

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2021**

OR

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

For the transition period from _____ to _____

Commission file number: 001-37960

POLAR POWER, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0479020

(I.R.S. Employer
Identification Number)

249 E. Gardena Blvd., Gardena, California

(Address of principal executive offices)

90248

(Zip Code)

(310) 830-9153

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

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 \$0.0001 per share	POLA	The NASDAQ Stock Market, LLC

The number of shares outstanding of the Registrant's common stock, \$0.0001 par value, as of November 15, 2021 was 12,788,203.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including without limitation the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors,” contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases you can identify these statements by forward-looking words such as “believe,” “may,” “will,” “might,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “should,” “would,” “project,” “plan,” “outlook,” “target,” “expect,” or similar expressions, or the negative or plural of these words or expressions.

Such forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our intent, belief, or current expectations, primarily based on our current assumptions, expectations and projections about future events and trends that may affect our business, financial conditions, operating results, cash flows or prospects, as well as related industry developments. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in Part II, Item 1A, entitled “Risk Factors,” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 of this Quarterly Report on Form 10-Q. We undertake no obligation to update any forward-looking statements for any reason, or to conform these statements to actual results or to changes in our expectations.

PART I – FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

POLAR POWER, INC.
 CONDENSED BALANCE SHEETS
 (in thousands, except share and per share data)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,706	\$ 1,646
Accounts receivable	3,520	1,190
Inventories, net	8,598	9,094
Prepaid expenses	4,116	358
Income tax receivable	787	2,357
Total current assets	<u>24,727</u>	<u>14,645</u>
Other assets:		
Operating lease right-of-use assets, net	1,079	1,563
Property and equipment, net	1,091	1,497
Deposits	94	94
Total assets	<u>\$ 26,991</u>	<u>\$ 17,799</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 209	\$ 311
Customer deposits	962	703
Accrued expenses and other current liabilities	1,252	1,142
Current portion of operating lease liabilities	708	670
Current portion of notes payable	240	267
Current portion of PPP loan payable	—	1,429
Total current liabilities	<u>3,371</u>	<u>4,522</u>
Notes payable, net of current portion	329	510
Operating lease liabilities, net of current portion	454	990
PPP loan payable, net of current portion	—	286
Total liabilities	<u>4,154</u>	<u>6,308</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 50,000,000 shares authorized, 12,805,680 shares issued and 12,788,203 shares outstanding on September 30, 2021 and 11,768,158 shares issued and 11,750,681 shares outstanding on December 31, 2020	1	1
Additional paid-in capital	36,816	23,643
Accumulated deficit	(13,940)	(12,113)
Treasury Stock, at cost (17,477 shares)	(40)	(40)
Total stockholders' equity	<u>22,837</u>	<u>11,491</u>
Total liabilities and stockholders' equity	<u>\$ 26,991</u>	<u>\$ 17,799</u>

See Accompanying Notes to the Condensed Financial Statements

POLAR POWER, INC.
UNAUDITED CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2021	2020	2021	2020
Net Sales	\$ 4,136	\$ 2,501	\$ 12,273	\$ 6,488
Cost of Sales (includes inventory write-downs of \$2,400 and \$2,400 during the three and nine months ended September 30, 2020, respectively)	3,170	5,200	10,398	10,058
Gross profit (loss)	<u>966</u>	<u>(2,699)</u>	<u>1,875</u>	<u>(3,570)</u>
Operating Expenses				
Sales and marketing	372	445	1,119	1,296
Research and development	533	489	1,485	1,309
General and administrative	823	1,080	2,796	3,154
Total operating expenses	<u>1,728</u>	<u>2,014</u>	<u>5,400</u>	<u>5,759</u>
Loss from operations	<u>(762)</u>	<u>(4,713)</u>	<u>(3,525)</u>	<u>(9,329)</u>
Other income (expenses)				
Interest expense and finance costs	(14)	(11)	(46)	(46)
Gain on forgiveness of PPP loan payable	1,715	—	1,715	—
Other income (expense), net	3	1	29	14
Total other income (expenses), net	<u>1,704</u>	<u>(10)</u>	<u>1,698</u>	<u>(32)</u>
Income (loss) before income taxes	942	(4,723)	(1,827)	(9,361)
Income tax benefit	—	—	—	—
Current	—	—	—	(1,484)
Deferred	—	—	—	(655)
Total income tax benefit	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,139)</u>
Net income (loss)	<u>\$ 942</u>	<u>\$ (4,723)</u>	<u>\$ (1,827)</u>	<u>\$ (7,222)</u>
Net income (loss) per share – basic	\$ 0.07	\$ (0.42)	\$ (0.14)	\$ (0.68)
Net income (loss) per share – dilutive	\$ 0.07	\$ (0.42)	\$ (0.14)	\$ (0.68)
Weighted average shares outstanding, basic	12,788,203	11,315,984	12,697,683	10,659,308
Weighted average shares outstanding, dilutive	<u>12,807,361</u>	<u>11,315,984</u>	<u>12,697,683</u>	<u>10,659,308</u>

See Accompanying Notes to the Condensed Financial Statements

POLAR POWER, INC.
UNAUDITED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

Three months ended September 30, 2021

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>(Accumulated Deficit)</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	<u>Number</u>	<u>Amount</u>				
Balance, June 30, 2021 (unaudited)	12,805,680	\$ 1	\$ 36,816	\$ (14,882)	\$ (40)	\$ 21,895
Net income	—	—	—	942	—	942
Balance, September 30, 2021 (unaudited)	<u>12,805,680</u>	<u>\$ 1</u>	<u>\$ 36,816</u>	<u>\$ (13,940)</u>	<u>(40)</u>	<u>\$ 22,837</u>

Nine months ended September 30, 2021

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>(Accumulated Deficit)</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	<u>Number</u>	<u>Amount</u>				
Balance, December 31, 2020	11,768,158	\$ 1	\$ 23,643	\$ (12,113)	\$ (40)	\$ 11,491
Issuance of common stock for cash, net of offering costs	750,000	—	12,466	—	—	12,466
Common stock issued upon exercise of warrants	287,522	—	707	—	—	707
Net loss	—	—	—	(1,827)	—	(1,827)
Balance, September 30, 2021 (unaudited)	<u>12,805,680</u>	<u>\$ 1</u>	<u>\$ 36,816</u>	<u>\$ (13,940)</u>	<u>(40)</u>	<u>\$ 22,837</u>

Three months ended September 30, 2020

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>(Accumulated Deficit)</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	<u>Number</u>	<u>Amount</u>				
Balance, June 30, 2020 (unaudited)	10,143,158	\$ 1	\$ 19,657	\$ (3,741)	\$ (40)	\$ 15,877
Shares of common stock issued with warrants for cash	1,250,000	—	2,812	—	—	2,812
Shares of common stock issued upon exercise of warrants	275,000	—	861	—	—	861
Net loss	—	—	—	(4,723)	—	(4,723)
Balance, September 30, 2020 (unaudited)	<u>11,668,158</u>	<u>\$ 1</u>	<u>\$ 23,330</u>	<u>\$ (8,464)</u>	<u>(40)</u>	<u>\$ 14,827</u>

Nine months ended September 30, 2020

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>(Accumulated Deficit)</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	<u>Number</u>	<u>Amount</u>				
Balance, December 31, 2019	10,143,158	\$ 1	\$ 19,657	\$ (1,242)	\$ (40)	\$ 18,376
Shares of common stock issued with warrants for cash	1,250,000	—	2,812	—	—	2,812
Shares of common stock issued upon exercise of warrants	275,000	—	861	—	—	861
Net loss	—	—	—	(7,222)	—	(7,222)
Balance, September 30, 2020 (unaudited)	<u>11,668,158</u>	<u>\$ 1</u>	<u>\$ 23,330</u>	<u>\$ (8,464)</u>	<u>(40)</u>	<u>\$ 14,827</u>

See Accompanying Notes to the Condensed Financial Statements

POLAR POWER, INC.
UNAUDITED CONDENSED STATEMENTS OF CASH FLOW
(in thousands)

	Nine months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (1,827)	\$ (7,222)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	420	469
Inventory write-down	—	2,400
Amortization of operating lease right-of-use asset	484	466
Gain from forgiveness of PPP loan payable	(1,715)	—
Deferred tax assets	—	(655)
Changes in operating assets and liabilities:		
Accounts receivable	(2,330)	(842)
Inventories	496	132
Prepaid expenses	(3,758)	930
Deposits	—	(4)
Income tax receivable	1,570	(1,484)
Accounts payable	(102)	(255)
Customer deposits	260	491
Accrued expenses and other current liabilities	110	(120)
Decrease in lease liability	(498)	(458)
Net cash used in operating activities	<u>(6,890)</u>	<u>(6,152)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(14)	—
Proceeds from sales of property and equipment, including insurance proceeds	—	(3)
Net cash used in investing activities	<u>(14)</u>	<u>(3)</u>
Cash flows from financing activities:		
Proceeds from sale of common stock, net of offering costs	12,466	—
Proceeds from sale of common stock and warrants	—	2,812
Proceeds from exercise of warrants	707	861
Advance from line of credit	—	245
Proceeds from PPP Loan	—	1,715
Repayment of notes payable	(209)	(247)
Net cash provided by financing activities	<u>12,964</u>	<u>5,386</u>
Increase (decrease) in cash and cash equivalents	6,060	(769)
Cash and cash equivalents, beginning of period	1,646	2,840
Cash and cash equivalents, end of period	<u>\$ 7,706</u>	<u>\$ 2,071</u>

See Accompanying Notes to the Condensed Financial Statements

POLAR POWER, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(In thousands, except for share and per share data and where otherwise noted)
(UNAUDITED)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Polar Power, Inc. was incorporated in the State of Washington as Polar Products, Inc. and in 1991 reincorporated in the State of California under the name Polar Power, Inc. In December 2016, Polar Power, Inc. reincorporated in the State of Delaware (the “Company”). The Company designs, manufactures and sells direct current, or DC, power systems to supply reliable and low-cost energy to off-grid, bad-grid and backup power, electric vehicle (EV) charging, and nano-grid applications. The Company’s products integrate DC generator, proprietary electronic control systems, lithium batteries and solar photovoltaic (PV) technologies to provide low operating cost and emissions for telecommunications, defense, automotive, nano-grid, EV charging and industrial markets.

Impact of COVID-19

The Company continues to monitor the evolving COVID-19 pandemic and related guidance from international and domestic authorities, including federal, state and local public health authorities and it may need to make changes to its business based on their recommendations. COVID-19 has had, and is likely to continue to have, a material and substantial adverse impact on the Company’s results of operations including, among others, a decrease in the Company’s sales and delays in sourcing of raw materials from suppliers. The Company’s business is directly dependent upon, and correlates closely with, the marketing levels and ongoing business activities of its existing customers and suppliers. In the event of a continued widespread economic downturn caused by COVID-19, the Company could experience a further reduction in current projects, longer sales and collection cycles, deferral or delay of purchase commitments for its DC power systems, a reduction in its manufacturing functionality, higher than normal inventory levels, a reduction in the availability of qualified labor, and increased price competition, all of which could substantially adversely affect its net revenues and its ability to remain a going concern.

The extent of the impact of COVID-19 on its operational and financial performance will depend on certain developments, including the duration and potential resurgence of the outbreak, the impact on its customers and sales cycles, the impact on its customer, employee or industry events, and the effect on its vendors, all of which are uncertain and cannot be predicted. At this point, the Company is uncertain of the full magnitude that the COVID-19 pandemic may have on our financial condition, liquidity and future results of operations.

Basis of Presentation of Unaudited Financial Information

The unaudited condensed financial statements of the Company for the three and nine months ended September 30, 2021 and 2020 have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K for scaled disclosures for smaller reporting companies. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the Company’s financial position and results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year. The balance sheet information as of December 31, 2020 was derived from the audited financial statements included in the Company’s financial statements as of and for the years ended December 31, 2020 and 2019 contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 31, 2021. These financial statements should be read in conjunction with that report.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Material estimates relate to the assumptions made in determining reserves for uncollectible receivables, inventory reserves and returns, impairment analysis of long-term assets, valuation allowance on deferred tax assets, income tax accruals, accruals for potential liabilities and warrant reserves and assumptions made in valuing equity instruments issued for services. Actual results may differ from those estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers (“ASC 606”). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) or agreement(s) with a customer, (2) identifying the Company’s performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied.

Substantially all of the Company's revenue is derived from product sales. Product revenue is recognized when performance obligations under the terms of a contract are satisfied, which occurs for the Company upon shipment or delivery of products or services to its customers based on written sales terms, which is also when control is transferred. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring the products or services to a customer. The Company determines whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the customer, which usually occurs when the Company places the product with the customer's carrier or delivers the product to a customer's location. The Company regularly reviews its customers' financial positions to ensure that collectability is reasonably assured.

The Company also recognizes revenues from engineering services, technical support, and sale of accessories that support the Company's direct current, or DC, power systems. Revenue is recognized when transfer of control to the customer has been made and the Company's performance obligation has been fulfilled. The Company's revenue from engineering services, technical support services, and product accessories are clearly defined in each transaction with its customers and have not been significant to date.

The Company also recognizes revenues from the rental of equipment. The Company's rental revenues have not been significant to date and have accounted for less than one percent of total revenues for the three- and nine-month periods ended September 30, 2021 and 2020. The Company's rental contracts are fixed price contracts for fixed durations of time and include freight and delivery charges and are recognized on a straight-line basis over the rental period.

