

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Proposed Maximum Aggregate Offering Price (1)(2) | Amount of Registration Fee |
|---|---|---------------------------------------|
| Common stock, \$0.0001 par value per share | \$ 17,250,000 | \$ 1,737.08 |
| Representative's Warrants to purchase common stock | —(3) | — |
| Shares of common stock underlying Representative's Warrants | \$ 1,078,125(4) | \$ 108.57 |
| Total | \$ 18,328,125 | \$ 1,845.65 |

- (1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of additional shares of common stock that shall be issuable pursuant to Rule 416 to prevent dilution resulting from stock splits, stock dividends or similar transactions.
- (2) The registration fee for securities to be offered by the Registrant is based on an estimate of the Proposed Maximum Aggregate Offering Price of the securities, and such estimate is solely for the purpose of calculating the registration fee pursuant to Rule 457(o). Includes shares that the underwriters have the option to purchase from the Registrant to cover over-allotments, if any.
- (3) We have agreed to issue warrants exercisable within five years after the effective date of this registration statement representing 5% of the securities issued in the offering (the "Representative's Warrants") to Joseph Gunnar & Co., LLC. The Representative's Warrants are exercisable at a per share price equal to 125% of the common stock public offering price. Resales of the Representative's Warrants on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, are registered hereby. Resales of shares issuable upon exercise of the Representative's Warrants are also being similarly registered on a delayed or continuous basis hereby. See "Underwriting." In accordance with Rule 457(g) under the Securities Act, because the shares of the Registrant's common stock underlying the Representative's Warrants are registered hereby, no separate registration fee is required with respect to the warrants registered hereby.
- (4) Represents the maximum number of shares of the Registrant's common stock issuable upon exercise of the Representatives' Warrants.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell, and is not a solicitation of an offer to buy, these securities in any state in which an offer, solicitation, or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION

DATED SEPTEMBER 9, 2016

Shares Common Stock



Polar Power, Inc.

This is a firm commitment initial public offering of _____ shares of our common stock. Prior to this offering, there has been no public market for our common stock. We expect the initial public offering price will be between \$ _____ and \$ _____ per share.

We intend to apply to list our common stock on the NASDAQ Capital Market, or NASDAQ, under the symbol "POLA." No assurance can be given that our application will be approved.

Following this offering, our Chairman, President and Chief Executive Officer will control approximately _____ % of the voting power of our common stock (assuming no exercise of the underwriters' option to purchase additional shares, and the purchase of \$ _____ million of shares in this offering described below). As a result of his ownership, he will be able to control any action requiring the general approval of our stockholders, including the election of our board of directors, the adoption of amendments to our certificate of incorporation and bylaws and the approval of any merger or sale of substantially all of our assets. We will be a "controlled company" within the meaning of NASDAQ's corporate governance rules. See "Management—Controlled Company Exemption."

We are an "emerging growth company" as defined under the federal securities laws, and as such, may elect to comply with certain reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 10 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

| | Per Share | Total (1) |
|--|-----------|-----------|
| Public offering price | \$ _____ | \$ _____ |
| Underwriting discounts and commissions (2) | \$ _____ | \$ _____ |
| Proceeds, before expenses, to us | \$ _____ | \$ _____ |

- (1) Assumes no exercise of the underwriters' option to purchase additional shares of our common stock described below.
- (2) We refer you to "Underwriting" beginning on page 103 of this prospectus for additional information regarding total underwriting compensation.

We have granted the underwriters an option, exercisable one or more times in whole or in part, to purchase up to _____ additional shares of common stock from us at the public offering price, less the underwriting discount, within 45 days from the date of this prospectus to cover over-allotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable will be \$ _____, and the total proceeds to us, before expenses, will be \$ _____.

The underwriters expect to deliver the shares of common stock against payment on or about _____, 2016.

Joseph Gunnar & Co.

The date of this prospectus is _____, 2016.



CHANGING THE WAY WE GENERATE AND CONSUME ENERGY

Reliable low cost power for Telecommunications

- Hybrid Solar Energy Systems
- Temporary Power and Rental
- Backup DC Generators
- Prime Power Systems

Marine & RV
Hybrid Electric Propulsion



Specialty Hybrid Vehicles

- Lithium Batteries
- DC Charger



Military

- Auxiliary DC Power &
- Advanced Mobile Power Source



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You should rely only on the information contained in this prospectus or contained in any free writing prospectus filed with the Securities and Exchange Commission, or the SEC. Neither we nor the underwriters have authorized anyone to provide you with different information, and we take no responsibility for any other information others may give you. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell, or soliciting an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

For investors outside the United States: neither we nor any of the underwriters have taken any action to permit a public offering of the shares of our common stock or the possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside the United States.

