratio.

As of March 31, 2023, the Company had authorized 350,000,000 shares of common stock, each with a par value of $0.00001. As of March 31, 2023, there were 156,844,093 shares of common stock issued and outstanding.

Lincoln Park Transaction

On November 24, 2021, Legacy Cepton entered into a Purchase Agreement with Lincoln Park, pursuant to which Lincoln Park has agreed to purchase up to $100.0 million of common stock (subject to certain limitations contained in the Purchase Agreement) from time to time over a 36-month period (the "Purchase Agreement") after the consummation of the Business Combination and certain other conditions set forth in the Purchase Agreement. The Company may, from time to time and at its sole discretion, direct Lincoln Park to purchase common stock in accordance with daily dollar thresholds as determined within the Purchase Agreement. The purchase price per share for common stock will be the lower of: (i) the lowest trading price for shares of common stock on the market in which it is listed, on the applicable purchase date and (ii) the average of the three (3) lowest closing sale price for common stock during the ten (10) consecutive business days ending on the business day immediately preceding such purchase date. In consideration for entering into the Purchase Agreement, the Company issued, as a commitment fee, 50,000 shares of common stock to Lincoln Park on the date of the closing of the Business Combination and subsequently an additional 150,000 shares of common stock 180 days after the date of the closing of the Business Combination.

As of March 31, 2023, 1,142,505 shares of common stock had been sold in aggregate to Lincoln Park under the Purchase Agreement for consideration of $1.7 million.

Class F Stock

Holders of Legacy Cepton's Class F stock were entitled to the same voting rights as the equivalent number of common stock on an as-converted basis, and to receive dividends when, as and if declared by the board of directors. The holders had conversion rights for conversion into shares of common stock and preferred stock. The holders were subject to vesting terms wherein each holder acquired a vested interest in the stock over a service period of four years.

Upon the closing of the Business Combination, the 8,372,143 shares of Legacy Cepton Class F stock issued and outstanding were converted into 8,372,143 shares of common stock of Legacy Cepton and then subsequently converted into 20,505,344 shares of common stock of the Company at the Exchange Ratio.

Note 12. Stock-Based Compensation

Equity Incentive Plans

On July 5, 2016, Legacy Cepton adopted the 2016 Stock Plan (the "2016 Plan") under which 4,800,000 shares of Legacy Cepton's common stock were reserved for issuance to employees, nonemployee directors, consultants, and advisors. As a result of the Business Combination, the Company no longer grants new incentive awards under the 2016 Plan and there were no shares reserved or available for future issuance under the 2016 Plan. Incentive awards existing under the 2016 Plan immediately prior to the Business Combination were converted into options to receive shares of common stock through application of the Exchange Ratio ("Post Conversion Awards").

On February 10, 2022, the Company adopted the 2022 Stock Plan (the "2022 Plan") under which 15,123,142 shares of the Company's common stock were reserved for issuance to employees, nonemployee directors, consultants, and advisors. Per the terms of the 2022 Plan, in the event any Post Conversion Awards issued and outstanding under the 2016 Plan are cancelled, terminated, or expire, said number of shares will be made available for issuance under the 2022 Plan. The share limit shall automatically increase on the first trading day in January of every calendar year during the term of the 2022 Plan, by an amount equal to the lesser of (i) two percent (2%) of the total number of shares of common stock issued and outstanding on December 31 of the immediately preceding calendar year or (ii) such number of shares of common stock as may be established by the board of directors. As of March 31, 2023, there were 10,086,988 shares of common stock reserved for issuance under the 2022 Plan.

Incentive Stock Options and Nonqualified Stock Options

A summary of the Company's employee and nonemployee stock option activity for the three months ended March 31, 2023 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2022	14,261,984	$ 2.14	6.5	$ 6,486
Granted	—	$ —		
Exercised	(82,923)	$ 0.10		
Expired/Forfeited	(267,889)	$ 3.39		
Outstanding as of March 31, 2023	13,911,172	$ 2.13	6.3	$ 1,371
Exercisable as of March 31, 2023	10,593,841	$ 1.54	5.7	$ 1,371
Vested and expected to vest as of March 31, 2023	13,911,172	$ 2.13	6.3	$ 1,371

As of March 31, 2023, there was $7.5 million of unrecognized stock-based compensation expense related to unvested stock options expected to be recognized over a weighted-average period of 1.8 years. The total intrinsic value of options exercised during the three months ended March 31, 2023 was $0.1 million. The Company recognizes forfeitures as they occur.

Restricted Stock Units

The Company granted restricted stock units ("RSUs") under the 2022 Plan in the second quarter of 2022. Each RSU granted under the 2022 Plan represents a right to receive one share of the Company's common stock when the RSU vests. RSUs generally vest over a period of one to four years based on fulfilling a service condition. The fair value of RSU is equal to the fair value of the Company's common stock on the date of grant.

A summary of the Company's RSU activity for the three months ended March 31, 2023 is presented below:

	Shares	Weighted Grant Date Fair Value
Outstanding as of December 31, 2022	4,708,692	$ 2.57
Granted	3,835,166	$ 1.18
Released	(13,462)	$ 1.18
Forfeited	(122,511)	$ 1.72
Outstanding as of March 31, 2023	8,407,885	$ 1.95

As of March 31, 2023, there was $12.4 million of unrecognized stock-based compensation expense related to unvested RSUs expected to be recognized over a weighted-average period of 2.5 years. The total intrinsic value of RSUs outstanding at March 31, 2023 was $3.9 million. The Company recognizes forfeitures as they occur.

Performance-based Stock units

During the year ended December 31, 2022, the Company granted 123,000 shares of performance-based stock units ("PSUs") under the 2022 Plan, with 66,000 shares in the first tranche and 57,000 shares in the second tranche. Each grant to consist of two market-based vesting tranches, with the first tranche to vest if, at the close of regular trading for 20 trading days out of any period of 30 consecutive trading days, either (i) the closing price of the Company's common stock exceeds $15.00 per share or (ii) the Company's market capitalization exceeds $2.1 billion; and the second tranche to vest if, at the close of regular trading for 20 trading days out of any period of 30 consecutive trading days, either (i) the closing price of the Company's common stock exceeds $17.50 per share or (ii) the Company's market capitalization exceeds $2.5 billion, provided in each case that the applicable stock price or market capitalization goal must be achieved no later than February 10, 2025 for the applicable tranche to vest, and provided further that the vesting of each tranche is subject to the grantee's continued employment with the Company through the day on which the applicable goal is achieved.

The fair value of the PSUs at valuation date was determined using a Monte Carlo valuation model that utilizes significant assumptions, including expected volatility, dividend yield, stock price as of the valuation date, market capitalization targets and the corresponding share price targets necessary for each tranche of PSUs to vest, expected life, and risk-free rate.

The fair value of the PSUs at valuation date was $0.1 million with weighted average grant date fair value of $0.98, amortizing over a derived service period of 21 and 22 months for each tranche, respectively.

Stock-Based Compensation

For the three months ended March 31, 2023 and 2022, the Company recorded stock-based compensation expense as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Cost of revenue	$ 60	$ 43
Research and development expense	1,177	829
Selling, general and administrative expense	1,052	475
Total stock-based compensation expense	$ 2,289	$ 1,347

For the three months ended March 31, 2023 and 2022, the Company capitalized $51 thousand and $43 thousand, respectively, of stock-based compensation expense into inventory. There were no modifications during the three months ended March 31, 2023 and 2022.