Disaggregation of Net Sales

The following table shows the Company's disaggregated net sales by product type:

	Three months ended September 30,	
	2021 (Unaudited)	2020 (Unaudited)
DC power systems	\$ 4,023	\$ 2,414
Engineering & Tech Support Services	52	—
Accessories	61	87
Total net sales	\$ 4,136	\$ 2,501

	Nine months ended September 30,	
	2021 (Unaudited)	2020 (Unaudited)
DC power systems	\$ 11,884	\$ 6,200
Engineering & Tech Support Services	222	—
Accessories	167	288
Total net sales	\$ 12,273	\$ 6,488

The following table shows the Company's disaggregated net sales by customer type:

	Three months ended September 30,	
	2021 (Unaudited)	2020 (Unaudited)
Telecommunications	\$ 3,524	\$ 2,491
Government/Military	373	2
Marine	30	1
Other (backup DC power to various industries)	209	7
Total net sales	\$ 4,136	\$ 2,501

	Nine months ended September 30,	
	2021 (Unaudited)	2020 (Unaudited)
Telecommunications	\$ 11,017	\$ 6,294
Government/Military	538	9
Marine	44	5
Other (backup DC power to various industries)	674	180
Total net sales	\$ 12,273	\$ 6,488

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out (“FIFO”) basis. The Company records adjustments to its inventory based on an estimated forecast of the inventory demand, taking into consideration, among others, inventory turnover, inventory quantities on hand, unfilled customer order quantities, forecasted demand, current prices, competitive pricing, and trends and performance of similar products. If the estimated net realizable value is determined to be less than the recorded cost of the inventory, the difference is recognized as a loss in the period in which it occurs. Once inventory has been written down, it creates a new cost basis for inventory that may not be subsequently written up. For the three- and nine-month period ended September 30, 2021, there were no write-downs of inventory. For the three- and nine-month periods ended September 30, 2020, the Company recorded a write-down of inventory of \$2,400.

As of September 30, 2021, and December 31, 2020, inventories consisted of the following:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	<u>(unaudited)</u>	
Raw materials	\$ 5,494	\$ 5,527
Finished goods	3,104	3,567
Total Inventories, net	\$ 8,598	\$ 9,094

Product Warranties

The Company provides limited warranties for parts and labor at no cost to its customers within a specified time period after the sale. The Company’s standard warranty on new products is two years from the date of delivery to the customer. The Company offers a limited extended warranty of up to five years on its certified DC power systems based on application and usage. The Company’s warranties are of an assurance-type and come standard with all Company products to cover repair or replacement should product not perform as expected. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and recovery from suppliers. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty costs. The Company estimates the actual historical warranty claims coupled with an analysis of unfulfilled claims to record a liability for specific warranty purposes, which are included in accrued expenses and other current liabilities in the accompanying balance sheets. Management believes that the warranty accrual is appropriate; however, actual claims incurred could differ from original estimates, requiring adjustments to the accrual.

The following is a tabular reconciliation of the product warranty liability, excluding the deferred revenue related to the Company’s warranty coverage:

<u>Changes in estimates for warranties</u>	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	<u>(unaudited)</u>	
Balance at beginning of the period	\$ 600	\$ 375
Payments	(496)	(634)
Provision for warranties	496	859
Balance at end of the period	\$ 600	\$ 600

Stock-Based Compensation

The Company periodically issues stock-based compensation to officers, directors, and consultants for services rendered. Such issuances vest and expire according to terms established at the issuance date.

Stock-based payments to employees, directors, and for acquiring goods and services from nonemployees, which include grants of employee stock options, are recognized in the financial statements based on their grant date fair values in accordance with ASC 718, *Compensation-Stock Compensation*. Stock option grants to employees, which are generally time vested, are measured at the grant date fair value and depending on the conditions associated with the vesting of the award, compensation cost is recognized on a straight-line or graded basis over the vesting period. Recognition of compensation expense for non-employees is in the same period and manner as if the Company had paid cash for the services. The fair value of stock options granted is estimated using the Black-Scholes option-pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life, and future dividends. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

Financial Assets and Liabilities Measured at Fair Value

The Company uses various inputs in determining the fair value of its financial assets and liabilities. Financial assets recorded at fair value in the balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value.

Authoritative guidance provided by the Financial Accounting Standards Board (“FASB”) defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than the quoted prices in active markets, that is observable either directly or indirectly.

Level 3 Unobservable inputs based on the Company’s assumptions.

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their fair values because of the short maturity of these instruments. The carrying values of notes and loans payable approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

Segments

The Company operates in one segment for the manufacture and distribution of its products. In accordance with the “Segment Reporting” Topic of the ASC, the Company’s chief operating decision maker has been identified as the Chief Executive Officer and President, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under “Segment Reporting” due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by “Segment Reporting” can be found in the accompanying financial statements.

Concentrations

Cash. The Company maintains cash balances at four banks, with the majority held at one bank located in the U.S. At times, the amount on deposit exceeds the federally insured limits. Management believes that the financial institutions that hold the Company’s cash are financially sound and, accordingly, minimal credit risk exists.

Cash denominated in Australian Dollars with a U.S. Dollar equivalent of \$12 and \$10 at September 30, 2021 and December 31, 2020, respectively, was held in an account at a financial institution located in Australia. Cash denominated in Romanian Leu with a U.S. Dollar equivalent of \$20 and \$28 at September 30, 2021 and December 31, 2020, respectively, was held in an account at a financial institution located in Romania.

Revenues. For the three months ended September 30, 2021, 62% of revenues were generated from the Company's largest customer, a Tier-1 telecommunications wireless carrier in the U.S. For the same period in 2020, 41%, 27%, and 23% of revenues were generated from the Company's three largest customers, one of which is a telecommunications wireless carrier in the U.S. There was no other revenue from customers in excess of 10% of revenues in either period. For the three months ended September 30, 2021 and September 30, 2020, sales to telecommunications customers accounted for 85% and 99% of total revenues, respectively. For the three months ended September 30, 2021 and September 30, 2020, sales to international customers accounted for 7% and 23%, of total revenue, respectively.

For the nine months ended September 30, 2021, sales to the Company's largest customer, a Tier-1 telecommunications wireless carrier in the U.S., accounted for 67% of total revenues. For the same period in 2020, sales to the Company's four largest customers, two of which are Tier-1 telecommunications wireless carriers in the U.S., accounted for 57%, 13%, 12%, and 11% of total revenues, respectively. There was no other revenue from customers in excess of 10% of revenues in either period. For the nine months ended September 30, 2021 and September 30, 2020, sales to telecommunications customers accounted for 90% and 96% of total revenues, respectively. For the nine months ended September 30, 2021 and September 30, 2020, sales to international customers accounted for 10% and 13%, of total revenue, respectively.

Accounts receivable. At September 30, 2021, 73% and 10% of the Company's accounts receivable were from the Company's two largest customer receivable accounts. At December 31, 2020, 87% of the Company's accounts receivable were from the Company's largest customer. There was no other customer that accounted for more than 10% of the Company's accounts receivable as of September 30, 2021 or December 31, 2020.

Accounts payable. At September 30, 2021, accounts payable to the Company's largest vendors represented 13%, 10%, and 8%, respectively, of the Company's accounts payable. At December 31, 2020, the three largest accounts payable accounts to the Company's vendors represented 10%, 9%, and 8%, respectively, of the Company's accounts payable.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is computed by dividing the net income applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the number of additional shares of common stock that would have been outstanding if all dilutive potential shares of common stock had been issued using the treasury stock method. Potential shares of common stock are excluded from the computation when their effect is antidilutive. The dilutive effect of potentially dilutive securities is reflected in diluted net income per share if the exercise prices were lower than the average fair market value of shares of common stock during the reporting period.

The following potentially dilutive shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would be anti-dilutive:

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Options	140,000	140,000
Warrants	24,122	465,000
Total	<u>164,122</u>	<u>605,000</u>

Recent Accounting Pronouncements

In September 2016, the FASB issued ASU No. 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments (“ASC 326”). The standard significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today’s “incurred loss” approach with an “expected loss” model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for interim and annual reporting periods beginning after December 15, 2022. The adoption of ASU 2016-13 is not expected to have a material impact on the Company’s financial position, results of operations, and cash flows.

In August 2020, the FASB issued ASU No. 2020-06 (“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).” ASU 2020-06 reduces the number of accounting models for convertible debt instruments by eliminating the cash conversion and beneficial conversion models. As a result, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost as long as no other features require bifurcation and recognition as derivatives. By removing those separation models, the effective interest rate of convertible debt instruments will be closer to the coupon interest rate. Further, the diluted net income per share calculation for convertible instruments will require the Company to use the if-converted method. For contracts in an entity’s own equity, the type of contracts primarily affected by this update are freestanding and embedded features that are accounted for as derivatives under the current guidance due to a failure to meet the settlement conditions of the derivative scope exception. This update simplifies the related settlement assessment by removing the requirements to (i) consider whether the contract would be settled in registered shares, (ii) consider whether collateral is required to be posted, and (iii) assess shareholder rights. ASU 2020-06 is effective January 1, 2024, for the Company and the provisions of this update can be adopted using either the modified retrospective method or a fully retrospective method. Early adoption is permitted, but no earlier than January 1, 2021, including interim periods within that year. Effective January 1, 2021, the Company early adopted ASU 2020-06 and that adoption did not have an impact on its financial statements and the related disclosures.

The Company’s management does not believe that there are other recently issued but not yet effective authoritative guidance, if currently adopted, would have a material impact on the Company’s financial statement presentation or disclosures.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>September 30, 2021</u> <u>(Unaudited)</u>	<u>December 31, 2020</u>
Production tooling, jigs, fixtures	\$ 71	\$ 71
Shop equipment and machinery	3,293	3,286
Vehicles	180	180
Leasehold improvements	390	390
Office equipment	181	177
Software	106	103
Total property and equipment, cost	<u>4,221</u>	<u>4,207</u>
Less: accumulated depreciation and amortization	<u>(3,130)</u>	<u>(2,710)</u>
Property and equipment, net	<u>\$ 1,091</u>	<u>\$ 1,497</u>

Depreciation and amortization expense on property and equipment for the three months ended September 30, 2021 and 2020 was \$134 and \$156, respectively. During the three months ended September 30, 2021 and 2020, \$129 and \$148, respectively, of the depreciation expense was included in the balance of cost of sales.

Depreciation and amortization expense on property and equipment for the nine months ended September 30, 2021 and 2020 was \$420 and \$469, respectively. During the nine months ended September 30, 2021 and 2020, \$402 and \$450, respectively, of the depreciation expense was included in the balance of cost of sales.

NOTE 3 – NOTES PAYABLE

Notes payable consist of the following:

	<u>September 30, 2021</u> <u>(Unaudited)</u>	<u>December 31, 2020</u>
Total Equipment Notes Payable	\$ 569	\$ 777
Less Current Portion	240	267
Notes Payable, long term	<u>\$ 329</u>	<u>\$ 510</u>

The Company has entered into several financing agreements for the purchase of equipment in prior years. The terms of these financing arrangements are for a term of 2 years to 5 years, with interest rates ranging from 1.9% to 6.9% per annum, secured by the purchased equipment, and mature between September 2023 and December 2023. The aggregate monthly payments of principal and interest of the outstanding notes payable as of September 30, 2021 is approximately \$22.

Future principal payments through the maturity dates of the notes payable as of September 30, 2021, consist of the following:

Year Ending	Notes Payable
2021 (remaining 3 months)	59
2022	242
2023	203
2024	65
Principal payments of the notes payable	<u>\$ 569</u>

NOTE 4 – LINE OF CREDIT

Effective September 30, 2020, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with Pinnacle Bank (“Pinnacle”). During the nine months ended September 30, 2021, the Company did not take any advances from the revolving credit facility. At September 30, 2021, there was no balance outstanding under the line of credit and the Company had availability under the line of credit in the amount of \$2,612.

The Loan Agreement provides for a revolving credit facility under which Pinnacle may make advances to the Company, subject to certain limitations and adjustments, of up to (a) 85% of the aggregate net face amount of the Company’s accounts receivable and other contract rights and receivables, plus (b) the lesser of (i) 35% of the lower of cost or wholesale market value of certain inventory of the Company or (ii) \$2,500. In no event shall the aggregate amount of the outstanding advances under the revolving credit facility be greater than \$4,000. Interest accrues on the daily balance at a rate of 1.25% above the prime rate, but in no event less than 3.75% per annum. Interest on the portion of the daily balance consisting of advances against inventory accrues interest at a rate of 2.25% above the prime rate, but in no event less than 4.75% per annum.

The Loan Agreement’s initial term ends on September 30, 2022, and is renewed thereafter for additional one-year terms. In addition, Pinnacle may terminate the Loan Agreement at any time upon sixty days prior written notice and immediately upon the occurrence of an event of default. Under the Loan Agreement, the Company granted Pinnacle a security interest in all presently existing and thereafter acquired or arising assets of the Company. The Loan Agreement also contains a financial covenant requiring the Company to attain an effective tangible net worth, as defined.

The Loan Agreement obligates the Company to pay Pinnacle a yearly facility fee in an amount equal to 1.125% of the sum of the advance limit.

NOTE 5- PPP LOAN PAYABLE

On May 4, 2020, the Company entered into a loan (the “PPP Loan”) with Citibank, N.A. in an aggregate principal amount of \$1,715, pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”).

The PPP Loan is evidenced by a promissory note dated May 4, 2020. The PPP Loan matures two years from the disbursement date and bears interest at a rate of 1% per annum. Interest accrues during the time between the disbursement of the loan and SBA remittance of the forgiveness amount. The Company is responsible for paying the accrued interest on any amount of the loan that is not forgiven. Principal and interest are payable monthly commencing on loan amounts not forgiven and may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The Company applied ASC 470, *Debt*, to account for the PPP Loan.

Under the terms of the CARES Act, recipients of PPP loans can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Company filed its application for a full loan forgiveness to Citibank in July 2021. On September 28, 2021, the Company received noticed from Citibank indicating that the SBA rendered final decision approving forgiveness of the PPP loan payable in the amount of \$1,714. As such, during the three- and nine-month periods ended September 30, 2021, the Company recognized the reversal of the debt liability upon forgiveness of the PPP loan as “Gain on forgiveness of PPP loan payable” in the accompanying unaudited condensed statements of operations.