This prospectus includes statistical and other industry and market data that we obtained from our own internal estimates, industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third-party research, surveys and studies are reliable, we have not independently verified such data. Accordingly, you are cautioned not to give undue weight to such information.

Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances that are assumed in this information. In some cases, we do not expressly refer to the sources from which this data is derived. In that regard, when we refer to one or more sources of this type of data in any paragraph, you should assume that other data of this type appearing in the same paragraph is derived from the same sources, unless otherwise expressly stated or the context otherwise requires.

EXPLANATORY NOTE

Polar Power, Inc., the registrant whose name appears on the cover page of this registration statement, is a California corporation. Prior to the sale and issuance of any shares of common stock subject to this registration statement, Polar Power, Inc. will reincorporate as a Delaware corporation and will retain its current name, Polar Power, Inc. References to the registrant in the prospectus included in this registration statement are to Polar Power, Inc., a Delaware corporation.

PROSPECTUS SUMMARY

This summary highlights selected information included elsewhere in this prospectus and does not contain all of the information you should consider before buying shares of our common stock. You should read the entire prospectus carefully, especially the “Risk Factors” section and our financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock. Some of the statements in this prospectus constitute forward-looking statements. See “Cautionary Note Regarding Forward-Looking Statements.” Unless the context requires otherwise, references in this prospectus to “our company,” “Polar,” “we,” “us” and “our” refer, prior to the reincorporation, to Polar Power, Inc., a California corporation, and, after the reincorporation, to Polar Power, Inc., a Delaware corporation.

Our Company

Overview

We design, manufacture and sell direct current, or DC, power systems for applications in the telecommunications, military, electric vehicle charging, cogeneration, distributed power and uninterruptable power supply markets. Our systems provide reliable and low-cost energy to service applications that do not have access to the utility grid (i.e., off-grid applications) or have critical power needs and cannot be without power in the event of utility grid failure (i.e., back-up power applications). Our product offerings include the following:

- **DC base power systems.** These systems integrate our DC generator with automated controls that are programmed to efficiently charge various battery chemistries to provide backup energy during a power failure. In addition, these systems are also used to provide prime power in off-grid and bad-grid locations to power DC loads in telecommunications towers.
- **DC hybrid power systems.** These systems combine our DC base power systems with lithium-ion batteries (or other advanced battery chemistries) to efficiently store energy from DC generator, grid and solar photovoltaic systems. Our DC hybrid power system replaces lead acid systems with a longer-life and higher efficiency lithium batteries equipped with our proprietary battery management system, or BMS, which protects batteries from being over charged or over discharged during daily use.
- **DC solar hybrid power systems.** In remote off-grid and bad-grid applications fuel costs of a generator is a significant part of the overall operation cost. Our DC solar hybrid power systems produce and store lower cost energy generated by the solar panels into lithium batteries, thereby reducing overall fuel costs.

Our DC power systems are remotely monitored by our global network management tool using our proprietary software technology, allowing us and our customers to collect performance data and update our products remotely.

Through our direct sales force and a network of independent service providers and dealers, we install, sell and service our products primarily to customers that operate within the telecommunications, military, electric vehicle charging, cogeneration, distributed power and uninterruptable power supply markets. In addition, we have established strategic relationships with local service partners in international markets to jointly promote, distribute and service our products.

Our Competitive Strengths

Over the past 30 years, we have invested significant capital and engineering expertise to develop proprietary technologies and products that capitalize on the growing trend towards environmentally friendly and fuel efficient power generation systems. We further believe our success will be based on the following key competitive strengths:

- **Proprietary Technologies.** Our research and development efforts since our inception in 1979 have resulted in the development of DC power systems with proprietary software and controls that are configured to meet the specific needs of our customers. In addition, we have invested significant resources in developing technologies that improve fuel efficiency and generate lower emissions than conventional solutions available in the marketplace.
- **Engineering Expertise.** We have a customer-centric approach, and we continually strive to design products that target specific application performance requirements. We believe our direct sales and service approach gives us an advantage in determining the customer needs, thereby providing us early insight into future market trends.
- **Manufacturing Competitiveness.** We believe that our vertical integration approach to manufacturing lowers our production costs and improves our overall operational efficiency. In addition, vertically integrated manufacturing of our proprietary components provides us greater control and intellectual property protection over our production processes.
- **Strong Customer Base.** Currently, our products are being used by several of the largest telecommunications providers, including Verizon, AT&T and Telstra. Additionally, we work directly with the U.S. Department of Defense and defense contractors, leading automobile manufacturers and large utility operators.
- **Experienced Management Team.** Our President and Chief Executive Officer and key engineers each have over 25 years of engineering and production experience in the design and manufacturing of power systems.
- **Supply Chain Competitiveness.** We believe we have a well-developed network of reliable, low-cost global suppliers. Our growth in volume has enabled us to source components directly from manufacturers with favorable terms.