Note 13. Earnout Liability

In addition to the shares issued upon closing of the Business Combination (see Note 2), additional contingent shares (“Earnout Shares”) are payable to each holder of common stock and/or options receiving consideration in the Business Combination, in the amounts set forth below:

(a) If the closing price of the Company’s common stock equals or exceeds $15.00 per share for any 20 trading days within any consecutive 30-trading day period that occurs after the Closing Date and on or prior to the three-year anniversary of the Closing Date, then, the Company will issue to each holder of common stock that is entitled to Earnout Shares a number of shares of common stock equal to such holder’s pro rata portion of 7,000,000 shares.

(b) If the closing price of the Company’s common stock equals or exceeds $17.50 per share for any 20 trading days within any consecutive 30-trading day period that occurs after the Closing Date and on or prior to the three-year anniversary of the Closing Date, the Company will issue to each holder of common stock that is entitled to Earnout Shares a number of shares of common stock equal to such holder’s pro rata portion of 6,000,000 shares.

The Company concluded the Earnout Shares meet the criteria for liability classification due to the existence of contingent settlement provisions that could result in holders receiving differing amounts of shares depending on the Company’s stock price or the price paid in a change of control. Because the settlement is not solely determined by the share price of the Company (that is, the share price observed in or implied by a qualifying change-in-control event), but also by the occurrence of a qualifying change-in-control event, this causes the Earnout Shares to not be indexed to the Company’s own shares, resulting in liability classification. Upon the closing of the Business Combination, the Company recorded these instruments as liabilities on the condensed consolidated balance sheet at fair value and will recognize subsequent changes in fair value in earnings at each reporting date. The fair value of the earnout liability was determined using a Monte Carlo valuation model that utilizes significant assumptions, including expected volatility, expected term, and risk-free rate, to determine the probability of achieving the common share price milestones.

The following table summarizes the assumptions used in estimating the fair value of the earnout liability at each of the relevant periods:

	March 31, 2023	December 31, 2022
Current stock price	$ 0.46	$ 1.27
Expected volatility	96.0 %	79.0 %
Risk-free interest rate	4.08 %	4.42 %
Expected term (in years)	1.9	2.1
Expected dividend yield	0 %	0 %

Current stock price: the stock price was based on the closing price as of the valuation date.

Expected volatility: the volatility rate was determined using the historical volatility of the Company's stock price and a mix of historical and implied volatilities of selected industry peers deemed to be comparable to the Company’s business, corresponding to the expected term of the awards.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of issuance for zero-coupon U.S. Treasury notes with maturities corresponding to the expected three-year term of the earnout period.

Expected term: The expected term is the remaining term of the three-year earnout period.

Expected dividend yield: The expected dividend rate is zero as the Company currently has no history or expectation of declaring dividends in the foreseeable future.

As of March 31, 2023, the balance of the earnout liability was approximately $0.2 million. For the three months ended March 31, 2023, the Company recorded a gain of $0.8 million in the condensed consolidated statement of operations and comprehensive income (loss) for the change in fair value of the earnout liability. For the three months ended March 31, 2022, the Company recorded a gain of $56.7 million in the condensed consolidated statement of operations and comprehensive income (loss) for the change in fair value of the earnout liability.

Note 14. Warrants

Common Stock Warrants Assumed in Business Combination

As part of GCAC's initial public offering, 8,625,000 Public Warrants were sold. Each Public Warrant allows the holder to purchase one share of common stock at a price of $11.50 per share, subject to adjustments. The Public Warrants may be exercised only for a whole number of shares of common stock. The Public Warrants will expire five years after the completion of the Business Combination, or earlier upon redemption or liquidation. The Public Warrants are listed on the Nasdaq under the symbol "CPTNW".

The Company may redeem the Public Warrants when exercisable, in whole and not in part, at a price of $0.01 per warrant, so long as the Company provides not less than 30 days' prior written notice of redemption to each warrant holder, and only if the reported last sale of common stock equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sends the notice of redemption to the warrant holders.

Simultaneously with GCAC's initial public offering, GCAC consummated a private placement of 5,175,000 Private Placement Warrants with the Sponsor. The Private Placement Warrants are identical to the Public Warrants, except that the Private Placement Warrants and the shares of common stock issuable upon exercise will not be transferable, assignable or salable until 30 days after the completion of the Business Combination, subject to certain limited exceptions. Additionally, the Private Placement Warrants are non-redeemable so long as they are held by the initial purchasers or such purchaser's permitted transferees. If the Private Placement Warrants are held by someone other than the initial stockholders or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

The Company concluded the Private Placement Warrants meet the criteria for liability classification due to the existence of a settlement provision that adjusts the settlement amount based on who the holder of the warrant is (i.e., permitted vs. non-permitted transferees). This provision causes the Private Placement Warrants to not be indexed to the Company's own shares, resulting in liability classification. Upon consummation of the Business Combination, the fair value of the Private Placement Warrants was recorded at a value of approximately $2.6 million. The fair value of the Private Placement Warrants was remeasured on March 31, 2023 at $0.3 million. For the three months ended March 31, 2023 and 2022, the Company recorded an immaterial gain in the condensed consolidated statement of operations and comprehensive income (loss) for the change in fair value of the liability.

Common Stock Warrants Issued with Borrowings

In August 2019, Legacy Cepton entered into a loan and security agreement ("2019 Loan Agreement") with Silicon Valley Bank ("SVB") that allowed for borrowings of up to $5.0 million under a term loan through July 31, 2020. The term loan was repaid in February 2020. In connection with the 2019 Loan Agreement, Legacy Cepton issued detachable warrants to purchase an aggregate of 60,000 shares of common stock. The warrant was recorded to additional paid-in capital at an estimated fair value of $0.1 million as determined by the Black-Scholes valuation model. Immediately prior to the consummation of the Business Combination, the 60,000 warrants were net exercised and subsequently converted into 136,994 shares of common stock.

On January 4, 2022, in connection with the Trinity Loan Agreement, Legacy Cepton issued a warrant to purchase 96,998 shares of common stock with an exercise price of $16.89 per share. The warrant was immediately exercisable and expires on January 4, 2032. The Company concluded the warrant meets the criteria for liability classification due to the existence of contingent settlement provisions that could result in holders receiving differing amounts of shares depending on the Company's stock price or the price paid in a change of control. Because the settlement is not solely determined by the share price of the Company (that is, the share price observed in or implied by a qualifying change-in-control event), but also by the occurrence of a qualifying change-in-control event, this causes the warrant to not be indexed to the Company's own shares, resulting in liability classification.The fair value of the warrant was initially estimated to be $1.3 million using the Black-Scholes valuation model. Immediately prior to the consummation of the Business Combination, the 96,998 warrants were net exercised and subsequently converted into 73,741 shares of common stock. For the three months ended March 31, 2022, the Company recorded a gain of $0.7 million in the condensed consolidated statement of operations and comprehensive income (loss) for the exercise of warrants.

Note 15. Income Taxes

The Company’s provision for income taxes was immaterial for the three months ended March 31, 2023 and 2022. The difference between the Company’s effective income tax rate and the U.S. federal statutory rate is primarily attributable to unrecognized U.S. federal and state tax benefit because of a full valuation allowance that the Company has established against its federal and state deferred tax assets and foreign tax rate differential from U.S. federal statutory rate. The fair value remeasurement of the earnout and warrant liabilities have no impact to U.S. federal and state net operating loss. The Company continues to maintain a full valuation allowance against the U.S. federal and state deferred tax assets.