NOTE 6 – STOCKHOLDERS' EQUITY

Underwritten Public Offering of Common Stock

On February 10, 2021, and the Company issued and sold 750,000 shares of common stock in an underwritten public offering. The Company received at the closing of the offering net proceeds of approximately \$12.5 million after deducting underwriting discounts and commissions and other offering expenses payable by the Company. The Company expects to use the net proceeds from the Offering for general corporate purposes.

Issuance of common stock upon exercise of warrants

During the nine months ended September 30, 2021, warrants to purchase an aggregate of 225,878 shares of common stock were exercised, and the Company received net proceeds of \$707 upon such exercise. In addition, warrants exercisable into 120,000 shares of common stock were converted under a cashless exercise option into 61,644 shares of the Company's common stock.

NOTE 7 – STOCK OPTIONS

The following table summarizes stock option activity:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2020	140,000	\$ 5.22
Granted	—	—
Exercised	—	—
Outstanding, September 30, 2021 (unaudited)	140,000	\$ 5.22
Exercisable, September 30, 2021 (unaudited)	140,000	\$ 5.22

Effective July 8, 2016 the Company's board of directors approved the Polar Power 2016 Omnibus Incentive Plan (the "2016 Plan"), authorizing the issuance of up to 1,754,385 shares of common stock as incentives to employees and consultants to the Company with awards limited to a maximum of 350,877 shares in any calendar year.

At September 30, 2021, the Company had total outstanding options of 140,000, which are fully vested, with exercise prices ranging from \$4.84 to \$5.60 per share. Option exercisable into 30,000 shares expire in December 2027 and the remaining options exercisable into 110,000 shares expire in April 2028.

The intrinsic value of the outstanding options at September 30, 2021 was approximately \$45.

NOTE 8 – STOCK WARRANTS

At September 30, 2021, warrant shares outstanding were as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding December 31, 2020	370,000	\$ 8.75
Issued	—	—
Exercised	(345,878)	(4.07)
Outstanding, September 30, 2021 (unaudited)	24,122	\$ 3.13
Exercisable, September 30, 2021 (unaudited)	24,122	\$ 3.13

At December 31, 2020, the Company had outstanding warrants exercisable into 370,000 shares of the Company's common stock, of which 250,000 warrants were issued in connection with a July 2020 private placement of the Company's common stock, and the remaining 120,000 warrants were issued to underwriters in a December 2016 offering.

During the nine months ended September 30, 2021, warrants to purchase 225,878 shares of common stock were exercised at \$3.13 exercise price per share or total net proceeds to the Company of \$707 upon exercise. Also during the nine months ended September 30, 2021, warrants exercisable into 120,000 shares of the Company's common stock were exercised under a cashless exercise option into 61,644 shares of the Company's common stock.

The intrinsic value of the outstanding and exercisable warrants at September 30, 2021 was \$58.

NOTE 9 – DISTRIBUTION AGREEMENT WITH A RELATED ENTITY

On March 1, 2014, the Company entered into a subcontractor installer agreement with Smartgen Solutions, Inc. ("Smartgen"), a related entity that is engaged in business of equipment rental and provider of maintenance, repair and installation services to mobile telecommunications towers in California. Under the terms of the agreement, Smartgen has been appointed as a non-exclusive, authorized service provider for the installation, repair and service of the Company's products in Southern California. The agreement has an initial term of three years from the date of execution and automatically renews for additional one-year periods if not terminated.

During the three months ended September 30, 2021 and 2020, Smartgen performed \$15 and \$33 in field services, respectively. Smartgen performed \$66 and \$193 in field services for the nine months ended September 30, 2021 and 2020, respectively.

Smartgen had \$1 and nil purchases from the Company during the three and nine months ended September 30, 2021 and 2020, respectively.

NOTE 10 – OPERATING LEASES

The Company has two operating lease agreements for its warehouse and office spaces both with remaining lease terms at September 30, 2021, of 1.7 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company accounts for the lease and non-lease components of its leases as a single lease component. Rent expense is recognized on a straight-line basis over the lease term. The Company also has another storage facility on a twelve-month lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Operating lease right-of-use ("ROU") assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. ROU 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. Generally, the implicit rate of interest in arrangements is not readily determinable and the Company utilizes its incremental borrowing rate in determining the present value of lease payments. The Company's incremental borrowing rate is a hypothetical collateralized borrowing rate based on its understanding of what its credit rating would be. The operating lease ROU asset includes any lease payments made and excludes lease incentives.

The components of rent expense and supplemental cash flow information related to leases for the period are as follows:

	Nine months Ended September 30, 2021	Nine months Ended September 30, 2020
Lease Cost		
Operating lease cost (of which \$74 is included in general and administration and \$451 is included in cost of sales in the Company's statement of operations for the nine months ended September 30, 2021, and for the same period in 2020, respectively)	\$ 525	\$ 525
Other Information		
Weighted average remaining lease term – operating leases (in years)	1.7	2.7
Average discount rate – operating leases	3.75%	3.75%

The supplemental balance sheet information related to leases for the period is as follows:

	At September 30, 2021	At December 31, 2020
Operating leases		
Long-term right-of-use assets, net of accumulated amortization of \$1,749 and \$1,265, respectively	\$ 1,079	\$ 1,563
Short-term operating lease liabilities	\$ 708	\$ 670
Long-term operating lease liabilities	454	990
Total operating lease liabilities	<u>\$ 1,162</u>	<u>\$ 1,660</u>

Maturities of the Company's lease liabilities are as follows (in thousands):

Year Ending	Operating Leases
2021 (remaining 3 months)	182
2022	747
2023	280
Total lease payments	1,209
Less: Imputed interest/present value discount	(47)
Present value of lease liabilities	<u>\$ 1,162</u>

Rent expense for the nine months ended September 30, 2021 and 2020 was \$678 and \$678, respectively.

ITEM 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" and elsewhere in this report. Our historical results are not necessarily indicative of the results to be expected for any future period, and results for any interim period are not necessarily indicative of the results to be expected for the full year.

All dollar amounts are presented in thousands, except share and per-share data and where otherwise noted.

Overview

We design, manufacture, and sell DC power generators, renewable energy and cooling systems for applications primarily in the telecommunications market and, to a lesser extent, in other markets, including military, electric vehicle charging, marine and industrial. We are continuously diversifying our customer base. We are selling our products into non-telecommunication markets and applications at an increasing rate.

Within the telecommunications market, our DC power systems provide reliable and low-cost DC power to service applications that do not have access to the utility grid (i.e., prime power applications) or have critical power needs and cannot be without power in the event of utility grid failure (i.e., back-up power applications).

During the three months ended September 30, 2021 and 2020, 85% and 99%, respectively, of our total net sales were within the telecommunications market. For the three months ended September 30, 2021, 62% of our total net sales was derived from our largest customer, which is a Tier-1 telecommunications customer in the U.S. For the same period in 2020, our three largest customers represented 41%, 27%, and 23% of our total net sales, respectively, two being telecommunications customers in the U.S. with one of those two being a Tier-1 telecommunications customer. There was no other revenue from customers in excess of 10% of revenues in either period. During those periods, the majority of our sales were of our DC base powers systems. For the three months ended September 30, 2021 and September 30, 2020, sales to international customers accounted for 7% and 23% of total revenue, respectively.

During the nine months ended September 30, 2021 and 2020, 90% and 96%, respectively, of our total net sales were within the telecommunications market. In the nine months ended September 30, 2021, 67% of our total net sales was derived from our largest customer, which is a Tier-1 telecommunications customer in the U.S. In 2020, our four largest customers represented 57%, 13%, 12%, and 11% of our total net sales, respectively, two being Tier-1 telecommunications customers in the U.S. There was no other revenue from customers in excess of 10% of revenues in either period. During those periods, the majority of our sales were of our DC base powers systems. For the nine months ended September 30, 2021 and September 30, 2020, sales to international customers accounted for 10% and 13%, of total revenue, respectively.

Military sales are growing and adding to our customer diversification. Backlog orders from military customers represented 4% of our backlog for the period ended September 30, 2021. The military's increasing use of robotics, drones, and digitization in the field is driving the demand for battery charging with DC generators. We believe increased sales to military customers provides us long-term visibility on product demand while helping us understand future commercial uses of our technologies. Historically we have always worked closely with military to jointly develop next generation of technologies and product configurations which later result in commercial uses. Military sales are advantageous because of their long-term contracts, and they provide funding to cover the cost of product development.

Advance Mobility applications require power to charge batteries and appliances within a vehicle. Our DC power systems are smaller in size, lighter in weight, and operate with greater efficiency than AC power systems, making our product ideal for these applications. Our advance mobility sales for this year to date is \$4,209, which includes product shipped and orders that have been received from customers and included in our backlog. In June 2021, we received a \$3.0 million order for DC power systems from a single customer in United States for use to charge stored batteries within a vehicle while providing energy to operate appliances installed in the vehicle. We anticipate our systems to be initially used in over 300 vehicles for test and evaluation.

We have supplied our DC generators to many automotive manufactures in support of their remote field testing of electric vehicles. We are presently in development of natural gas CHP home chargers as a solution to many homes that are not able to support fast charging using the electric grid. We believe we can compete with the electric utility rates for home and office charging by using natural gas and making use of surplus heat from the generator in certain bad grid and remote area applications. Our DC mobile EV charging systems can operate with diesel or propane and are ideal for emergency road service to rapid charge EV's stranded without a charge. Our DC mobile EV charging systems offer convenience, faster charging, and lower cost than towing an EV on a flatbed to a charging station. We have shipped DC mobile EV charging systems used to extend range for specialty vehicles used in applications requiring low emissions. Our DC mobile EV charging systems provide direct charging to an electric vehicle's battery.

We also developed DC power systems for medium to large solar PV applications to provide energy service for irrigation, refrigerated storage of meat and produce, and micro grid. By combining the energy of solar PV and propane or natural gas, our DC power systems can provide constant energy 24 hours a day without using expensive energy storage. Propane or natural gas fueled DC power systems are connected in parallel with the solar array (also a DC energy source) greatly simplifying the means of combining multiple energy sources. This process is more efficient and lowers both the CAPEX and OPEX of the Solar systems by eliminating battery storage and / or connection to the grid. Currently, the most popular technologies used in these applications are either grid power, diesel only, or a combination of grid and solar with a large battery bank. Our proposed technology is more environmentally friendly and lowers the cost of food processing. Currently, we have sold a limited number of our DC power systems that are undergoing field trials.

We expect that opportunities in the bad-grid (i.e., areas where wireless towers are connected to an electrical grid that loses power more than eight hours), and off-grid (i.e., areas where wireless towers are not connected to an electrical grid) applications, which include telecommunications towers, commercial and residential backup power, electric vehicle charging, "mini-grid" and various other power applications, will help to expand the market for our natural gas/LPG (propane) product lines domestically and internationally. We plan to develop new configurations of DC power system, battery storage and solar products to optimize the match between our solutions and various application needs.

Serving these various market, we offer the following three configurations of our DC power systems, with output power ranging from 5 kW to 50 kW:

- **DC base power systems.** These systems integrate a DC generator and automated controls with remote monitoring, which are typically contained within an environmentally regulated enclosure.
- **DC hybrid power systems.** These systems incorporate lithium-ion batteries (or other advanced battery chemistries) with our proprietary battery management system into our standard DC power systems.
- **DC solar hybrid power systems.** These systems incorporate photovoltaic and other sources of renewable energy into our DC hybrid power system.

Our DC power systems are available in diesel, natural gas, LPG / propane and renewable formats, with diesel, natural gas and propane gas being the predominate formats.

Impact of COVID-19

We continue to monitor the rapidly evolving COVID-19 pandemic and related guidance from international and domestic authorities, including federal, state and local public health authorities and may need to make changes to our business based on their recommendations. COVID-19, has had and is likely to continue to have, a material and substantial adverse impact on our results of operations including, among others, a decrease in our sales, and delays in sourcing of raw materials from suppliers. Our business is directly dependent upon, and correlates closely with, the marketing levels and ongoing business activities of our existing customers and suppliers. In the event of a continued widespread economic downturn caused by COVID-19, we will likely experience a further reduction in current projects, longer sales and collection cycles, deferral or delay of purchase commitments for our DC power systems, a reduction in our manufacturing functionality, higher than normal inventory levels, a reduction in the availability of qualified labor, and increased price competition, all of which could substantially adversely affect our net revenues.

The impacts of COVID-19 on our business, sources of revenues and the general economy, are currently not fully known. We are conducting business as usual with some modifications to employee work locations, and cancellation of certain marketing events, among other modifications. As a result of our declining revenues during the COVID-19 pandemic in 2020, our management team implemented a cost reduction program to reduce overhead. We lowered operation expenses, while still keeping the business operational and ready to expand when needed. We will continue to actively monitor the situation and may take further actions that may alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers and prospects, although we do anticipate it to negatively impact our financial results during the remainder of 2021 and perhaps beyond.

During December 2020, a limited supply of the COVID-19 vaccine was released to the general public. Since then, over 150.9 million people in the U.S. have been vaccinated and showing positive results aimed to control the pandemic, and many restrictions previously imposed to control the pandemic were eased around the world and especially in the U.S. In July 2021, the COVID-19 delta variant fueled a COVID-19 surge around the world leading to many restrictions being put back in place and threatening the U.S. economic recovery. We remain hopeful that we will continue to see improvements in the control of COVID-19 and find better opportunities to improve our business operations. Most of our employees, customers, and suppliers have received the COVID-19 vaccine and we continue to maintain COVID-19 precautionary measures. Control over COVID-19 will improve our ability to travel for purpose of training our sales staff and customers, commissioning of generators, and promoting the rollout of our new products to enhance our efforts for customer diversification. We expect to see significant improvements to labor and manufacturing efficiencies as our sales backlog and production demand continue to grow and delays in the supply chain improve. In addition, we believe our investments during the last two years in our facilities, our state-of-the-art manufacturing equipment, and training of our staff place us in good position to achieve significant improvements in our financial position as opportunities arise and the negative impact of COVID-19 is reduced.