Our Growth Strategy

We believe that the increased growth in use of electronic devices and components in the telecommunications, military, automotive and industrial markets has led to the rapid growth in demand for DC power in both grid connected and off-grid applications. Our decades of experience in design and manufacturing of DC power systems, combined with our 30-year reputation in the industry, provides us with an unprecedented opportunity to address the growing demand for DC power systems. The primary elements of our growth strategy include:

- **Further develop U.S. mobile telecommunications market.** We plan to increase our direct sales infrastructure nationwide to promote our DC power systems to all the regions in the U.S., including mid-level mobile telecommunications tower service companies. We also plan to qualify additional independent telecommunications tower service providers to increase our aftermarket service infrastructure nationwide.
- **Expand DC power systems sales into new geographic markets.** We believe a significant opportunity exists for sales of our DC power systems to telecommunication customers located in developing nations, such as India, China and Sub-Saharan Africa. To successfully penetrate international markets, we plan to establish subsidiaries in South Asia, Africa and Australia to conduct sales and service and when needed, we plan to incorporate final assembly operations to reduce non-value added costs. We are also actively pursuing strategic partnerships with established mobile telecommunications tower service companies located in Latin America, and Eastern Europe. Furthermore, we anticipate venturing into other developing global markets by partnering with local service partners to rent and lease our products.
- **Develop higher power DC power systems.** We are in the process of developing higher power DC power systems that will include solar hybrid systems for prime and backup power. We believe that higher power DC power systems will provide us with an opportunity to increase our customer base within the industrial, military, hospitality, data center, agriculture and telecommunications markets. We plan to enhance and further develop our existing proprietary alternator and control technologies to increase power output capacity up to 200 kilowatts, or kW.
- **Expand renewable solar energy product offerings.** We plan to expand our DC solar hybrid power system product line to address off-grid and bad-grid applications in telecommunications, eco-resorts and military markets worldwide. Our expanded product line will be comprised of systems ranging from 10 kW to 200 kW that will be available in either low voltage or high voltage configurations and designed for outdoor installations. We plan to target power markets in India and Sub-Saharan Africa where local governments are incentivizing the use of renewable energy within the telecommunications industry through favored spectrum auctions and tax incentives.
- **Enter power rental market.** We plan to introduce equipment rental program to enter the energy provider market in the telecommunication tower industry. We plan to target telecommunications tower installations located in the remote outdoor locations with high fuel and maintenance costs. We believe the market is rapidly transitioning towards independent energy providers managing all the power and energy assets at telecommunications tower sites. We believe our longer product life, higher energy efficiency combined with proprietary remote performance tracking telematics tools allows us to efficiently manage and monitor our assets, thereby providing us with lower life cycle cost than our competitors.

Risks Associated with Our Business

Our business is subject to numerous risks, as more fully described in the section entitled “Risk Factors” on page 10 of this prospectus. You should read this risk before you invest in our common stock. We may be unable, for many reasons, including those that are beyond our control, to implement our business strategy. In particular, risks associated with our business include:

- We are dependent on a limited number of customers.
- To date, we have derived a significant percentage of our revenue from a limited number of products and markets. Our efforts to expand our product portfolio may not succeed, 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 high concentration of our sales within the telecommunications industry could result in a significant reduction in sales and negatively affect our profitability if demand for our DC power systems declines.
- We may need to raise additional capital to fund our international operations, commercialize new products and further expand our existing operations.
- If we are unable to continue to develop new and enhanced products and technologies that achieve market acceptance in a timely manner, our competitive position and operating results could be harmed.
- 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 Chairman, President and Chief Executive Officer owns and will own after this offering a majority of our common stock and will exercise significant influence over matters requiring stockholder approval, regardless of the wishes of other stockholders.

Implications of Being an Emerging Growth Company

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least \$1.0 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our shares of common stock that are held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. We refer to the Jumpstart Our Business Startups Act of 2012 in this prospectus as the “JOBS Act,” and references in this prospectus to “emerging growth company” shall have the meaning associated with it in the JOBS Act.

As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

- only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure in this prospectus;
- reduced disclosure about our executive compensation arrangements;
- no requirement that we hold non-binding advisory votes on executive compensation or golden parachute arrangements; and

· exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting.

We have elected to adopt certain reduced disclosure requirements for purposes of the registration statement of which this prospectus is a part. In addition, for so long as we qualify as an emerging growth company, we expect to take advantage of certain of the reduced reporting and other requirements of the JOBS Act with respect to the periodic reports we will file with the SEC and proxy statements that we use to solicit proxies from our stockholders. As a result, the information contained in this prospectus and in our periodic reports and proxy statements may be different than the information provided by other public companies.