The Company conducts its business globally and its operating income is subject to varying rates of tax in the U.S., Canada, Germany, Hong Kong, Japan, China, and the United Kingdom. Consequently, the Company’s effective tax rate is dependent upon the geographic distribution of its earnings or losses and the tax laws and regulations in each geographical region.

Due to historical losses in the U.S., the Company has a full valuation allowance on its U.S. federal and state deferred tax assets. Management continues to evaluate the realizability of deferred tax assets and the related valuation allowance. If management’s assessment of the deferred tax assets or the corresponding valuation allowance were to change, the Company would record the related adjustment to income during the period in which management makes the determination.

The Company is subject to income taxes in the U.S. federal, state, and various foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. All of the Company’s tax years will remain open for examination by the federal and state tax authorities for three and four years, respectively, from the date of utilization of the net operating loss or research and development tax credits. The Company does not have any tax audits or other issues pending.

Note 16. Leases

The Company leases office and manufacturing facilities under non-cancelable operating leases expiring at various dates through April 2028. The Company’s lease agreements do not contain any material terms and conditions of residual value guarantees or material restrictive covenants. The Company adopted ASU 2016-02, *Leases (Topic 842)* using the modified retrospective method on January 1, 2022.

The Company determines if an arrangement is or contains a lease at inception. Operating leases are included in other assets and operating lease liabilities in the Company’s condensed consolidated balance sheets.

Right-of-use assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on an amount equal to the present value of lease payments over the lease term. The Company’s leases do not provide an implicit rate; therefore, the Company uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company uses the implicit rate when it is readily determinable. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward existing lease classification and to exclude leases with original terms of one year or less. Further, the Company elected to combine lease and non-lease components for all asset classes. Variable lease payments are defined as payments made for the right to use an asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. Any variable lease components are expensed as incurred. The operating lease right-of-use assets also include adjustments related to prepaid or deferred lease payments and lease incentives. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

The components of lease expense for the three months ended March 31, 2023 and 2022 were as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Operating lease cost	$ 665	$ 364
Variable lease cost	205	210
Total operating lease cost	$ 870	$ 574

Supplemental cash flow information for the three months ended March 31, 2023 and 2022 related to leases was as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Cash paid for operating leases included in operating activities	$ 199	$ 442
Right of use assets obtained in exchange for lease obligations:		
Operating leases	$ 11,190	$ 1,448

Supplemental balance sheet information related to leases was as follows (in thousands):

	March 31, 2023	December 31, 2022
Operating lease right-of-use assets:		
Operating lease right-of-use assets, current	$ —	$ 121
Operating lease right-of-use assets, non-current	11,253	324
Total operating lease right-of-use assets	$ 11,253	$ 445
Operating lease liabilities:		
Operating lease liabilities, current	$ 1,613	$ 211
Operating lease liabilities, non-current	10,158	281
Total operating lease liabilities	$ 11,771	$ 492

Weighted average remaining term and discount rates were as follows (term in years):

	March 31, 2023	December 31, 2022
Weighted average remaining lease term	5.01	3.06
Weighted average discount rate	14.48 %	13.78 %

Maturities of lease liabilities were as follows (in thousands):

Year Ending December 31,	
2023	$ 2,370
2024	3,250
2025	3,328
2026	3,324
Thereafter	4,215
Total undiscounted lease payments	$ 16,487
Present value adjustment for minimum lease commitments	4,716
Net lease liabilities	$ 11,771

Note 17. Commitments and Contingencies

Legal Proceedings

From time to time, the Company may be involved in various legal claims, litigation and other matters that arise in the normal course of its operations. Although there can be no assurances and the outcome of these matters is currently not determinable, the Company currently believes that none of these claims, actions or proceedings are likely to have a material adverse effect on the Company's financial position.

The Company records accruals for our outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Company evaluated developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. There were no material accruals for loss contingencies associated with such legal claims, actions or litigation as of March 31, 2023.

Note 18. Related Party Transactions

Investment Agreement and Investor Rights Agreement with Koito

On October 27, 2022, the Company entered into the Investment Agreement with Koito pursuant to which, among other things, at the closing of the transactions, and based on the terms and subject to the conditions set forth therein, the Company issued and sold to Koito 100,000 shares of Preferred Stock for a purchase price of $100.0 million. The issuance and sale of the Preferred Stock and related matters were approved by the Company's stockholders on January 11, 2023, and the Preferred Stock issued to Koito on January 19, 2023. See Note 10 to the condensed consolidated financial statements in this Report for further information. At the closing of the issuance of the Preferred Stock, the Company and Koito entered into the Investor Rights Agreement (the "Investor Rights Agreement"), pursuant to which, among other things, the Company ensured that two designees of Koito sat on the Company's board of directors immediately following the closing of the Transaction. The Investor Rights Agreement also provides for certain investor consent, preemptive, registration, and termination rights, which contain certain provisions that limit the Company's ability to access additional sources of funding without Koito's consent.

Secured Term Loan Agreement with Koito

Concurrently with the execution of the Investment Agreement, the Company entered into a Secured Term Loan Agreement with Koito to borrow Japanese Yen ¥5.8 billion (approximately $39.4 million). On January 24, 2023, the Company repaid all outstanding principal and accrued interest under the Secured Term Loan Agreement. See Note 9 to the condensed consolidated financial statements in this Report for further information.

Transactions with Koito

Koito is an automotive tier 1 partner and investor of the Company and sales to Koito were $0.9 million and $0.4 million for the three months ended March 31, 2023 and 2022, respectively. Accounts receivable from Koito were $0.4 million as of March 31, 2023 and $1.0 million as of December 31, 2022.

Note 19. Basic and Diluted Net Income (Loss) Per Share

The Company follows the two-class method when computing net income (loss) per common share when shares are issued that meet the definition of participating securities. The Company was in a net loss position for the three months ended March 31, 2023 and a net income position for the three months ended March 31, 2022. The Company considers its convertible preferred stock outstanding as of March 31, 2023 to be participating as holders of such securities have non-forfeitable dividend rights in the event of the declaration of a dividend for shares of common stock. When the Company is in a net loss position, the net loss attributable to common stockholders is not allocated to the convertible preferred stock under the two-class method as these securities do not have a contractual obligation to share in losses. Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of the Company's common stock outstanding. When there is a net loss attributable to common stockholders, potentially dilutive common stock equivalents have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive.

The following table present reconciliations of the denominators of basic and diluted net income (loss) per share:

	Three Months Ended March 31,	
	2023	2022
Denominator:		
Weighted-average common shares outstanding – Basic [1]	156,779,565	115,865,890
Stock options to purchase common stock and RSUs [2]	—	11,216,533
Weighted-average common shares outstanding – Diluted	156,779,565	127,082,423

(1) Includes 150,000 shares of common stock issuable to Lincoln Park in connection with the Purchase Agreement as of the three months ended March 31, 2022 as the shares are issuable in lieu of a commitment fee and will be issued solely as a result of the passage of time.

(2) Includes the weighted average unvested shares subject to repurchase of 71,619 as of the three months ended March 31, 2022

The following common stock equivalents were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have been antidilutive:

	Three Months Ended March 31,	
	2023	2022
Stock options to purchase common stock and RSUs	16,125,653	802,866
Preferred shares on an as-converted basis	39,008,973	—
Total	55,134,626	802,866

As of March 31, 2023 and 2022, 13,000,000 Earnout Shares were excluded from the table above because the shares are considered contingently issuable and the required common share price milestones were not achieved as of March 31, 2023 and 2022. As of March 31, 2023 and 2022, 13,800,000 common stock warrants were excluded from the table above as no shares were issuable under the treasury stock method of computing diluted earnings per share.

