

## Case 23-1c

### Greener Houses Corp.

Greener Houses Corp. (the “Company”), an SEC registrant, operates three manufacturing facilities in the United States. The Company manufactures various household products at each facility; the products are sold to retail customers. The U.S. government granted the Company emission allowances (EAs) of varying vintage year designations (i.e., the year the allowance may be used to satisfy pollution control obligations), which the Company would use between 2020 and 2040. Upon receipt of the EAs, the Company recorded them as intangible assets with a cost basis of zero in accordance with the Federal Energy Regulatory Commission’s accounting and financial reporting regulations related to EAs. The Company’s fiscal year-end is December 31.

#### Background

To control or reduce the emission of industry pollutants and greenhouse gases, governing bodies typically issue rights (EAs) to participating entities to emit a specified level of pollutants. At the end of a compliance period, participating entities are required to either (1) deliver to the governing bodies EAs sufficient to offset the entity’s actual emissions or (2) pay a fine. EAs with the same vintage year designation are fungible and can be used by any party to satisfy pollution control obligations. In instances in which there is a shortage or excess of EAs, entities may choose, respectively, to buy EAs from or sell EAs to other entities. Such transactions are typically initiated through a broker.

The Company currently emits a significant amount of greenhouse gases because of its antiquated manufacturing facilities. The Company plans to upgrade its facilities to reduce greenhouse gas emissions to a very low level but will not see any changes until the project is completed in 2028. Until the facility upgrades are completed, the Company anticipates a need to obtain additional EAs in fiscal years 2026–2028. After completion of the upgrades, the Company believes its upgraded facilities will result in an excess of EAs in fiscal years after 2028. The Company has forecasted that the cost of the facility upgrades will be approximately \$25 million.

The Company operates within a capital-intensive industry, and analysts and investors focus on a number of important ratios and measures, including working capital, capital expenditures, cash flows from operations, and free cash flow. As a result, the Company’s board of directors and management provide forward-looking guidance on these metrics and pay close attention to these results.

The Company entered into the following separate transactions in fiscal year 2025, which will have an impact on its results as presented in the statement of cash flows, which the Company prepares under the indirect method.

1. To finance the facility upgrades project, Company management obtains a \$10 million loan from Bright Futures Bank on November 1, 2025. As part of Bright Futures Bank’s ongoing sustainability initiatives, the Company is able to obtain an advantageous interest rate on the loan by promising to use the funds for its

upcoming facility upgrades project. The loan contract specifies that the loan proceeds must be used to upgrade the Company's manufacturing facilities. The Company has not yet spent any money to upgrade its facilities.

2. To meet its anticipated need for additional EAs in the coming years, the Company purchased EAs with a vintage year of 2027 from Cleaner Corp. for \$10 million on April 2, 2025.
3. To offset the costs of the April 2, 2025, purchase of EAs, the Company also sold EAs with a vintage year of 2029 to Polluter Corp. for \$6 million.