Recent Business Events

We continue to see increasing demand of our DC power systems primarily by our Tier-1 telecommunications customers in the U.S. Our net sales for the nine months ended September 30, 2021, increased 89% as compared to our net sales during the same period in 2020. Our backlog increased by \$4.8 million, or 72%, as of September 30, 2021 to \$11,470, as compared to backlog of \$6,670 on June 30, 2021. At September 30, 2021, 63% of our backlog represented purchase orders from our largest Tier-1 telecommunications customer, and 32% represented purchase orders from advanced mobility applications from commercial and military customers. We believe this increase in demand is due to the expansion of 5G networks by the telecommunications carriers and a decrease in COVID-19 related shutdowns and restrictions. The focus on vehicle electrification, EV charging infrastructure and hybrid vehicles to reduce emissions across all vehicle platforms in the government and commercial sectors augurs well for our technology. The need for battery charging in stationary and mobile applications globally provides expanded opportunity for our technology and products. The space and weight restrictions of most vehicle programs does not allow traditional power systems like AC generators to work thereby creating a unique advantage for our DC power solutions.

The implementation of 5G networks by Tier-1 telecommunication customers currently have significantly higher power requirements at cell sites than the previous 4G networks. In addition, use of 5G technology in IoT, video streaming, and data analytics applications requires cell sites to be operational 100% of the time which, in turn, increases the demand for reliable power backup systems. During the first half of 2021, we invested in the development of natural gas powered DC backup power systems with increased power utilizing larger engines and improved emission control systems. We believe increased power usage of 5G networks enhances market opportunities for our higher efficiency DC power systems as compared to traditional AC power systems. We believe being an approved supplier for the three largest Tier-1 telecommunication providers in the U.S. provides us with additional growth opportunities during the current rapid 5G expansion in the largest urban centers in the U.S.

In 2020, we introduced our new DC generator line equipped with our proprietary control systems designed for 24/7 prime power applications providing power outputs between 5 kW to 15 kW. Presently we are in the process of EPA certification on a larger Toyota engine (model 4Y) for our 20 to 30 kW DC generators. Our next generation DC systems offer significantly lower greenhouse gas emissions while lowering maintenance and fuel costs when compared to diesel AC generators. Our larger DC generator models will integrate solar and battery storage with low emissions natural gas/LPG powered generators, which are an ideal solution for both off-grid and bad-grid applications.

The COVID-19 pandemic has had a significant negative impact on our overall operations including revenues, productivity, gross margins, and liquidity. Management's early focus on training, processes and procedures kept our infection rates to below 1% with no company-wide COVID-19 spread. Due to the slowdown in sales to our Tier-1 telecommunications customers during 2020, our sales force directed their efforts into niche markets and regions to expand our customer base beyond Tier-1 telecommunications customers. During 2021, we have experienced increased sales to new customers from diverse market segments which we believe will result in additional production orders during the remainder of 2021 and beyond.

In order to effectively manage our liquidity during this period of uncertainty caused by the COVID-19 pandemic, on February 7, 2021, we entered into an underwriting agreement with ThinkEquity, a division of Fordham Financial Management, Inc., pursuant to which we agreed to sell an aggregate of 750,000 shares of our common stock in a firm commitment underwritten public offering at a price per share to the public of \$18.00. The public offering closed on February 10, 2021. We received net proceeds of approximately \$12.5 million which we are using for general corporate purposes.

Critical Accounting Policies

We believe that the following critical accounting policies, among others, affect our more significant judgment and estimates used in the preparation of our financial statements:

Revenue Recognition. We recognize revenue in accordance with Financial Accounting Standards Board Accounting Standards Codification 606, *Revenue from Contracts with Customers* (“ASC 606”). ASC 606 requires entities to recognize revenue through the application of a five-step model, which includes: identification of the contract; identification of the performance obligations; determination of the transaction price; allocation of the transaction price to the performance obligations; and recognition of revenue as the entity satisfies the performance obligations.

Substantially all of our revenue is derived from product sales. Product revenue is recognized when performance obligations under the terms of a contract are satisfied, which occurs for us upon shipment or delivery of products or services to our customers based on written sales terms, which is also when control is transferred. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring the products or services to a customer. We determine whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the customer, which usually occurs when we place the product with the customer’s carrier or deliver the product to a customer’s location. We regularly review our customers’ financial positions to ensure that collectability is reasonably assured.

Warranty Costs. We provide limited warranties for parts and labor at no cost to our customers within a specified time period after the sale. Our standard warranty on new products is two years from the date of delivery to the customer. We offer a limited extended warranty of up to five years on our certified DC power systems based on application and usage. Our warranties are of an assurance-type and come standard with all of our products to cover repair or replacement should product not perform as expected. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and recovery from suppliers. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty costs. We estimate the actual historical warranty claims coupled with an analysis of unfulfilled claims to record a liability for specific warranty purposes.

Inventory. Inventories are stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out (“FIFO”) basis. We record adjustments to our inventory based on an estimated forecast of the inventory demand, taking into consideration, among others, inventory turnover, inventory quantities on hand, unfilled customer order quantities, forecasted demand, current prices, competitive pricing, and trends and performance of similar products. If the estimated net realizable value is determined to be less than the recorded cost of the inventory, the difference is recognized as a loss in the period in which it occurs. Once inventory has been written down, it creates a new cost basis for inventory that may not subsequently be written up.

Stock-Based Compensation. We periodically issue stock-based compensation to officers, directors, and consultants for services rendered. Such issuances vest and expire according to terms established at the issuance date. Stock-based payments to employees, directors, and for acquiring goods and services from nonemployees, which include grants of employee stock options, are recognized in the financial statements based on their grant date fair values in accordance with ASC 718, *Compensation-Stock Compensation*. Stock option grants to employees, which are generally time vested, are measured at the grant date fair value and depending on the conditions associated with the vesting of the award, compensation cost is recognized on a straight-line or graded basis over the vesting period. Recognition of compensation expense for non-employees is in the same period and manner as if we had paid cash for the services. The fair value of stock options granted is estimated using the Black-Scholes option-pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life, and future dividends. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

Effects of Inflation

The impact of inflation and changing prices has not been significant on the financial condition or results of operations of our company.

Impact of New Accounting Pronouncements

See “Note 1 – Organization and Summary of Significant Accounting Policies – Recent Accounting Pronouncements” of the Notes to our condensed financial statements commencing on page 5 of this Quarterly Report on Form 10-Q.

Jumpstart Our Business Startups Act of 2012

On April 5, 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an “emerging growth company” we choose to rely on such exemptions, we may not be 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, (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. These exemptions will apply until we no longer meet the requirements of being an “emerging growth company.” We will remain an “emerging growth company” until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (ii) December 31, 2021; (iii) the date on which we have issued more than \$1.07 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Financial Performance Summary and Outlook

Our net sales for the three months ended September 30, 2021 were \$4,136, which represents a 65% increase in net sales as compared to \$2,501 for the three months ended September 30, 2020. Our net sales for the nine months ended September 30, 2021 were \$12,273, which represents a 89% increase in net sales as compared to \$6,488 for the same period in 2020. We continue to see improvements in all market segments across the U.S. as the economy normalizes after the COVID-19 related shutdowns and restrictions. We anticipate that the expansion of 5G networks in the U.S. markets, requiring new installs and/or upgrades of backup power systems at cell sites, will help to drive an increase in our revenues over the next five years.

Our sales backlog as of September 30, 2021 was \$11,470, with 66% of that amount being attributable to telecommunications customers, 28% to advanced mobility applications in commercial vehicles, 4% to advanced mobility applications in military vehicles, 1% to marine customers, and 1% to other customers.

In September 2021, we received notice from Citibank that our request for forgiveness of the Paycheck Protection Program (PPP) loan was approved. For the quarter ended September 30, 2021, we recognized a non-cash gain of \$1.7 million within Other income (expense) on the condensed statement of operations.

For the remainder of 2021, we plan to continue to expand our customer base in all market segments in the U.S. We also anticipate that our sales will increase as the global economy recovers from the impact of the COVID-19 pandemic. However, the full impact of the COVID-19 pandemic on our financial and operating performance will depend significantly on the duration and severity of the outbreak, the actions taken to contain or mitigate its impact, disruption to our supply chain, and the pace with which our clients return to more normalized purchasing behavior, among others factors beyond our knowledge or control. See “Risk Factors” commencing on page 27 of this Quarterly Report on Form 10-Q for additional considerations.

Results of Operations

The tables presented below, which compare our results of operations from one period to another, present the results for each period, the change in those results from one period to another in both dollars and percentage change, and the results for each period as a percentage of net revenues. The columns present the following:

- The first two data columns in each table show the absolute results for each period presented.
- The columns entitled “Dollar Variance” and “Percentage Variance” shows the change in results, both in dollars and percentages. These two columns show favorable changes as a positive and unfavorable changes as negative. For example, when our net revenues increase from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenues.

Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020

	Three Months Ended September 30,		Dollar Variance Favorable (Unfavorable)	Percentage Variance Favorable (Unfavorable)	Results as a Percentage of Net Sales for the Period Ended September 30,	
	2021	2020			2021	2020
	(unaudited)	(unaudited)				
Net sales	\$ 4,136	\$ 2,501	\$ 1,635	65%	100.0%	100.0%
Cost of sales	3,170	2,800	(370)	(13)%	76.6%	112.0%
Increase in inventory reserve	—	2,400	2,400	100%	—	96.0%
Gross profit (loss)	966	(2,699)	3,665	136%	23.4%	(107.9)%
Sales and marketing expenses	372	445	73	16%	9.0%	17.8%
Research and development expenses	533	489	(44)	(9)%	12.9%	19.6%
General and administrative expenses	823	1,080	257	24%	19.9%	43.2%
Total operating expenses	1,728	2,014	286	14%	41.8%	80.5%
Loss from operations	(762)	(4,713)	3,951	84%	(18.4)%	(188.4)%
Interest and finance costs	(14)	(11)	(3)	(37)%	(0.4)%	(0.4)%
Gain from PPP loan forgiveness	1,715	—	1,715	—	41.4%	—
Other income (expense), net	3	1	2	182%	0.1%	0.0%
Income (loss) before income taxes	942	(4,723)	5,665	120%	(22.8)%	(188.8)%
Net income (loss)	\$ 942	\$ (4,723)	\$ 5,665	120%	(22.8)%	(188.8)%

Net Sales. Net sales increased \$1,635, or 65%, to \$4,136 for the three months ended September 30, 2021, as compared to \$2,501 for the same period in 2020. The increase in net sales was primarily due to an increase in sales of our DC power systems to Tier-1 telecommunications customers in the U.S. Tier-1 telecommunications customers continue to expand their 5G networks in the U.S. markets, requiring new installs and/or upgrades of backup power systems at cell sites. We also believe the improvements to control the spread of COVID-19 has had a positive impact in getting the economy to normalize creating opportunities to increase sales. Sales to our largest customer accounted for 62% of our total net sales during the three months ended September 30, 2021. For the same period in 2020, 41%, 27%, and 23% of revenues were generated from our three largest telecommunications customers. There were no other customers with revenue in excess of 10% of our total net sales in either period.

For the three months ended September 30, 2021, and September 30, 2020, sales to international customers accounted for 7% and 23%, of total revenue, respectively.

Cost of Sales. Cost of sales during the three months ended September 30, 2021, increased by \$370, or 13%, to \$3,170, as compared to \$2,800 during the same period in 2020. Cost of sales as a percentage of net sales during the three months ended September 30, 2021, decreased to 76.6% as compared to 112% in the same period in 2020. The decrease in cost of sales as a percentage of net sales is a result of improved manufacturing overhead absorption and improvements in labor efficiencies resulting from a higher manufacturing volume. We believe our manufacturing facilities are under-utilized in large part due to the significant investments we made in manufacturing equipment and facilities during the previous two years to increase our production capacity. These initiatives have resulted in an increase in overhead costs per unit related to our lower production volumes. We believe as sales volumes increase, overhead costs will be reduced for each unit sold thereby improving our overall gross margins.

For the three months ended September 30, 2020, an inventory reserve of \$2,400, 96% of net sales, was recorded in cost of sales as a separate line item.

Gross Profit (Loss). We had a gross profit of \$966 for the three months ended September 30, 2021, which is an increase in gross profit of \$3,665, or 136%, as compared to gross loss of \$2,699 during the same period in 2020. Increase sales of 65% has improved factory overhead absorption benefitting the gross margin. Our gross margin excluding the inventory reserve of \$2,400 improved from 11.9% in three month period ending September 30, 2020 to 23.3% in three month ending September 31, 2021.

Sales and Marketing Expenses. During the three months ended September 30, 2021, sales and marketing expenses decreased by \$73, or 16%, to \$372, as compared to \$445 during the same period in 2020. The decrease was attributable to a decrease in fringe benefits expenses during 2021 as compared the same period in 2020. We plan to increase our sales and marketing expenditures as travel restrictions are lifted and tradeshow and similar events return to normal.

Research and Development Expenses. During the three months ended September 30, 2021, research and development expenses increased by \$44, or 9%, to \$533, as compared to \$489 during the same period in 2020. During the same period in 2021, we increased our research and development efforts to support customization projects related to DC powers systems for non-telecommunications customers. We plan to expand our engineering capabilities to continue diversification of product line into low emission, longer life natural gas platforms.

General and Administrative Expenses. General and administrative expenses decreased by \$257, or 24%, to \$823 during the three months ended September 30, 2021, as compared to \$1,080 during same period in 2020. The three-month period ended September 30, 2020, included \$248 in legal and brokerage fees related to a private placement equity raise and \$77 in loan origination expenses related to our credit facility with Pinnacle Bank. We do not anticipate any significant changes in administrative expenses over the short term.