Note 20. Segments

The Company conducts its business in one operating segment that develops and produces lidar sensors for use in automotive and smart infrastructure industries. The Company's Chief Executive Officer is the chief operating decision maker ("CODM"). The CODM allocates resources and makes operating decisions based on financial information presented on a consolidated basis, accompanied by disaggregated information about sales and gross margin by product group. The profitability of the Company's product group is not a determining factor in allocating resources and the CODM does not evaluate profitability below the level of the consolidated company. Long-lived assets of the Company located in its country of domicile, the United States, are approximately 90%.

Note 21. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through May 10, 2023, the issuance date of the condensed consolidated financial statements, and determined there are no other transactions that require additional accounting or disclosure.

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

Unless otherwise indicated, references in this section to "we," "our," "us," and "Cepton" generally refer to Cepton Technologies, Inc. and its consolidated subsidiaries prior to the Business Combination and to Cepton, Inc. and its consolidated subsidiaries after giving effect to the Business Combination. The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the condensed consolidated financial statements included in this Report. This discussion contains forward-looking statements based upon our current expectations, estimates and projections that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements due to, among other considerations, the matters discussed under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" herein.

Certain amounts that appear in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") may not sum due to rounding. Percentage amounts included in this MD&A have not in all cases been calculated on the basis of such rounded figures, but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this MD&A may vary from those obtained by performing the same calculations using the figures in our condensed consolidated financial statements included elsewhere in this Report. Terms used but not defined in this MD&A shall have the meanings ascribed to such terms in this Report.

Business Overview

Cepton is focused on the deployment of high performance, mass-market lidar solutions to deliver safety and autonomy across the automotive and smart infrastructure markets. By adopting our solutions, our customers can enable safety and autonomy applications across a broad range of end-markets including our primary market, advanced driver assistance systems ("ADAS") in consumer and commercial vehicles, which we believe represents not just the largest market opportunity for lidar applications over the next decade, but also the market with the best potential for near term mass-market commercialization.

Since the inception of our company in 2016, building lidars for broad market adoption has been our guiding principle. Mass-market deployment guided not just our end-market focus, but also our product design choices, our areas of technological innovation, and our approach to manufacturing, and our go-to-market strategy and partnerships. To pursue mass-market adoption, our value proposition has focused on developing a lidar that achieves high performance with automotive grade reliability at competitive prices. Our thesis was that lidar would gain broad based adoption only when solutions strike the right balance across three key facets of performance, cost and reliability.

Based on this approach, we have gained acceptance for our technology in the automotive market. In 2019, following approximately three years of rigorous engagement and working alongside our automotive tier 1 partner, Koito, we were awarded a significant ADAS lidar series production award from General Motors ("GM") through Koito. This award includes multiple platforms and vehicle models, with an estimated production start in 2023.

As a Silicon Valley-based company led by recognized technical experts in the optical field, technology innovation is at the core of our company. We developed a comprehensive lidar platform consisting of proprietary components including our breakthrough imaging technology and our system-on-a-chip lidar engine application-specific integrated circuit, a portfolio of automotive-grade and industrial-grade long-range and near-range lidars, a software layer enabling the integration of automotive functions, and feature rich perception software capabilities.

Business Combination

On February 10, 2022, the Business Combination was consummated and as a result, a subsidiary of Growth Capital Acquisition Corp. ("GCAC"), GCAC Merger Sub Inc., merged with and into Cepton Technologies, Inc. ("Legacy Cepton"). GCAC changed its name to Cepton, Inc., and the Company is now listed on the Nasdaq under the symbol "CPTN". Legacy Cepton is deemed to be the accounting predecessor and Cepton, Inc. is the successor registrant with the U.S. Securities and Exchange Commission ("SEC"), which means that Legacy Cepton's financial statements for previous periods will be disclosed in Cepton, Inc.'s future periodic reports filed with the SEC.

The Business Combination was accounted for as a reverse recapitalization. Under this method of accounting, GCAC is treated as the acquired company for financial statement reporting purposes. This determination is primarily based on Legacy Cepton stockholders comprising a majority of the voting power of the combined entity and having the ability to nominate the majority of the governing body of the combined entity, Legacy Cepton's senior management comprising the senior management of the combined entity, and Legacy Cepton's operations comprising the ongoing operations of the combined entity. For accounting purposes, the combined entity represents a continuation of the financial statements of Legacy Cepton and the Business Combination is treated as the equivalent of Legacy Cepton issuing stock for the net assets of GCAC, accompanied by a recapitalization. See Note 2 to the condensed consolidated financial statements in this Report for further information regarding the Business Combination.

As a result of our having become a publicly traded company, we have hired, and will need to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We have incurred, and expect to continue to incur, additional annual expenses as a public company for, among other things, directors' and officers' liability insurance, director fees and additional internal and external accounting and legal and administrative resources, including increased audit and legal fees.

Market Conditions

The global economy, including the financial and credit markets, continues to experience significant volatility and disruptions and has been impacted by increases in inflation rates, the ongoing conflict in Ukraine and rising fuel prices, rising interest rates, declines in consumer confidence, declines in economic growth, and uncertainty about economic stability. The severity and duration of the impact of broader macroeconomic conditions on our business is dynamic and cannot be predicted.

For more information on our operations and risks related to our macroeconomic environment, please see the section titled "*Risk Factors*".

Key Factors Affecting Our Operating Results

We believe that our future performance and success depends, to a substantial extent, on our ability to capitalize on the following opportunities, which in turn is subject to significant risks and challenges, including those discussed below and in Part II, Item 1A of this Report under the heading "*Risk Factors*".

Series Production Awards in the Automotive Market

An important part of our mission is to deploy high performance, mass-market lidar in the automotive market. Within the automotive market, we believe that passenger car ADAS applications represent the largest opportunity but also have the most stringent requirements for reliability, cost, and performance. Major automotive OEMs typically undergo several years of planning, technology selection, and vehicle integration work before introducing new and important technologies in their vehicle offerings. We anticipate that lidar, as a new sensor that improves safety and enhances autonomy, will undergo the same technology introduction and validation process as similar technologies in the past, such as anti-lock braking systems or stability control systems. The number of vehicle platforms and vehicle models that will be equipped with lidar will depend on OEM product planning, vehicle integration, and marketing schedules. Once a lidar supplier is chosen, the number of awarded vehicle platforms and vehicle models is likely to increase over time. This is because the development efforts of integrating lidar into the OEM's product offerings is leveraged across multiple vehicle classes and platforms to maximize the OEM's return on investment.

For example, our series production award through Koito for GM's ADAS program initially included four vehicle models and was subsequently updated to include nine vehicle models spanning different classes of vehicles from luxury sedans to mid-level passenger cars to SUVs and trucks. These vehicles include traditional internal combustion engine types as well as electric drive train types. We expect additional vehicle models to be added to this series production award over time, with an anticipated start of production in 2023 and significant volume increase anticipated in the following years. However, if the targets of this series production award are not realized, or if GM were to terminate or significantly alter or delay its GM series production award and/or alter its relationship with us or with Koito in a manner that is adverse to us or GM would delay the introduction of the vehicle models that are part of the series production award, our business would be materially adversely affected. Similarly, if we are unable to maintain our relationship with Koito, or the terms of our arrangement with Koito with respect to the GM program differs from our expectations, including with respect to volume, pricing, and timing, then our business and prospects would be materially adversely affected.