Interest and Finance Costs. Interest expense for the three months ended September 30, 2021 was \$14, as compared to \$11 during the same period in 2020. We had a \$3 increase in interest expense attributable to the minimum finance charges of \$2.5 on our credit facility with Pinnacle Bank.

Gain from PPP Loan Forgiveness. In September 2021, we received noticed from Citibank that our request for forgiveness of our PPP loan was approved except for five hundred dollars. We recognized a non-cash gain of \$1.7 million within Other income (expense) on the condensed consolidated statement of operations.

Income Tax. We had no income tax expense for the three months ended September 30, 2021, and for the same period in 2020.

Net Income. As a result of the factors identified above, we reported net income of \$942, or \$0.07 per basic and diluted share, for the three months ended September 30, 2021, as compared to net loss of \$4,723, or \$(0.42) per basic and diluted share, for the same period in 2020.

Nine months Ended September 30, 2021 Compared to the Nine months Ended September 30, 2020

	Nine months Ended September 30,		Dollar Variance Favorable (Unfavorable)	Percentage Variance Favorable (Unfavorable)	Results as a Percentage of Net Sales for the Period Ended September 30,	
	2021	2020			2021	2020
	(unaudited)	(unaudited)				
Net sales	\$ 12,273	\$ 6,488	\$ 5,785	89%	100.0%	100.0%
Cost of sales	10,398	7,658	(2,740)	(36)%	84.7%	118.0%
Increase in inventory reserve	—	2,400	2,400	100%	—	37.0%
Gross profit (loss)	1,875	(3,570)	5,445	153%	15.3%	(55.0)%
Sales and marketing expenses	1,119	1,296	177	14%	9.1%	20.0%
Research and development expenses	1,485	1,309	(176)	(13)%	12.1%	20.2%
General and Administrative expenses	2,796	3,154	358	11%	22.8%	48.6%
Total operating expenses	5,400	5,759	359	6%	44.0%	88.8%
Loss from operations	(3,525)	(9,329)	5,804	62%	(28.7)%	(143.8)%
Interest and finance costs	(46)	(46)	—	—%	(0.4)%	(0.7)%
Gain from PPP loan forgiveness	1,715	—	1,715	—	14.0%	—
Other income (expense), net	29	14	15	110%	0.2%	0.2%
Loss before income taxes	(1,827)	(9,361)	7,534	80%	(14.9)%	(144.3)%
Income tax benefit	—	(2,139)	(2,139)	(100)%	0.0%	(33.0)%
Net loss	\$ (1,827)	\$ (7,222)	\$ 5,395	75%	(14.9)%	(111.3)%

Net Sales. Net sales increased \$5,785, or 89%, to \$12,273 for the nine months ended September 30, 2021, as compared to \$6,488 for the same period in 2020. The increase in net sales was primarily due to an increase in sales of our DC power systems to Tier-1 telecommunications customers in the U.S. to support their 5G infrastructure buildout. We also believe the normalization of business activity with fewer shutdowns and restrictions has had a positive effect in increasing sales during 2021. Sales to our largest customer accounted for 67% of our total net sales during the nine months ended September 30, 2021. Sales to our largest customers for the nine months ended September 30, 2020, accounted for 57%, 13%, 12%, and 11% of total net sales. There was no other customer with revenue in excess of 10% of our total net sales in either period.

For the nine months ended September 30, 2021, and September 30, 2020, sales to international customers accounted for 10% and 13% of total revenue, respectively.

Cost of Sales. Cost of sales during the nine months ended September 30, 2021, increased by \$2,740, or 36%, to \$10,398, as compared to \$7,658 during the same period in 2020. Cost of sales as a percentage of net sales during the nine months ended September 30, 2021 decreased to 84.7%, as compared to 118.0% in the same period in 2020 as a result of improvements in overhead absorption and labor efficiencies resulting from a higher volume in sales.

For the nine months ended September 30, 2020, an inventory reserve of \$2,400, 37% of net sales, has been recorded in cost of sales as a separate line item.

Gross Profit (Loss). Gross profit during the nine months ended September 30, 2021 increased by \$5,445, or 153%, to gross profit of \$1,875, as compared to gross loss of \$3,570 during the same period in 2020. Our gross profit as a percentage of net sales was 15.3% for the nine months ended September 30, 2021, as compared to (55.0)% loss in the same period in 2020. The increase in gross profit margin was attributable to an increase in factory overhead absorption resulting from higher sales resulting in improved utilization of our production facilities during the nine months ended September 30, 2021.

Sales and Marketing Expenses. During the nine months ended September 30, 2021, sales and marketing expenses decreased by \$177, or 14%, to \$1,119, as compared to \$1,296 during the same period in 2020. The decrease was attributable to a decrease in fringe benefits expenses during 2021 as compared the same period in 2020. We expect sales and marketing expenses to gradually increase for the remainder of this year as travel restrictions are lifted and tradeshow and promotional events reopen.

Research and Development Expenses. During the nine months ended September 30, 2021, research and development expenses increased by \$176, or 13%, to \$1,485, as compared to \$1,309 during the same period in 2020. The increase in research and development expense in 2021 was a result of increased research and development efforts to support customization projects related to DC powers systems for non-telecommunications customers and the development of our new 20 to 30 kW generator based on a larger Toyota engine.

General and Administrative Expenses. General and administrative expenses decreased by \$358, or 11%, to \$2,796 during the nine months ended September 30, 2021, as compared to \$3,154 during same period in 2020. The decrease in general and administrative expenses was as a result of a decrease in legal and consulting fees in 2021 when compared to 2020. In 2020 we incurred \$248 in legal and brokerage fees related to a private placement equity raise and \$77 in loan origination expenses related to our credit facility with Pinnacle Bank. We anticipate our general and administrative costs to remain flat for the remainder of 2021.

Interest and Finance Costs. Interest and finance costs for the nine months ended September 30, 2021 was \$46, as compared to \$46 during the same period in 2020. Interest and finance cost is primarily incurred in interest expense attributable to the monthly minimum finance charges of \$2.5 on our credit facility with Pinnacle Bank. The balance is attributable to interest and finance charges from equipment and insurance financing costs.

Gain from PPP Loan Forgiveness. In September 2021, we received noticed from Citibank that our request for forgiveness of our PPP loan was approved except for five hundred dollars. We recognized a non-cash gain of \$1.7 million within Other income (expense) on the condensed statement of operations. The balance will be paid off before the end of 2021.

Income Tax Benefit. We had an income tax benefit of nil for the nine months ended September 30, 2021, compared to an income tax benefit of \$2,139 for the same period in 2020.

Net Loss. For the nine months ended September 30, 2021, we incurred net loss of \$1,827, or \$(0.14) per basic and diluted share, as compared to net loss of \$7,222, or \$(0.68) per basic and diluted share for the nine months ended September 30, 2020.

Liquidity and Capital Resources

Sources of Liquidity

Our available capital resources on September 30, 2021 consisted primarily of \$7,706 in cash and cash equivalents, as compared to \$1,646 as of December 31, 2020 and we had availability under our credit facility with Pinnacle Bank, or Pinnacle, in the amount of \$2,612. We believe we have sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs for the next twelve months from the date of this report.

During the nine months ended September 30, 2021, we funded our operations primarily from cash on hand. As of September 30, 2021, we had working capital of \$21,356, as compared to working capital of \$10,123 at December 31, 2020. This \$11,233 increase in working capital is primarily attributable to a \$6,060 increase in cash and cash equivalents resulting from net cash of \$6,890 used in operating activities, \$14 used in investing activities, and net cash from financing activities of \$12,964 which includes net proceeds of \$12.5 million from closing an underwritten public offering of 750,000 shares of common stock in February 2021. In addition, we received net proceeds of \$707 from the exercise of certain of our common stock warrants. We also recognized a non-cash gain of \$1,715 as a result of receiving forgiveness of our obligations for the PPP loan in September 2021.

On September 30, 2021 and December 31, 2020, our net trade receivables totaled \$3,520 and \$1,190, respectively. On September 30, 2021, \$2,579 (73%) and \$339 (10%) represented customer account balances of our two largest accounts receivable customer accounts, while \$1,041 (87%) and \$53 (5%) represented customer account balances of our two largest accounts receivable customer accounts on December 31, 2020.

We expect our future capital resources will consist primarily of cash on hand, cash generated by operations, if any, draw-downs on our credit facility with Pinnacle and future debt or equity financings, if any.

Credit Facility

Effective September 30, 2020, we entered into a Loan and Security Agreement, or Loan Agreement, with Pinnacle. The Loan Agreement provides for a revolving credit facility under which Pinnacle may, in its sole discretion upon our request, make advances to us in an amount, subject to certain limitations and adjustments, of up to (a) 85% of the aggregate net face amount of our accounts receivable and other contract rights and receivables, plus (b) the lesser of (i) 35% of the lower of cost or wholesale market value of certain of our inventory or (ii) \$2,500. In no event will the aggregate amount of the outstanding advances under the revolving credit facility be greater than \$4,000.

Interest accrues on the daily balance at a rate of 1.25% above the prime rate, or the Standard Interest Rate, but in no event will the Standard Interest Rate be less than 3.75% per annum. Interest on the portion of the daily balance consisting of advances against inventory accrues interest at a rate of 2.25% above the prime rate per annum, or the Inventory Interest Rate, but in no event will the Inventory Interest Rate be less than 4.75% per annum. The Loan Agreement also contains a financial covenant requiring us to attain an effective tangible net worth, defined as our total assets, excluding all intangible assets, less our total liabilities plus loans to us from our officers, stockholders or employees that have been subordinated to our obligations to Pinnacle, greater than \$6,000 as determined by Pinnacle as of the end of each fiscal quarter.

We did not have an outstanding balance under the Loan Agreement at September 30, 2021 and December 31, 2020. As of September 30, 2021, we had availability under the Loan Agreement of \$2,612 and we believe that we are in compliance with the terms and conditions of the Loan Agreement.

Paycheck Protection Program Loan

On May 4, 2020, we entered into a loan with Citibank, N.A. in an aggregate principal amount of \$1,715, or the PPP Loan, pursuant to the Paycheck Protection Program, or the PPP, under the Coronavirus Aid, Relief and Economic Security Act, or the CARES Act.

The PPP Loan is evidenced by a promissory note dated May 4, 2020. The PPP Loan matures two years from the disbursement date and bears interest at a rate of 1% per annum. We filed our application for a full loan forgiveness to Citibank on July 30, 2021 and the application is under the bank's review. Interest accrues during the time between the disbursement of the PPP Loan and SBA remittance of the forgiveness amount. We are responsible for paying the accrued interest on any amount of the loan that is not forgiven. Principal and interest are payable monthly commencing on loan amounts not forgiven and may be prepaid by us at any time prior to maturity with no prepayment penalties. We applied ASC 470, *Debt*, to account for the PPP Loan.

Under the terms of the CARES Act, recipients of PPP loans can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Company filed its application for a full loan forgiveness to Citibank in July 2021. On September 28, 2021, the Company received notice from Citibank indicating that the SBA rendered final decision approving loan forgiveness in the amount of \$1,714. As a result, we recognized a non-cash gain of \$1.7 million within Other income (expense) on the condensed statement of operations in the third quarter of 2021.

Cash Flow

The following table sets forth the significant sources and uses of cash for the nine-month periods set forth below:

	September 30, 2021 (Unaudited)	September 30, 2020 (Unaudited)
Net Cash Provided By (Used In)		
Operating Activities	\$ (6,890)	\$ (6,152)
Investing Activities	(14)	(3)
Financing Activities	12,964	5,386
Net decrease in cash	<u>\$ 6,060</u>	<u>\$ (769)</u>

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2021 was \$6,890, as compared to net cash used in operating activities of \$6,152 for the same period in 2020. This increase in net cash used in 2021 was primarily due to a net loss of \$1,827, a decrease in inventories of \$496, a decrease in income tax receivable of \$1,570, offset with an increase in accounts receivable of \$2,330, an increase in prepaid expenses of \$3,758 primarily for Toyota engines. We received forgiveness of our obligations for the PPP loan in the September 2021, and we recognized a non-cash gain of \$1.7 million within Other income (expense) on the condensed statement of operations.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2021 totaled \$14, as compared to \$3 used during the same period in 2020. This increased use of cash of \$11 was primarily due to increased property and equipment acquisitions during the third quarter of 2021.

Financing Activities

Net cash provided by financing activities totaled \$12,964 for the nine months ended September 30, 2021, as compared to \$5,386 provided in financing activities during the same period in 2020. This increase was primarily due to the issuance and sale of 750,000 shares of our common stock in a firm commitment underwritten public offering on February 10, 2021. We received net proceeds of approximately \$12.5 million from the sale of the shares after deducting underwriting discounts and commissions and other offering expenses payable by us. In addition, we received net proceeds of \$707 from the exercise of common stock warrants issued in our July 2020 private placement.

Backlog

As of September 30, 2021, we had a backlog of \$11,470. The amount of backlog represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. Backlog at September 30, 2021 was comprised of the following elements: 66% in purchases of DC power systems by telecommunications customers, 28% in purchases by our advanced mobility customer for commercial vehicles, 4% in purchases by military contractors, 1% by marine customers, and 1% from other markets. Due to overall shortage of commodities worldwide caused by COVID, our largest customers have placed orders with delivery dates up to nine months in the future. We believe this provides us better control on operational efficiencies and inventory management. We believe the majority of our backlog will be shipped within the next twelve months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected in our backlog.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of September 30, 2021, our disclosure controls and procedures were effective at the reasonable assurance level. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, 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. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; and (ii) provide reasonable assurance (a) transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, (b) our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (c) regarding the prevention or timely detection of the unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of September 30, 2021, our management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on this evaluation, our management concluded that, as of September 30, 2021, our internal control over financial reporting was effective.

This Quarterly Report on Form 10-Q does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter or three months ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we may be involved in general commercial disputes arising in the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of our operation.

ITEM 1A. Risk Factors

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other information contained in this Quarterly Report on Form 10-Q and in our other filings with the SEC, including subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Polar Power, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

The COVID-19 pandemic has had, and will likely continue to have, a significant negative impact on our business, sales, results of operations and financial condition.

The COVID-19 pandemic has had a widespread and detrimental effect on the global economy, particularly in the U.S., and actions over the past twelve months by public health and governmental authorities, businesses, other organizations and individuals to address the outbreak, including travel bans and restrictions, quarantines, shelter in place, stay at home or total lock-down orders and business limitations and shutdowns have materially negatively impacted, and could further materially adversely affect, our business, financial condition, results of operations and cash flows. The ultimate impact of the COVID-19 pandemic on our business and results of operations remains unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration and potential resurgence of the COVID-19 pandemic, repeat or cyclical outbreaks and any additional preventative and protective actions that governments, or we or our customers, may direct, which may result in an extended period of continued business disruption and reduced operations. Any resulting financial impact cannot be reasonably estimated at this time, but we expect it will continue to have a material impact on our business, financial condition and results of operations.

The repercussions of the COVID-19 global pandemic has had and is likely to continue to have, a material and substantial adverse impact on our results of operations, including a decrease in our sales and delays in sourcing raw materials from suppliers. Our business is directly dependent upon, and correlates closely with, the marketing levels and ongoing business activities of our existing customers and suppliers. In the event of a continued economic downturn caused by the COVID-19 pandemic, we will likely experience a reduction in current projects, longer sales and collection cycles, deferral or delay of purchase commitments for our DC power systems, a reduction in our manufacturing productivity, higher than normal inventory levels, delay in receipt of raw materials, a reduction in the availability of qualified labor and increased price competition, all of which could substantially adversely affect our results of operations including our earnings and cash flows.

In response to uncertainties associated with the COVID-19 pandemic, we have made certain modifications to our business, including modifications to employee work locations, cancellation of certain marketing events and the implementation of a cost reduction program to reduce overhead. During portions of 2021 we also implemented limited remote work policies for many employees, and the resources available to such employees may not enable them to maintain the same level of productivity and efficiency. Our increased reliance on remote access to our information systems also increases our exposures to potential cybersecurity breaches. We cannot provide any assurance that these actions, or any other mitigating actions we may take, will help mitigate the impact of the COVID-19 pandemic on us.

Furthermore, we cannot provide any assurance that our assumptions used to estimate our liquidity requirements will remain accurate due to the unprecedented nature of the disruption to our operations and the unpredictability of the COVID-19 global pandemic. As a consequence, our estimates of the duration of the pandemic and the severity of the impact on our future earnings and cash flows could change and have a material impact on our results of operations and financial condition. In the event of a sustained market deterioration and continued declines in net sales, we may need additional liquidity. We cannot provide any assurance that we will be able to obtain additional sources of financing or liquidity on acceptable terms, or at all.

The ultimate duration and impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows is dependent on future developments, the duration of the COVID-19 pandemic, including repeat or cyclical outbreaks, additional “waves” or the spread of “variant” viruses and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time. Furthermore, the extent to which our mitigation efforts are successful, if at all, is not presently ascertainable. However, we expect that our results of operations, including revenues, in future periods will continue to be adversely impacted by the COVID-19 pandemic and its negative effects on global economic conditions and that, as a result of such effects, we may continue to be adversely affected even after the COVID-19 pandemic has materially subsided.

We have incurred significant losses in the past and we may incur losses in the future, which may hamper our operations and impede us from expanding our business.

We have incurred significant losses in the past. For the quarter ended September 30, 2021, we incurred net income of approximately \$942. For the nine months ended September 30, 2021, we incurred a net loss of approximately \$1.8 million. For the years ended December 31, 2020 and 2019, we incurred net losses of approximately \$10.8 million and \$4.0 million, respectively. We may incur net and gross losses in the future. We expect to rely on cash on hand, cash, if any, generated from our operations, borrowing availability under our line of credit and proceeds from our future financing activities, if any, to fund all of the cash requirements of our business. Additional losses may hamper our operations and impede us from expanding our business.

We are dependent on, and derive substantially all of our revenue from, sales of our DC base power systems to two customers within the U.S. telecommunications market. Our efforts to expand our customer base, our product portfolio or markets within which we operate may not succeed and may reduce our revenue growth rate.

We derive substantially all our revenues from sales of our DC base power systems to two customers within the telecommunications market, AT&T and Verizon Wireless. The volume of sales to anyone of them may vary significantly from year to year. Any factor adversely affecting sales of these power systems to these customers or to other customers within this market, including market acceptance, product competition, performance and reliability, reputation, price competition and economic and market conditions, could adversely affect our business and results of operations. For example, during the 2020, our U.S. Tier-1 telecommunications customers postponed orders and shipments due to factors that we believe were related to both the shift in the allocation capital budgets from backup power solutions to 5G programs and the impact of COVID-19, which resulted in a 64% decline in net revenues from U.S. Tier-1 telecommunications customers during 2020 as compared to 2019.

In addition, any unfavorable change in our business relationship with our Tier-1 telecommunications wireless carrier customers, or delays in customer implementation and deployment of our products, could have a material adverse effect on our results of operation and financial condition. Our plans to invest in the development of electric vehicle chargers, residential and commercial power products and higher capacity DC hybrid solar systems may not result in an anticipated growth in sales and may reduce our revenue growth rate.

Many of our DC power systems involve long design and sales cycles, which could have an adverse impact on our results of operations and financial performance.

The design and sales cycle for our DC power systems, from initial contact with our potential customer to the shipments of our product, may be lengthy. Customers generally consider a wide range of factors before making a purchase decision. Prior to purchasing our products, many of our customers often require a significant technical review, tests and evaluations over long periods of time (i.e., three to twenty-four months), assessments of competitive products and approval at a number of management levels within their organization. During the time our customers are evaluating our products, we may incur substantial sales and service, engineering and research and development expenses to customize our products to meet customer's application needs. We may also expend significant management efforts, increase manufacturing capacity, order long-lead-time components or purchase significant amounts of components and other inventory prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products.

The product development time before a customer agrees to purchase our DC power systems can be considerable. Our process for developing an integrated solution may require use of significant engineering resources, including design, prototyping, modeling, testing and application engineering. The length of this cycle is influenced by many factors, including the difficulty of the technical specification and complexity of the design and the customer's procurement processes. A significant period may elapse between our investment of time and resources in designing and developing a product for a customer and receipt of revenue from sales of that product. The length of this process, combined with unanticipated delays in the development cycles and the effects of COVID-19 on our ability to demonstrate our products to current and potential customers could materially affect our results of operations and financial conditions.

We do not have long-term commitments for significant revenues with most of our customers and may be unable to retain existing customers, attract new customers or replace departing customers with new customers that can provide comparable revenues and profits.

Because we generally do not obtain firm, long-term volume purchase commitments from our customers, most of our sales are derived from individual purchase orders. We remain dependent upon securing new purchase orders in the future in order to sustain and grow our revenues. Accordingly, there is no assurance that our revenues and business will grow in the future. Our failure to maintain and expand our customer relationships could materially and adversely affect our business and results of operations.

The current high concentration of our sales within the telecommunications market could result in a significant reduction in sales and negatively affect our profitability if demand for our DC power systems declines within this market before we are able to make significant inroads with our diversification of markets and customers.

Currently, we are predominately focused on the manufacturing, marketing and sales of DC power systems to telecommunications companies. We may be unable to shift our business focus away from these activities to other potential markets for our products. Accordingly, the emergence of new competing DC power products or lower-cost alternative technologies within the telecommunications market may reduce the demand for our products. A downturn in the demand for our DC power systems within this market could materially and adversely affect our sales and results of operations.

We face inventory risk and may be required to write-off additional inventory in the future.

We value inventories at the lower of cost or net realizable value. If the estimated net realizable value is determined to be less than the recorded cost of the inventory, a provision is made to reduce the carrying amount of the inventory item to the lower net realizable value determination. Determination of the net realizable value may be complex, and therefore, requires management to make assumptions and to apply a high degree of judgment. In order for management to make the appropriate determination of net realizable value, the following items are commonly considered: inventory turnover statistics, inventory quantities on hand in our facilities, unfilled customer order quantities, forecasted consumer demand, current prices, competitive pricing, seasonality factors, consumer trends and performance of similar products or accessories. Subsequent changes in facts or circumstances do not result in the reversal of previously recorded write-downs.

For example, we built substantial inventory of our products in anticipation of customer demands in 2020. Due to a temporary slowdown in construction of telecommunications towers in the U.S., we recorded lower than expected demand and sales of our products to our U.S. telecommunications customers, which resulted in a \$3,400 inventory write-down to reduce the remaining inventory of our products to its estimated net realizable value of \$9,094 as of December 31, 2020.

If our estimates regarding net realizable value are inaccurate, including our estimates regarding our inventory, or changes in customer demand for our products in an unforeseen manner, we may experience additional write-downs of our inventory.

The unavailability or shortage, or increase in the cost, of raw materials and components could have an adverse effect on our sales and profitability.

Our operations require raw materials, such as aluminum, copper, engines, electronics, and permanent magnets. Commodities such as aluminum and copper are known to have significant price volatility based on global economic conditions. An increase in global economic outlook may result in significant price increases in the cost of our raw materials. In addition, we use Neodymium permanent magnets in our alternators, for which there are a limited number of global suppliers that can meet our standards. Increase in manufacturing of electric vehicles worldwide can have an adverse effect on the cost or supply of these magnets. At our current production volumes, we are unable to secure large quantities of these commodities at fixed prices; however, we do have multiple sources of supply for our raw materials to meet our near term forecasted needs. Various factors could reduce the availability of raw materials and components and shortages may occur from time to time in the future. An increase in lead times for the supply of raw materials due to a global increase in demand for commodities or other reasons may significantly increase the timing of receipt of such materials and/or increase the material costs of our products. For example, as a result of the COVID-19 pandemic, we are currently experiencing both delays in sourcing, and price increases of, certain key components. As a result of these delays, our standard eight-week delivery time has increased to fourteen weeks. In addition, if production was interrupted due to unavailability or shortage of raw materials and we were not able to find alternate third-party suppliers or re-engineer our products to accommodate different components or materials, we could experience disruptions in manufacturing and operations including product shortages, higher freight costs and re-engineering costs. If our supply of raw materials or components continues to be disrupted or our lead times extended, our business, results of operations or financial condition could be materially adversely affected.

The markets within which we compete are highly competitive. Many of our competitors have greater financial and other resources than we do and one or more of these competitors could use their greater financial and other resources to gain market share at our expense.

If our business continues to develop as expected, we anticipate that we will grow our revenues in the near future. If, due to capital constraints or otherwise, we are unable to fulfill our existing backlog in a timely manner and/or procure and timely fulfill our anticipated future backlog, our customers and potential customers may decide to use competing DC power systems or continue the use of AC power systems. If we are unable to fulfill the demand for products and services in a timely manner, our customers and potential customers may choose to purchase products from our competitors. Some of our larger competitors may be willing to reduce prices and accept lower margins in order to compete with us. In addition, we could face new competition from large international or domestic companies with established industrial brands and distribution networks that enter our end markets. Demand for our products may also be affected by our ability to respond to changes in design and functionality, to respond to downward pricing pressure, and to provide shorter lead times for our products than our competitors. If we are unable to respond successfully to these competitive pressures, we could lose market share, which could have an adverse impact on our results. We cannot assure that we will be able to compete successfully in our markets or compete effectively against current and new competitors as our industry continues to evolve.

Rapid technological changes may prevent us from remaining current with our technological resources and maintaining competitive product and service offerings.

The markets in which we and our customers operate are characterized by rapid technological change, especially within the telecommunications market. Significant technological changes could render our existing and potential new products, services and technology obsolete. Our future success will depend, in large part, upon our ability to:

- effectively identify and develop leading energy efficient technologies;
- continue to develop our technical expertise;
- enhance our current products and services with new, improved and competitive technology; and
- respond to technological changes in a cost-effective and timely manner.

If we are unable to successfully respond to technological change or if we do not respond to it in a cost-effective and timely manner, then our business will be materially and adversely affected. We cannot assure you that we will be successful in responding to changing technology. In addition, technologies developed by others may render our products, services and technology uncompetitive or obsolete. Even if we do successfully respond to technological advances, the integration of new technology may require substantial time and expense, and we cannot assure you that we will succeed in adapting our products, services and technology in a timely and cost-effective manner.

If we are unable to continue to develop new and enhanced products and services that achieve market acceptance in a timely manner, our competitive position and operating results could be harmed.

Our future success will depend on our ability to continue to develop new and enhanced DC power systems and related products and services that achieve market acceptance in a timely and cost-effective manner. The markets in which we and our customers operate are characterized by frequent introductions of new and enhanced products and services, evolving industry standards and regulatory requirements, government incentives and changes in customer needs. The successful development and market acceptance of our products and services depends on a number of factors, including:

- the impact of the COVID-19 pandemic on the global markets;
- the changing requirements and preferences of the potential customers in our markets;
- the accurate prediction of market requirements, including regulatory issues;
- the timely completion and introduction of new products and services to avoid obsolescence;
- the quality, price and performance of new products and services;

- the availability, quality, price and performance of competing products and services;
- our customer service and support capabilities and responsiveness;
- the successful development of our relationships with existing and potential customers; and
- changes in industry standards.

We may experience financial or technical difficulties or limitations that could prevent us from introducing new or enhanced products or services. Furthermore, any of these new or enhanced products and services could contain problems that are discovered after they are introduced. We may need to significantly modify the design of these products and services to correct problems. Rapidly changing industry standards and customer preferences and requirements may impede market acceptance of our products and services.