Adoption of Lidar Solutions in Automotive and Smart Infrastructure Markets

In an endless pursuit of safety and product differentiation, many leading automotive OEMs have decided to include lidar in their next generation of vehicles for increased safety and higher levels of autonomy. The speed of lidar adoption depends on many factors, including sensor performance, reliability, and cost, as well as the time it takes to win large series production awards. Large automotive series production awards usually take a number of years to secure but once awarded, the production award typically covers the entire duration of a typical vehicle model period of five to seven years for consumer vehicles. In the case of trucking applications, the production period of a typical model may exceed seven years in many cases. We are currently engaged in discussions with all of the top 10 global automotive OEMs based on vehicle production volume rankings for 2019 according to IHS Markit, a leading independent third-party industry analytics and information provider. We believe that our current series production award from GM through Koito is a validation of our technology leadership, product maturity, and potential for scalability that favorably positions us for additional series production awards at other large global OEMs.

While lidar adoption in the automotive market may take multiple years to materialize, smart infrastructure end markets could adopt lidar solutions at a more rapid pace. Applications within smart infrastructure vary widely from tolling to security, to delivery and logistics. These applications are typically project based and require certain levels of customization to deliver an end-to-end solution. To address opportunities in the smart infrastructure space, we partner with system integrators who leverage our lidar hardware as well as our Helius® perception software to provide solutions unique to each opportunity. We expect to grow our system integrator partnership network to further drive the adoption of lidar in smart infrastructure applications.

We expect our revenue to increase as lidar adoption increases in the automotive and smart infrastructure markets; however, the rate of adoption may vary due to many factors, including but not limited to competing technologies, time to market, changes in macroeconomic conditions, including rising inflation and interest rates, geopolitical conflicts and tensions, any of which may impact the pace and magnitude of lidar adoption and our revenues.

Product Cost and Margins

To drive mass-market adoption of lidar in automotive applications, product cost must be controlled. As such, cost is one of the primary design criteria that we focused on from the very beginning. Design choices were carefully evaluated to create products with the best overall balance between performance, reliability, and cost. Working with our partners, we expect to continue driving costs down as volumes increase and we achieve higher margin unit economics in the future.

In the case of our series production award from GM through Koito, we are working with our tier 1 partner, Koito, on manufacturing in order to effectively manage supply chain, component costs, and manufacturing costs to meet margin expectations at scale. Pursuant to our arrangement with Koito, we license our technology and sell components to Koito, who can manufacture and sell lidars using our technology. We expect our gross margin to rapidly increase as material costs decrease and fixed manufacturing overhead costs are absorbed over larger production volumes and as other economies of scale are achieved.

In the smart infrastructure space, the average selling price of a lidar solution may be higher than that in the automotive space due to a number of reasons, such as unit volume, level of customization, and additional software content. At the same time, the cost of production is also higher due to lower production volumes and higher levels of system integration requirements.

Due to recent supply chain shortages, lead times for some of our products are increasing, which may lead to a significant mismatch between supply and demand, giving rise to product shortages for both us and our customers, making our demand forecast more uncertain. Further, in preparation for the start of series production in fiscal year 2023, lead time for some of our products may increase as our suppliers increase their manufacturing capabilities to meet the volume and quality requirements for components demanded by us, which may constrain our ability to meet customer demand in the short term. Higher production volume may lead to short term increases in our product costs and decreases in gross margin resulting from additional components and quality control costs required to deliver high-quality, consistent products to our customers at scale volume.

During fiscal year 2022 and 2023, we made continued efforts in broadening our supply base to support our growth and better serve customer demand. Recent market conditions discussed above have strained global supply chains and could result in a shortage of key materials that our suppliers require to satisfy our needs. While we have seen improvements recently, we expect continued supply constraints for some of our products, through the end of fiscal year 2023 and potentially beyond. We have placed orders for certain supply in advance of our historical lead times, paid premiums to secure future supply and capacity, and may need to continue to do so in the future. Placing orders in advance of our historical lead times to secure supply in a constrained environment may result in excess inventory, cancellation penalties, or other charges if there is a partial or complete reduction in long-term demand for our products. These actions may also increase our product costs and decrease gross margin, in addition to increased overall costs as a result of rising inflation. Increased costs for components, logistics and other supply chain expenses, driven in part by inflation and supply chain shortages, have negatively impacted, and may continue to negatively impact, our gross margin.

If we cannot generate our expected revenues, margins or income from operations, we may be required to raise additional debt or equity capital, which may not be available or may only be available on terms that are onerous to our stockholders.

End Market Concentration

We believe that the automotive market represents a large portion of the total addressable market and large global automotive OEMs represent the majority of unit volume demand as well as leaders in active safety and autonomy. To drive mass-market commercialization of our lidar solutions, we have focused on top automotive OEMs and are currently engaged with all of the top 10 global automotive OEMs based on vehicle production volume rankings for 2019. Series production awards from top OEMs tend to be large and long-term in nature. While we continue to expand our system integrator partnership network to address opportunities in the smart infrastructure markets, program awards tend to be smaller and short-term in nature as compared to those in the automotive end-markets. As such, we expect a large portion of our future revenue to come from the automotive end-market.

Components of Results of Operations

Revenue

We categorize our revenue as (1) lidar sensor and prototype revenue and (2) development revenue.

Lidar sensor and prototype revenue is primarily derived from the sale of components and license of technologies to tier 1 suppliers for mass market ADAS applications in the automotive market and the sale of lidar sensors directly to end-user customers in the smart infrastructure markets. We anticipate strong revenue growth in the foreseeable future as we continue to form strategic partnerships and as the primary source of revenue shifts from prototype sales to sales of commercialized production-ready lidar sensors.

Development revenue represents arrangements with tier 1 suppliers focused on the specific customization of our proprietary lidar capabilities to the customers' applications, typically involving development of customized software for producing or operating lidar sensor prototypes for those customers. The timing of revenue recognition for development contracts is determined for each performance obligation based on the unique facts and circumstances within each development arrangement, which generally results in recognition at a point in time. This assessment is made at the outset of the arrangement for each performance obligation.

Revenue is primarily derived from the sale of components and license of technologies to tier 1 suppliers for mass market ADAS applications in the automotive market and the sale of lidar sensors directly to end-user customers in the smart infrastructure markets. Our lidar sensors are used in applications such as advanced driver assistance systems, autonomous vehicles, and intelligent transportation systems. Our customers include leading original equipment manufacturers and suppliers within the automotive and smart infrastructure industries.

Cost of Revenue

Cost of revenue includes the manufacturing cost of our lidar sensors and components, which primarily consists of personnel-related costs directly associated with our manufacturing organization, and amounts paid to our third-party contract manufacturers and vendors. Our cost of revenue also includes cost of component inventory, product testing costs, an allocated portion of overhead costs, warranty expense, excess and obsolete inventory, and shipping costs. Development cost of revenue includes personnel-related costs incurred in the completion of the development projects. We expect cost of revenue to increase in absolute dollars in future periods, in particular as we begin series production as part of GM's ADAS program. Increased costs for components, logistics and other supply chain expenses, driven in part by inflation and supply chain shortages, have negatively impacted, and may continue to negatively impact, our cost of revenue.

Gross Margin

Our gross margin in future periods will depend on a variety of factors including market conditions that may impact our pricing; product mix changes between established products and new products; excess and obsolete inventories; our cost structure for manufacturing operations, including third-party manufacturers, relative to volume. Our gross margin varies by product. We expect our gross margins to fluctuate over time, depending on the factors described above. Increased costs for components, logistics and other supply chain expenses, driven in part by inflation and supply chain shortages, have negatively impacted, and may continue to negatively impact, our gross margin. As we begin series production as part of GM's ADAS program, we expect gross margin to decrease initially, followed by an increase in gross margin as unit volumes increase.

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of personnel-related costs, material expenses, permits, licenses, and professional services costs directly associated with our research and development activities. The remainder primarily relates to the allocated portion of overhead costs. Our research and development efforts are focused on enhancing and developing additional functionality for our existing products and on new product development, including new releases and upgrades to our lidar sensors. We expense research and development costs as incurred. We expect our research and development expenses to increase in absolute dollars as we increase our investment in software development to broaden the capabilities of our solutions and introduce new products and features.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist primarily of personnel-related costs, professional services costs, and advertising expenses directly associated with our sales and general and administrative activities. The remainder primarily relates to the allocated portion of overhead costs. We expect our selling expenses will increase in absolute dollars over time as we hire additional sales personnel, increase our marketing activities, grow our domestic and international operations, and build brand awareness. We also expect to increase the size of our general and administrative function to support the foregoing as well as the growth of our business.

Gain on Change in Fair Value of Earnout and Warrant Liabilities

The change in fair value of earnout and warrant liabilities consists of the change in fair value of earnout and warrant liabilities assumed in connection with the Business Combination as well as the change in fair value of other warrant liability. We expect continued financial statement volatility from the fair value adjustments at the end of each reporting period or until the Earnout Shares are issued upon the attainment of common share price milestones or through the exercise of the warrants.

Foreign Currency Transaction Loss, Net

We incurred foreign currency transaction losses resulting from the repayment of the Secured Term Loan with Koito (the “Secured Term Loan”), which was denominated in Japanese Yen.

Loss on Extinguishment of Debt

Loss on extinguishment of debt represents the loss associated with the repayment of the Secured Term Loan with Koito to borrow Japanese Yen ¥5.8 billion (approximately $39.4 million on the date of borrowing). See Note 9 to our condensed consolidated financial statements included elsewhere in this Report for further information.

Other Income, Net

Other income, net consists primarily of foreign currency transaction gains and losses related to the impact of transactions denominated in a foreign currency other than the U.S. dollar and issuance of common stock under the Lincoln Park Agreement.

Interest Income (Expense), Net

Interest income (expense), net consists primarily of interest earned on our cash equivalents and short-term investments in commercial paper, corporate debt securities, and other available-for-sale securities. These amounts will vary based on our cash, cash equivalents and short-term investment balances, and also with market rates.

Provision for Income Taxes

Our provision for income taxes consists of federal, state, and foreign current and deferred income taxes. As we expand the scale and scope of our international business activities, any changes in the United States and foreign taxation of such activities may increase our overall provision for income taxes in the future.

We have a full valuation allowance for net deferred tax assets, including federal and state net operating loss carryforwards and research and development credit carryforwards. We expect to maintain this valuation allowance until it becomes more likely than not that the benefit of our federal and state deferred tax assets are realizable by way of expected future taxable income.

We believe that we have adequately reserved for our uncertain tax positions, although we can provide no assurance that the final outcome of these matters will not be materially different. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations.

Results of Operations for the Three Months Ended March 31, 2023 and 2022

The results of operations presented below should be reviewed in conjunction with the condensed consolidated financial statements and notes included elsewhere in this Report. The following table sets forth our condensed consolidated results of operations data for the periods presented:

	Three Months Ended March 31,		Change	Change
	2023	2022	$	%
	(dollars in thousands)			
Lidar sensor and prototype revenue	$ 1,240	$ 1,485	$ (245)	(16 %)
Development revenue	245	—	245	NA
Total revenue	$ 1,485	$ 1,485	$ —	— %
Lidar sensor and prototype cost of revenue	1,448	1,252	196	16 %
Development cost of revenue	111	—	111	NA
Total cost of revenue	1,559	1,252	307	25 %
Gross (loss) profit	(74)	233	(307)	(132 %)
Operating expenses:				
Research and development	7,238	7,754	(516)	(7 %)
Sales, general, and administrative	6,731	8,043	(1,312)	(16 %)
Total operating expenses	13,969	15,797	(1,828)	(12 %)
Operating loss	(14,043)	(15,564)	1,521	(10 %)
Other income (expenses):				
Gain on change in fair value of earnout liability	762	56,678	(55,916)	(99 %)
Gain on change in fair value of warrant liability	94	780	(686)	(88 %)
Foreign currency transaction loss, net	(750)	—	(750)	NA
Loss on extinguishment of debt	(1,123)	—	(1,123)	NA
Other income, net	19	2	17	850 %
Interest income (expense), net	299	(694)	993	NM
(Loss) income before income taxes	(14,742)	41,202	(55,944)	NM
Provision for income taxes	—	(4)	4	NA
Net (loss) income	$ (14,742)	$ 41,198	$ (55,940)	NM

NA: Not applicable

NM: Not meaningful

Comparison of the three months ended March 31, 2023 and 2022

Revenue

Lidar sensor and prototype revenue decreased by $0.2 million, or 16%, to $1.2 million for the three months ended March 31, 2023, from $1.5 million for the three months ended March 31, 2022. Approximately $0.1 million of the decrease was driven by a slight decrease in lidar sales volume and approximately $0.1 million of the decrease was driven by slightly decreased lidar sensor average sales price.

Development revenue was $0.2 million for the three months ended March 31, 2023. During the three months ended March 31, 2023, the Company satisfied the performance obligations defined under the development work order projects and recognized development revenue of $0.2 million. The Company did not recognize any development revenue for the three months ended March 31, 2022.

Cost of Revenue

Lidar sensor and prototype cost of revenue increased by $0.2 million, or 16%, to $1.4 million for the three months ended March 31, 2023, from $1.3 million for the three months ended March 31, 2022. The increase resulted primarily from standard costing adjustments.

Development cost of revenue was $0.1 million for the three months ended March 31, 2023. The development cost of revenue resulted from the increase in development revenue described above.

Operating Expenses

Research and development expense decreased by $0.5 million, or 7%, to $7.2 million for the three months ended March 31, 2023, from $7.8 million for the three months ended March 31, 2022, resulting primarily from a $1.5 million decrease in materials costs, partially offset by a $0.8 million increase in personnel related costs.

Sales, general and administrative expense decreased by $1.3 million, or 16%, to $6.7 million for the three months ended March 31, 2023, from $8.0 million for the three months ended March 31, 2022, resulting primarily from $2.7 million in transaction costs related to the Business Combination attributable to liability-classified instruments in the prior year period, partially offset by a $1.2 million increase in personnel related costs in the current year period.

Gain on change in fair value of earnout and warrant liabilities

The earnout liability was assumed in connection with the Business Combination. The change in fair value of the earnout liability decreased by $55.9 million. This is primarily due to a larger decrease in the Company’s common stock price during the three months ended March 31, 2022 compared to the three months ended March 31, 2023.