Development and enhancement of our products and services will require significant additional investment and could strain our management, financial and operational resources. The lack of market acceptance of our products or services or our inability to generate sufficient revenues from this development or enhancement to offset their development costs could have a material adverse effect on our business. In addition, we may experience delays or other problems in releasing new products and services and enhancements, and any such delays or problems may cause customers to forego purchases of our products and services and to purchase those of our competitors.

We cannot provide assurance that products and services that we have recently developed or that we develop in the future will achieve market acceptance. If our new products and services fail to achieve market acceptance, or if we fail to develop new or enhanced products and services that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected.

Natural disasters and other events beyond our control could materially adversely affect us.

Natural disasters or other catastrophic events, including the COVID-19 pandemic, may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers and could decrease demand for our services.

We are dependent on relationships with our key material suppliers, and the partial or complete loss of one of these key suppliers, or the failure to find replacement suppliers or manufacturers in a timely manner, could adversely affect our business.

We have established relationships with third-party engine suppliers and other key suppliers from which we source components for our power systems. We purchase standard configurations of engines for our DC power systems and are substantially dependent on timely supply from our key engine suppliers, Yanmar Engines Company and Toyota Corporation. Engines from Yanmar and Toyota represented approximately 80% and 11% of our total engines sold as a component of our DC power systems during the three months ended September 30, 2021, respectively, and represented approximately 63% and 32% of our total engines sold as components of our DC power systems during the same period in 2020, respectively. Engines from Yanmar and Toyota represented approximately 83% and 5% of our total engines sold as a component of our DC power systems during the nine months ended September 30, 2021, respectively, and represented approximately 73% and 13% of our total engines sold as components of our DC power systems during the same period in 2020, respectively. We also use engines from Isuzu, Perkins, Kubota and, to a lesser extent, Volvo Penta. In December 2019, we received our certificate of conformity from the EPA with respect to our small spark-ignition Toyota engines which will be used in our new LPG / natural gas generators. The new Toyota engine serves as our primary engine in our new LPG products which were launched in 2020. We do not have any long-term contracts or commitments with any of these suppliers. If any of these engine suppliers were to fail to provide emissions certified engines in a timely manner or fail to supply engines that meet our quality, quantity or cost requirements, or were to discontinue manufacturing any engines we source from them or discontinue providing any of these engines to us, or the supply chain is interrupted or delayed as a result of the COVID-19 pandemic or unprecedented event, and we were unable to obtain substitute sources in a timely manner or on terms acceptable to us, our ability to manufacture our products could be materially adversely affected.

Price increases in some of the key components in our DC power systems could materially and adversely affect our operating results and cash flows.

The prices of some of the key components of our DC power systems are subject to fluctuation due to market forces beyond our control, including changes in the costs of raw materials incorporated into these components. Such price increases occur from time to time due to spot shortages of commodities, increases in labor costs or longer-term shortages due to market forces. In particular, the prices of engines can fluctuate frequently and often significantly. We do not have any long-term contracts or commitments with our two key engine suppliers. Substantial increases in the prices of raw materials used in components which we source from our suppliers may result in increased prices charged by our suppliers. If we incur price increases from our suppliers for key components in our DC power systems, our production costs will increase. Given competitive market conditions, we may not be able to pass all or any of those cost increases on to our customers in the form of higher sales prices. To the extent our competitors do not suffer comparable component cost increases, we may have even greater difficulty passing along price increases and our competitive position may be harmed. As a result, increases in costs of key components may adversely affect our margins and otherwise adversely affect our operating results and cash flows.

A portion of our key components are sourced in foreign countries, exposing us to additional risks that may not exist in the U.S.

A portion of our key components, such as engines, magnets and cooling systems, are purchased from suppliers located overseas, primarily in Asia. Our international sourcing subjects us to a number of potential risks in addition to the risks associated with third-party sourcing generally. These risks include:

- inflation or changes in political and economic conditions;
- unstable regulatory environments;
- changes in import and export duties;
- currency rate fluctuations;
- trade restrictions;
- labor unrest;
- logistical and communications challenges; and
- other restraints and burdensome taxes.

These factors may have an adverse effect on our ability to source our purchased components overseas. In particular, if the U.S. dollar were to depreciate significantly against the currencies in which we purchase raw materials from foreign suppliers, our cost of goods sold could increase materially, which would adversely affect our results of operations.

We manufacture and assemble a majority of our products at two facilities. Any prolonged disruption in the operations of this facility would result in a decline in our sales and profitability.

We manufacture and assemble our DC power systems at our two production facilities located in Gardena, California. Any prolonged disruption in the operations of our manufacturing and assembly facilities, whether due to the COVID-19 pandemic, equipment or information technology infrastructure failure, labor difficulties, destruction of or damage to one or both of these facilities as a result of an earthquake, fire, flood, other catastrophes, and other operational problems would result in a decline in our sales and profitability. In the event of a business interruption at our facilities, we may be unable to shift manufacturing and assembly capabilities to alternate locations, accept materials from suppliers or meet customer shipment needs, among other severe consequences. Such an event could have a material and adverse impact on our financial condition and results of our operations.

Our business operations are subject to substantial government regulation.

Our business operations are subject to certain federal, state, local and foreign laws and regulations. For example, our products, services and technologies are subject to regulations relating to building codes, public safety, electrical connections, security protocols, and local and state licensing requirements. The regulations to which we are subject may change, additional regulations may be imposed, or existing regulations may be applied in a manner that creates special requirements for the implementation and operation of our products or services that may significantly impact or even eliminate some of our revenues or markets. In addition, we may incur material costs or liabilities in complying with any such regulations. Furthermore, some of our customers must comply with numerous laws and regulations, which may affect their willingness and ability to purchase our products, services and technologies. Additionally, we are subject to laws, regulations and other governmental actions instituted in response to the COVID-19 pandemic.

The modification of existing laws and regulations or interpretations thereof or the adoption of future laws and regulations could adversely affect our business, cause us to modify or alter our methods of operations and increase our costs and the price of our products, services and technology. In addition, we cannot provide any assurance that we will be able, for financial or other reasons, to comply with all applicable laws and regulations. If we fail to comply with these laws and regulations, we could become subject to substantial penalties or restrictions that could materially and adversely affect our business.

Certain of our products are used in critical communications networks which may subject us to significant liability claims.

Because certain of our products for customers in the telecommunications industry are used in critical communications networks, we may be subject to significant liability claims if our products do not work properly. We warrant to our customers that our products will operate in accordance with our product specifications. If our products fail to conform to these specifications, our customers could require us to remedy the failure or could assert claims for damages. The provisions in our agreements with customers that are intended to limit our exposure to liability claims may not preclude all potential claims. In addition, any insurance policies we have may not adequately limit our exposure with respect to such claims. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Any such claims, whether or not successful, would be costly and time-consuming to defend, and could divert management's attention and seriously damage our reputation and our business.

We could be adversely affected by our failure to comply with the laws applicable to our foreign activities, including the U.S. Foreign Corrupt Practices Act and other similar worldwide anti-bribery laws.

The U.S. Foreign Corrupt Practices Act, or the FCPA, and similar anti-bribery laws in other jurisdictions prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. We may pursue opportunities in certain parts of the world that experience government corruption, and in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices. Our policies mandate compliance with all applicable anti-bribery laws. Further, we require our partners, subcontractors, agents and others who work for us or on our behalf to comply with the FCPA and other anti-bribery laws. Although we have policies and procedures, and have conducted training, designed to ensure that we, our employees, our agents and others who work with us in foreign countries comply with the FCPA and other anti-bribery laws, there is no assurance that such policies, procedures or training will protect us against liability under the FCPA or other laws for actions taken by our agents, employees and intermediaries. If we are found to be liable for FCPA violations (either due to our own acts or inadvertence, or due to the acts or inadvertence of others), we could suffer from severe criminal or civil penalties or other sanctions, which could have a material adverse effect on our reputation, business, results of operations or cash flows. In addition, detecting, investigating and resolving actual or alleged FCPA violations is expensive and could consume significant time and attention of our senior management.

We are exposed to risks related to our international sales, and the failure to manage these risks could harm our business. If we fail to expand our business into international markets, our revenues and results of operations may be adversely affected.

In addition to our sales to customers within the U.S., we may become increasingly dependent on sales to customers outside the U.S. as we pursue expanding our business with customers worldwide. During the three months ended September 30, 2021, and 2020, our sales to international customers accounted for 2% and 7%, respectively, of total revenue. During the nine months ended September 30, 2021, and 2020, our sales to international customers accounted for 12% and 7%, respectively, of total revenue. We continue to expect that a significant portion of our future revenues will be from international sales to customers in less developed or developing countries. As a result, the occurrence of any international, political, economic, or geographic event could result in a significant decline in revenue. There are significant risks associated with conducting operations internationally, requiring significant financial commitments to support such operations. These operations present a number of challenges including oversight of daily operating practices in each location, handling employee benefits and employee behavior. In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the FCPA, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations, among others.

Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

Some of the risks and challenges of doing business internationally include:

- the impact of the COVID-19 pandemic on the global markets and the power generation market with the international telecommunications markets;
- requirements or preferences for domestic products or solutions, which could reduce demand for our products;
- unexpected changes in regulatory requirements;
- imposition of tariffs and other barriers and restrictions;
- restrictions on the import or export of critical technology;
- management communication and integration problems resulting from cultural and geographic dispersion;
- the burden of complying with a variety of laws and regulations in various countries;
- difficulties in enforcing contracts;
- the uncertainty of protection for intellectual property rights in some countries;
- application of the income tax laws and regulations of multiple jurisdictions, including relatively low-rate and relatively high-rate jurisdictions, to our sales and other transactions, which results in additional complexity and uncertainty;
- tariffs and trade barriers, export regulations and other regulatory and contractual limitations on our ability to sell products;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including export and antitrust regulations, the FCPA and any trade regulations ensuring fair trade practices;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- potentially adverse tax consequences, including multiple and possibly overlapping tax structures;

- general economic and geopolitical conditions, including war and acts of terrorism;
- lack of the availability of qualified third-party financing; and
- currency exchange controls.

While these factors and the impacts of these factors are difficult to predict, any one or more of them could adversely affect our business, financial condition and results of operations in the future.

Cyberattacks through security vulnerabilities could lead to disruption of business, reduced revenue, increased costs, liability claims, or harm to our reputation or competitive position.

Security vulnerabilities may arise from our hardware, software, employees, contractors or policies we have deployed, which may result in external parties gaining access to our networks, data centers, cloud data centers, corporate computers, manufacturing systems, and/or access to accounts we have at our suppliers, vendors, and customers. External parties may gain access to our data or our customers' data, or attack the networks causing denial of service or attempt to hold our data or systems in ransom. The vulnerability could be caused by inadequate account security practices such as failure to timely remove employee access when terminated. To mitigate these security issues, we have implemented measures throughout our organization, including firewalls, backups, encryption, employee information technology policies and user account policies. However, there can be no assurance these measures will be sufficient to avoid cyberattacks. If any of these types of security breaches were to occur and we were unable to protect sensitive data, our relationships with our business partners and customers could be materially damaged, our reputation could be materially harmed, and we could be exposed to a risk of litigation and possible significant liability.

Further, if we fail to adequately maintain our information technology infrastructure, we may have outages and data loss. Excessive outages may affect our ability to timely and efficiently deliver products to customers or develop new products. Such disruptions and data loss may adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

The State of California enacted the California Consumer Privacy Act of 2018, or the CCPA, effective on January 1, 2020. Our and our business partners' or contractors' failure to fully comply with the CCPA and other laws could lead to significant fines and require onerous corrective action. In addition, data security breaches experienced by us or our business partners or contractors could result in the loss of trade secrets or other intellectual property, public disclosure of sensitive commercial data, and the exposure of personally identifiable information (including sensitive personal information) of our employees, customers, suppliers, contractors and others.

Unauthorized use or disclosure of, or access to, any personal information maintained by us or on our behalf, whether through breach of our systems, breach of the systems of our suppliers or vendors by an unauthorized party, or through employee or contractor error, theft or misuse, or otherwise, could harm our business. If any such unauthorized use or disclosure of, or access to, such personal information was to occur, our operations could be seriously disrupted, and we could be subject to demands, claims and litigation by private parties, and investigations, related actions, and penalties by regulatory authorities. In addition, we could incur significant costs in notifying affected persons and entities and otherwise complying with the multitude of foreign, federal, state and local laws and regulations relating to the unauthorized access to, or use or disclosure of, personal information. Finally, any perceived or actual unauthorized access to, or use or disclosure of, such information could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business, financial condition and results of operations.

Risks Related to Our Intellectual Property

If we fail to adequately protect our intellectual property rights, we could lose important proprietary technology, which could materially and adversely affect our business.

Our success and ability to compete depends, in substantial part, upon our ability to develop and protect our proprietary technology and intellectual property rights to distinguish our products, services and technology from those of our competitors. The unauthorized use of our intellectual property rights and proprietary technology by others could materially harm our business.

Historically, we have relied primarily on a combination of trademark, copyright and trade secret laws, along with non-competition and confidentiality agreements, contractual provisions, licensing arrangements and proprietary software and manufacturing processes, to establish and protect our intellectual property rights. Although we hold several unregistered copyrights in our business, we believe that the success of our business depends more upon our proprietary technology, information, processes and know-how than on patents or trademark registrations. In addition, much of our proprietary information and technology may not be patentable; if we decided to apply for patents and/or trademarks in the future, we might not be successful in obtaining any such future patents or in registering any marks.

Despite our efforts to protect our intellectual property rights, existing laws afford only limited protection, and our actions may be inadequate to protect our rights or to prevent others from claiming violations of their proprietary rights. Unauthorized third parties may attempt to copy, reverse engineer or otherwise obtain, use or exploit aspects of our products and services, develop similar technology independently, or otherwise obtain and use information that we regard as proprietary. We cannot assure you that our competitors will not independently develop technology similar or superior to our technology or design around our intellectual property. In addition, the laws of some foreign countries may not protect our proprietary rights as fully or in the same manner as the laws of the U.S.