The change in fair value of the warrant liability decreased by $0.7 million. This is primarily due to a larger decrease in the Company’s common share price for the three months ended March 31, 2022 compared to the three months ended March 31, 2023.

Foreign currency transaction loss, net

Foreign currency transaction loss of $0.8 million for the three months ended March 31, 2023 resulted from the repayment of the Secured Term Loan with Koito, which was denominated in Japanese Yen.

Loss on extinguishment of debt

Loss on extinguishment of debt of $1.1 million for the three months ended March 31, 2023 resulted from repayment of the Secured Term Loan with Koito.

Other Income, net

Other income, net remained relatively constant for the three months ended March 31, 2023 and 2022.

Interest Income (Expense), net

Interest income (expense), net changed into a net interest income position of $0.3 million for the three months ended March 31, 2023 resulting primarily from an increase in interest income of $0.4 million on proceeds received from the issuance of

Preferred Stock to Koito. For the three months ended March 31, 2022, interest expense of $0.7 million resulted primarily from the Company's borrowings under the Trinity Loan Agreement.

Income Taxes

Our provision for income taxes remained consistent for the three months ended March 31, 2023 and 2022. We provided a full valuation allowance on our net U.S. federal and state deferred tax assets for the three months ended March 31, 2023 and 2022. For both reporting periods, we had U.S. federal and state tax-effected net operating loss carryforwards available to reduce future taxable income, of which post-2017 Federal net operating loss will be carried forward indefinitely and pre-2017 Federal net operating loss carryover and state net operating loss carryover and state net operating loss carryover will expire on varying dates.

Liquidity and Capital Resources

Sources of Liquidity

As of March 31, 2023, we had cash, cash equivalents, and short-term investments totaling $80.0 million, comprised of money market funds, commercial paper, U.S. Treasury and Agency securities, corporate debt securities, and other available-for-sale securities held for working capital purposes. We believe that our current cash position, including our Purchase Agreement with Lincoln Park, will be sufficient to satisfy our foreseeable liquidity needs and capital expenditure requirements, including for at least the next twelve months.

On November 24, 2021, we entered into a Purchase Agreement with Lincoln Park, pursuant to which Lincoln Park has agreed to purchase up to $100.0 million of common stock (subject to certain limitations contained in the Purchase Agreement) from time to time over a 36-month period after the consummation of the Business Combination and certain other conditions set forth in the Purchase Agreement. On May 11, 2022, the registration statement related to the Lincoln Park Purchase Agreement became effective and the other terms and conditions of the Purchase Agreement were satisfied, which enabled us to begin selling common stock to Lincoln Park as a source of funds, subject to specified limitations, including that the closing price of our common stock is not less than $1.00 per share. Following the filing of our Annual Report on From 10-K for the year ended December 31, 2022, we amended the registration statement and it was subsequently declared effective on March 22, 2023.

Following the approval of the Business Combination, on February 10, 2022, we received net cash proceeds of $47.1 million from the Business Combination and PIPE Investment (as defined in Note 2 to the condensed consolidated financial statements in this Report), net of certain transaction costs.

On October 27, 2022, we entered into an Investment Agreement with Koito (the “Investment Agreement”), pursuant to which, among other things, at the closing of the transactions, and based on the terms and subject to the conditions set forth therein, we issued and sold to Koito, 100,000 shares of Series A Convertible Preferred Stock, par value $0.00001 per share (the “Preferred Stock”), for a purchase price of $100.0 million. The issuance and sale of the Preferred Stock and related matters were approved by our stockholders on January 11, 2023, and the Preferred Stock was issued to Koito on January 19, 2023. The Preferred Stock will be convertible, beginning on January 19, 2024, into shares of our common stock at an approximate initial conversion price of $2.585 per share (subject to adjustment).

We have incurred negative cash flows from operating activities and significant operating losses in the past as reflected in our accumulated deficit of $100.8 million as of March 31, 2023. During the three months ended March 31, 2023, we had negative cash flows from operating activities of $10.4 million. Although much of the negative cash flow resulted from continuing expenses related research and development for product development, and continuing administrative expenses related to becoming a publicly traded company, we expect to continue to invest in research and development and generate operating losses in the future. In addition, our future capital requirements will depend on many factors, including our lidar sales volume, the timing and extent of spending to support our research and development efforts in lidar technology, the expansion of sales and marketing activities, market adoption of new and enhanced products and features, and increased spending due to inflation and supply chain shortages. If we are required to raise additional funds by issuing equity securities, dilution to stockholders would result. Any equity securities issued may also provide for rights, preferences, or privileges senior to those of common stockholders. For example, the issuance of the Preferred Stock to Koito involves the issuance of preferred equity securities that rank senior to our common stock in the event of liquidation and include other rights and preferences senior to those of our common stock. In addition, the Preferred Stock is convertible into shares of our common stock and, upon conversion, will result in dilution to our stockholders. If we raise funds by issuing debt securities, these debt securities would have rights, preferences, and privileges senior to those of common stockholders. Our ability to raise additional funds through the issuance of debt or equity securities may be subject to Koito’s consent pursuant to the Investor Rights Agreement. For information regarding our cash requirements from lease obligations, see Notes 16 to the condensed consolidated financial statements included elsewhere in this Report.

We are subject to risks and uncertainties frequently encountered by early-stage companies including, but not limited to, the uncertainty of successfully developing products, securing certain contracts, building a customer base, successfully executing business and marketing strategies, and hiring appropriate personnel.

To date, we have been funded primarily by equity financings, convertible promissory notes, and the net proceeds we received through the Business Combination, PIPE Investment, and private placements of the Legacy Cepton convertible preferred stock. Failure to generate sufficient revenues, achieve planned gross margins and operating profitability, control operating costs, or secure additional funding may require us to modify, delay, or abandon some of our planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on our business, operating results, financial condition, and ability to achieve our intended business objectives.

Cash Flow Summary — Three Months Ended March 31, 2023 and 2022

	Three Months Ended March 31,	
	2023	**2022**
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	$ (10,425)	$ (19,487)
Investing activities	(34,662)	(17,598)
Financing activities	54,672	58,028

Operating Activities

During the three months ended March 31, 2023, our operating activities used $10.4 million in cash. We recorded net loss of $14.7 million; however, this was offset by $3.9 million of non-cash income and expenses consisting primarily of stock-based compensation expense of $2.3 million, loss on extinguishment of debt of $1.1 million, foreign currency transaction loss of $0.8 million, and amortization of right-of-use assets of $0.4 million. These non-cash income items were partially offset by gains from the change in fair value of earnout and warrant liabilities of $0.9 million. During the three months ended March 31, 2023, we generated net cash of $0.4 million from changes in our operating assets and liabilities resulting primarily from a $0.5 million decrease in prepaid expenses and other current assets due to collection of a payroll tax receivable, a $0.5 million increase in accrued expenses and other current liabilities due to timing of payments, a $0.3 million decrease in accounts receivable, and a $0.2 million decrease in other long-term assets driven by a return of rent security deposits to the Company. These were offset by a $0.7 million decrease in accounts payable due to timing of payments, and a $0.5 million increase in inventory as the Company prepares for the start of series production.

During the three months ended March 31, 2022, our operating activities used $19.5 million in cash. We recorded net income of $41.2 million; however, this was offset by $56.1 million of non-cash income consisting primarily of gains from the change in fair value of earnout and warrant liabilities of $57.5 million and amortization of commitment fee asset of $0.4 million. These non-cash income items were partially offset by stock-based compensation expense of $1.4 million, depreciation and amortization of $0.1 million, and amortization of right-of-use assets of $0.3 million. During the three months ended March 31, 2022, we used net cash of $4.6 million from changes in our operating assets and liabilities resulting primarily from a $1.9 million increase in other long-term assets related to prepaid director and officer insurance, a $0.7 million decrease in accrued expenses and other current liabilities due to timing of payments, a $0.7 million increase in prepaid expenses and other current assets due to increases in prepaid insurance offset by decreases in deferred transaction costs in connection with the closing of the Business Combination, a $0.5 million increase in accounts receivable, a $0.4 million decrease in operating lease liabilities, a $0.3 million increase in inventories, and a $0.1 million decrease in accounts payable due to timing of payments.

Investing Activities

During the three months ended March 31, 2023, our investing activities used $34.7 million of cash, resulting primarily from purchases of short-term investments of $37.8 million and purchases of property and equipment of $0.6 million, partially offset by proceeds from maturities of short-term investments of $3.7 million.

During the three months ended March 31, 2022, our investing activities used $17.6 million of cash, resulting primarily from purchases of short-term investments of $20.2 million and purchases of property and equipment of $0.1 million, partially offset by proceeds from maturities of short-term investments of $2.7 million.

Financing Activities

During the three months ended March 31, 2023, our financing activities provided $54.7 million of cash consisting primarily of $99.9 million of net proceeds from the issuance of Preferred Stock to Koito, partially offset by the repayment of $45.2 million of short-term debt to Koito.

During the three months ended March 31, 2022, our financing activities provided $58.0 million of cash consisting primarily of $48.1 million of net proceeds from the Business Combination and PIPE Investment, $9.7 million of proceeds from the issuance of debt and warrants, and $0.2 million from proceeds from common stock option exercises.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, assumptions and judgments that can significantly impact the amounts we report as assets, liabilities, revenue, costs and expenses and the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. Our actual results could differ significantly from these estimates under different assumptions and conditions. A discussion of the accounting policies that management considers critical in that they involve significant management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results is included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes to our critical accounting policies.

Emerging Growth Company Status

Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable.

We are an "emerging growth company" as defined in Section 2(a) of the Securities Act and has elected to take advantage of the benefits of the extended transition period for new or revised financial accounting standards. We expect to remain an emerging growth company at least through the end of the 2023 fiscal year and to continue to take advantage of the benefits of the extended transition period, although we may decide to early adopt such new or revised accounting standards to the extent permitted by such standards. This may make it difficult or impossible to compare our financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of the extended transition period exemptions because of the potential differences in accounting standards used.

Subject to certain conditions set forth in the JOBS Act, if, as an emerging growth company, we intend to rely on such exemptions, we are not required to, among other things: (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act; (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act; (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis); and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation.

We will remain an emerging growth company until the earlier of: (1) the last day of the fiscal year (a) ending December 31, 2026, (b) in which we have total annual gross revenue of at least $1.235 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the end of the prior fiscal year's second fiscal quarter; and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period. References herein to "emerging growth company" shall have the meaning associated with it in the JOBS Act.

Recent Accounting Pronouncements

See Note 1 to our condensed consolidated financial statements included elsewhere in this Report for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our market risk exposures or management of market risk from those disclosed in Quantitative and Qualitative Disclosures About Market Risk included under Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2022.

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, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As discussed elsewhere in this Report, we completed the Business Combination on February 10, 2022. Prior to the consummation of the Business Combination, we were a private company with limited accounting personnel and other resources with which to address our internal control over financial reporting. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Report, our management concluded that our disclosure controls and procedures were not effective as of such date because of the material weaknesses in our internal control over financial reporting identified as of December 31, 2021 that continued to exist with respect to our internal control over financial reporting as of March 31, 2023:

- We did not maintain a sufficient complement of resources with an appropriate level of accounting knowledge and experience commensurate with the financial reporting requirements for a public company, in particular with respect to technical accounting knowledge regarding the accounting for certain non-standard transactions.

We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or to implement our remediation plans or any difficulties we encounter in our implementation thereof, could result in additional significant deficiencies or material weaknesses or result in material misstatements in our financial statements. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting when required, lenders and investors may lose confidence in the accuracy and completeness of our financial reports.

This material weakness, if not remediated, could result in misstatements of accounts or disclosures that would result in a material misstatement to the annual consolidated financial statements or the interim condensed consolidated financial statements that would not be prevented or detected.

Our management anticipates that our internal control over financial reporting will not be effective until the above material weakness is remediated. If our remediation of this material weakness is not effective, or we experience additional material weaknesses in the future or otherwise fail to maintain an effective system of internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to the Nasdaq listing requirements, investors may lose confidence in our financial reporting, and the price of our common stock may decline as a result. In addition, we may be unable to sell shares of common stock to Lincoln Park pursuant to the Purchase Agreement at prices we consider to be reasonable or at all, we may be unable to borrow funds from banking institutions on acceptable terms or at all, and we may face restricted access to various sources of financing in the future.

We hired additional accounting staff and we will continue to evaluate our accounting and financial staffing needs in light of the material weakness described above. While we have made progress to enhance our internal control over financial reporting and will continue to devote effort in control remediation, additional time is required to complete implementation and to assess and ensure the sustainability of these procedures. Accordingly, the material weakness cannot be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

Other than the remediation steps taken above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in various legal claims, litigation and other matters that arise in the normal course of its operations. Although there can be no assurances and the outcome of these matters is not determinable, the Company currently believes that none of these claims, actions or proceedings are likely to have a material adverse effect on the Company's financial position.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the risk factors described in Part I, "*Item 1A. Risk Factors*" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results. There have not been any material changes in the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities

None.

Item 3. Defaults Upon Senior Securities and Use of Proceeds

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
2.1	Business Combination Agreement, dated as of August 4, 2021, by and among GCAC, Merger Sub and Cepton (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-1 filed by the Company on February 11, 2022).
2.2	Amendment to Business Combination Agreement, dated as of January 21, 2022, by and among GCAC, Merger Sub and Cepton (incorporated by reference to Exhibit 2.2 to the Registration Statement on Form S-1 filed by the Company on February 11, 2022).
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed by the Company on February 11, 2022).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the to the Current Report on Form 8-K filed by the Company on February 10, 2022).
3.3	Certificate of Designations of Series A Convertible Preferred Stock, par value $0.00001, of Cepton, Inc., dated January 18, 2023 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the Company on January 24, 2023).
31.1*	Certification of the Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2*	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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.

CEPTON, INC.

Date: May 10, 2023		/s/ Jun Pei
	Name:	Jun Pei
	Title:	President and Chief Executive Officer (Principal Executive Officer)
Date: May 10, 2023		/s/ Hull Xu
	Name:	Hull Xu
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jun Pei, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cepton, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2023	By:	/s/ Jun Pei
	Name:	Jun Pei
	Title:	President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hull Xu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cepton, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2023	By:	/s/ Hull Xu
	Name:	Hull Xu
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cepton, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jun Pei, President and Chief Executive Officer of the Company, 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:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023	By:	/s/ Jun Pei
	Name:	Jun Pei
	Title:	President and Chief Executive Officer (Principal Executive Officer)

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.

Exhibit 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cepton, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Hull Xu, Chief Financial Officer of the Company, 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:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023	By:	/s/ Hull Xu
	Name:	Hull Xu
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.