We may need to resort to litigation to enforce our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of other companies' proprietary rights in the future. However, litigation could result in significant costs and in the diversion of management and financial resources. We cannot assure you that any such litigation will be successful or that we will prevail over counterclaims against us. Our failure to protect any of our important intellectual property rights or any litigation that we resort to in order to enforce those rights could materially and adversely affect our business.

If we face claims of intellectual property infringement by third parties, we could encounter expensive litigation, be liable for significant damages or incur restrictions on our ability to sell our products and services.

Although we are not aware of any present infringement of our products, services or technology on the intellectual property rights of others, we cannot be certain that our products, services and technologies do not or in the future will not infringe on the valid intellectual property rights held by third parties. In addition, we cannot assure you that third parties will not claim that we have infringed their intellectual property rights.

In recent years, there has been a significant amount of litigation in the U.S. involving patents and other intellectual property rights. In the future, we may be a party to litigation as a result of an alleged infringement of others' intellectual property. Successful infringement claims against us could result in substantial monetary liability, require us to enter into royalty or licensing arrangements, or otherwise materially disrupt the conduct of our business. In addition, even if we prevail on these claims, this litigation could be time-consuming and expensive to defend or settle and could result in the diversion of our time and attention and of operational resources, which could materially and adversely affect our business. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products and services that use the infringed intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or
- redesign the products and services that use the technology.

If we are forced to take any of these actions, our business may be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed.

Risks Related to Our Common Stock

Our operating results can fluctuate significantly from period to period, which makes our operating results difficult to predict and can cause our operating results in any particular period to be less than comparable periods and expectations from time to time.

Our operating results have fluctuated significantly from quarter-to-quarter, period-to-period and year-to-year during our operating history and are likely to continue to fluctuate in the future due to a variety of factors, many of which are outside of our control. Certain factors that may affect our operating results include, without limitation, those set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in this Quarterly Report on Form 10-Q.

Because we have little or no control over many of these factors, our operating results are difficult to predict. Any adverse change in any of these factors could negatively affect our business and results of operations.

Our revenues, net income and other operating results are heavily dependent upon the size and timing of customer orders and projects, and the timing of the completion of those projects. The timing of our receipt of large individual orders, and of project completion, is difficult for us to predict. Because our operating expenses are based on anticipated revenues over the mid- and long-term and because a high percentage of our operating expenses are relatively fixed, a shortfall or delay in recognizing revenues can cause our operating results to vary significantly from quarter-to-quarter and can result in significant operating losses or declines in profit margins in any particular quarter. If our revenues fall below our expectations in any particular quarter, we may not be able, or it may not be prudent for us, to reduce our expenses rapidly in response to the revenue shortfall, which can result in us suffering significant operating losses or declines in profit margins in that quarter.

Due to these factors and the other risks discussed in this Quarterly Report on Form 10-Q, you should not rely on quarter-to-quarter, period-to-period or year-to-year comparisons of our results of operations as an indication of our future performance. Quarterly, period and annual comparisons of our operating results are not necessarily meaningful or indicative of future performance. As a result, it is likely that, from time to time, our results of operations or our revenue backlog could fall below historical levels or the expectations of public market analysts and investors, which could cause the trading price of our common stock to decline significantly.

Our Chairman, President and Chief Executive Officer owns a significant percentage of our common stock and will exercise significant influence over matters requiring stockholder approval, regardless of the wishes of other stockholders.

Our Chairman, President, Chief Executive Officer and Secretary, Arthur D. Sams, beneficially owns approximately 44% of our outstanding shares of common stock. Mr. Sams therefore has significant influence over management and significant control over matters requiring stockholder approval, including the annual election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. This concentrated control may limit stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our common stock could be adversely affected.

The price of our shares of common stock is volatile, and you could lose all or part of your investment.

The trading price of our shares of common stock is volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control, including limited trading volume. In addition to the factors discussed in the "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q, these factors include, without limitation:

- competition from existing technologies and products or new technologies and products that may emerge;
- the loss of significant customers, including AT&T and Verizon Wireless;
- actual or anticipated variations in our quarterly operating results;

- failure to meet the estimates and projections of the investment community or that we may otherwise provide to the public;
- our cash position;
- announcement or expectation of additional financing efforts;
- issuances of debt or equity securities;
- our inability to successfully enter new markets or develop additional products;
- actual or anticipated fluctuations in our competitors' operating results or changes in their respective growth rates;
- sales of our shares of common stock by us, or our stockholders in the future;
- trading volume of our shares of common stock on the Nasdaq Capital Market;
- market conditions in our industry;
- overall performance of the equity markets and general political and economic conditions;
- introduction of new products or services by us or our competitors;
- additions or departures of key management, engineering or other personnel;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities or industry analysts;
- changes in the market valuation of similar companies;
- disputes or other developments related to intellectual property and other proprietary rights;
- changes in accounting practices;
- significant lawsuits, including stockholder litigation; and
- other events or factors, many of which are beyond our control.

Furthermore, the public equity markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our shares of common stock.

A decline in the price of our common stock could affect our ability to raise further working capital, which could adversely impact our ability to continue operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. We may attempt to acquire a significant portion of the funds we need in order to conduct our planned operations through the sale of equity securities; thus, a decline in the price of our common stock could be detrimental to our liquidity and our operations because the decline may adversely affect investors' desire to invest in our securities. If we are unable to raise the funds we require for all of our planned operations, we may be forced to reallocate funds from other planned uses and may suffer a significant negative effect on our business plan and operations, including our ability to develop new products or services and continue our current operations. As a result, our business may suffer, and we may be forced to reduce or discontinue operations. We also might not be able to meet our financial obligations if we cannot raise enough funds through the sale of our common stock and we may be forced to reduce or discontinue operations.

We do not anticipate paying cash dividends, and accordingly, stockholders must rely on stock appreciation for any return on their investment.

We have never declared or paid cash dividends on our capital stock. We intend to retain a significant portion of our future earnings, if any, to finance the operations, development and growth of our business. Any future determination to declare dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions and other factors that our board of directors may deem relevant. As a result, only appreciation of the price of our common stock, which may never occur, will provide a return to stockholders.

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

The trading market for our shares of common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If no securities or industry analysts undertake coverage of our company, the trading price for our shares of common stock may be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our shares of common stock, changes their opinion of our shares or publishes inaccurate or unfavorable research about our business, our share price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our shares of common stock could decrease and we could lose visibility in the financial markets, which could cause our share price and trading volume to decline.

We are not subject to the provisions of Section 203 of the Delaware General Corporation Law, which could negatively affect your investment.

We elected in our certificate of incorporation to not be subject to the provisions of Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns (or, in certain cases, within three years prior, did own) 15% or more of the corporation’s voting stock. Our decision not to be subject to Section 203 will allow, for example, Arthur D. Sams, our Chairman, President, Chief Executive Officer and Secretary (who beneficially owns approximately 44% of our common stock) to transfer shares in excess of 15% of our voting stock to a third-party free of the restrictions imposed by Section 203. This may make us more vulnerable to takeovers that are completed without the approval of our board of directors and/or without giving us the ability to prohibit or delay such takeovers as effectively.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third-party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders. These provisions include:

- a requirement that special meetings of stockholders be called only by the board of directors, the president or the chief executive officer;
- advance notice requirements for stockholder proposals and nominations for election to our board of directors; and
- the authority of the board of directors to issue preferred stock on terms determined by the board of directors without stockholder approval and which preferred stock may include rights superior to the rights of the holders of common stock.

These anti-takeover provisions and other provisions in our certificate of incorporation and bylaws could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors and could also delay or impede a merger, tender offer or proxy contest involving Polar Power, Inc. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing or cause us to take other corporate actions you desire. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our bylaws, or (iv) any action asserting a claim against us governed by the internal affairs doctrine.

For the avoidance of doubt, the exclusive forum provision described above does not apply to any claims arising under the Securities Act of 1933, as amended, or the Securities Act, or the Securities Exchange Act of 1934, as amended, or the Exchange Act. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

The choice of forum provision in our bylaws may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. The applicable courts may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. With respect to the provision making the Delaware Court of Chancery the sole and exclusive forum for certain types of actions, stockholders who do bring a claim in the Delaware Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. Finally, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on us.

We are an “emerging growth company,” and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our shares of common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in this report, our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company until December 31, 2021, although circumstances could cause us to lose that status earlier. We cannot predict if investors will find our shares of common stock less attractive because we may rely on these exemptions. If some investors find our shares of common stock less attractive as a result, there may be a less active trading market for our shares of common stock and our share price may be more volatile.

Under the JOBS Act, emerging growth companies also can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act, or any subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We are required to disclose changes made in our internal controls and procedures on a quarterly basis and our management is required to assess the effectiveness of these controls annually. However, for as long as we are an “emerging growth company” under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. We could be an “emerging growth company” until December 31, 2021. An independent assessment of the effectiveness of our internal controls could detect problems that our management’s assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

We incur significant costs as a result of operating as a public company and our management expects to devote substantial time to public company compliance programs.

As a public company, we incur significant legal, accounting and other expenses due to our compliance with regulations and disclosure obligations applicable to us, including compliance with the Sarbanes-Oxley Act as well as rules implemented by the SEC and Nasdaq. The SEC and other regulators have continued to adopt new rules and regulations and make additional changes to existing regulations that require our compliance. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that have required the SEC to adopt additional rules and regulations in these areas. Stockholder activism, the current political environment, and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact, in ways we cannot currently anticipate, the manner in which we operate our business. Our management and other personnel devote a substantial amount of time to these compliance programs and monitoring of public company reporting obligations and, as a result of the new corporate governance and executive compensation related rules, regulations, and guidelines prompted by the Dodd-Frank Act and further regulations and disclosure obligations expected in the future, we will likely need to devote additional time and costs to comply with such compliance programs and rules. These rules and regulations cause us to incur significant legal and financial compliance costs and make some activities more time-consuming and costly.

To comply with the requirements of being a public company, we may need to undertake various activities, including implementing new internal controls and procedures and hiring new accounting or internal audit staff. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act, is accumulated and communicated to our principal executive and financial officers. Our current controls and any new controls that we develop may become inadequate and weaknesses in our internal control over financial reporting may be discovered in the future.

Any failure to develop or maintain effective controls could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting which we may be required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act, harm our operating results, cause us to fail to meet our reporting obligations, or result in a restatement of our prior period financial statements. In the event that we are not able to demonstrate compliance with the Sarbanes-Oxley Act, that our internal control over financial reporting is perceived as inadequate or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and the price of our common stock could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Capital Market.

We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, and are therefore not yet required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. However, we are required to comply with certain of these rules, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our next annual report. This assessment will need to include the disclosure of any material weaknesses in our internal control over financial reporting identified by our management or our independent registered public accounting firm. We are just beginning the costly and challenging process of compiling the system and processing documentation needed to comply with such requirements. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective.

Raising additional capital, including through future sales and issuances of our common stock, the exercise of warrants or the exercise of rights to purchase common stock pursuant to our equity incentive plan could result in additional dilution of the percentage ownership of our stockholders, could cause our share price to fall and could restrict our operations.

We expect that significant additional capital will be needed in the future to continue our planned operations, including any potential acquisitions, purchasing of capital equipment, hiring new personnel, and continuing activities as an operating public company. To the extent we seek additional capital through a combination of public and private equity offerings and debt financings, our stockholders may experience substantial dilution. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders may be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of our stockholders. Debt and receivables financings may be coupled with an equity component, such as warrants to purchase shares of our common stock, which could also result in dilution of our existing stockholders' ownership. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt and other operating restrictions that could adversely impact our ability to conduct our business. A failure to obtain adequate funds may cause us to curtail certain operational activities, including sales and marketing, in order to reduce costs and sustain the business, and would have a material adverse effect on our business and financial condition.

Under our 2016 Omnibus Stock Incentive Plan, as amended, or 2016 Plan, we may grant equity awards covering up to 1,754,385 shares of our common stock. As of September 30, 2021, we had granted options to purchase an aggregate of 140,000 shares of common stock under the 2016 Plan. We have registered 1,754,385 shares of common stock available for issuance under our 2016 Plan. Sales of shares issued upon exercise of options or granted under our 2016 Plan may result in material dilution to our existing stockholders, which could cause our share price to fall.

Our issuance of shares of preferred stock could adversely affect the market value of our common stock, dilute the voting power of common stockholders and delay or prevent a change of control.

Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, up to 5,000,000 shares of preferred stock in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series.

The issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. For example, investors in the common stock may not wish to purchase common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase common stock at the lower conversion price causing economic dilution to the holders of common stock.

Further, the issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of our other classes of voting stock either by diluting the voting power of our other classes of voting stock if they vote together as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote even if the action were approved by the holders of our other classes of voting stock. The issuance of shares of preferred stock may also have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders, even where stockholders are offered a premium for their shares.

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

None.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosure.

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Reference is made to the exhibits listed on the Index to Exhibits.

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief 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
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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.

Date: November 15, 2021

POLAR POWER, INC.

By: /s/ Arthur D. Sams

Arthur D. Sams

President, Chief Executive Officer and Secretary

CERTIFICATION

I, Arthur D. Sams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Polar Power, 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: November 15, 2021

/s/ Arthur D. Sams

Arthur D. Sams
President, Chief Executive Officer and Secretary
(Principal Executive Officer)

CERTIFICATION

I, Luis Zavala, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Polar Power, 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: November 15, 2021

/s/ Luis Zavala

Luis Zavala
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND 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 on Form 10-Q of Polar Power, Inc. (the "Company") for the quarterly period ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify in their capacities as the Chief Executive Officer and the Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 15, 2021

/s/ Arthur D. Sams

Arthur D. Sams
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Luis Zavala

Luis Zavala
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