In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to 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 exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Corporate Information

We were incorporated in Washington as Polar Products, Inc. in 1979. On October 9, 1991, we reincorporated in the State of California and changed our name to Polar Power, Inc. Prior to the completion of this offering, we will reincorporate in the State of Delaware as Polar Power, Inc. Our principal executive offices are located at 249 E. Gardena Boulevard, Gardena, California 90248. Our telephone number is (310) 830-7310. Our Internet website addresses are www.polarpower.com and www.polarpowerinc.com. The information contained on, or that can be accessed through, our website is not a part of this prospectus. We have included our website addresses in this prospectus solely as an inactive textual reference.

The Offering

| | |
|--|---|
| Common stock offered by us: | shares (shares if the underwriters exercise their option to purchase additional shares in full) |
| Assumed initial public offering price: | \$ (the midpoint of the range set forth on the cover page of this prospectus) per share of common stock. |
| Common stock outstanding prior to the offering: | shares |
| Common stock to be outstanding after the offering: | shares (shares if the underwriters exercise their option to purchase additional shares in full) |
| Underwriters' Over-Allotment Option | We have granted the representative of the underwriters an option, exercisable one or more times in whole or in part, to purchase up to an additional shares of common stock from us at the public offering price less the underwriting discount within 45 days from the date of this prospectus to cover over-allotments. |
| Use of proceeds: | <p>We estimate that the net proceeds from the sale of shares of our common stock that we are selling in this offering will be approximately \$ million (or approximately \$ million if the underwriters' option to purchase additional shares of common stock in this offering is exercised in full), based upon an assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.</p> <p>We intend to use the net proceeds from this offering for new product research and development, existing product development and commercialization, the development of international markets, the manufacturing of rental units for use in the U.S. telecommunications markets, the purchase of raw materials and component parts with long lead times, and for general corporate purposes. See "Use of Proceeds" on page 34.</p> |
| Lock-up: | Prior to the completion of this offering, we, each of our officers, directors, and all of our stockholders will agree, subject to certain exceptions, not to sell, offer, agree to sell, contract to sell, hypothecate, pledge, grant any option to purchase, make any short sale of, or otherwise dispose of or hedge, directly or indirectly, any units, shares of common stock, or any securities convertible into or exercisable or exchangeable for shares of common stock, for a period of (i) 12 months after the date of this prospectus in the case of our directors and officers and (ii) 180 days after the date of this prospectus in the case of the Company and any other holder of our outstanding securities, without the prior written consent of the representative. See "Underwriting" for additional information. |

Risk Factors: Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 10 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

Proposed NASDAQ Capital Market symbol: We intend to apply to list our common stock on the NASDAQ Capital Market under the symbol “POLA.”

Transfer Agent and Registrar: [•]

The number of shares of our common stock to be outstanding after this offering is based on:

- shares of our common stock outstanding on , 2016; and
- shares of common stock to be issued and sold by us in this offering.

The number of shares of our common stock to be outstanding after this offering excludes as of , 2016:

- shares of common stock reserved for future issuance under the Polar Power, Inc. 2016 Omnibus Incentive Plan, or the 2016 Plan, which will become effective simultaneously with the completion of this offering; and
- an aggregate of shares of common stock issuable upon exercise of the warrants issued to the representative of the underwriters in connection with this offering.

Except as otherwise indicated herein, all information in this prospectus:

- reflects a one-for- reverse stock split of our shares of common stock that will be effected in connection with our reincorporation in the State of Delaware prior to the completion of this offering;
- reflects or assumes the filing and effectiveness of our certificate of incorporation in the State of Delaware and the adoption of our bylaws, which will occur prior to completion of this offering;
- assumes no exercise of the underwriters’ option to purchase up to an additional shares of common stock to cover over-allotments, if any; and
- assumes no exercise of the representative’s warrants.

Summary Financial Information

The following summary historical financial information as of December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014, has been derived from our audited financial statements included elsewhere in this prospectus. The following summary historical financial information as of June 30, 2016, and for the six months ended June 30, 2016 and 2015, has been derived from our unaudited interim financial statements included elsewhere in this prospectus. The unaudited interim financial statements have been prepared on the same basis as our audited financial statements and, in the opinion of our management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this information.

Our historical results are not necessarily indicative of the results that may be achieved in any future period, and results for any interim period are not necessarily indicative of the results to be expected for the full year. The summary financial information should be read together with our financial statements and related notes included elsewhere in this prospectus, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 38. Our audited annual financial statements and unaudited interim financial statements have been prepared in U.S. dollars in accordance with United States generally accepted accounting principles, or U.S. GAAP.

| | Six Months Ended June 30, (unaudited) | | Years Ended December 31, | |
|--|--|--------------------|-------------------------------------|-------------------|
| | 2016 | 2015 | 2015 | 2014 |
| Net sales | \$ 8,066,282 | \$ 2,133,148 | \$ 6,846,759 | \$ 5,201,304 |
| Cost of sales | 5,177,297 | 1,513,178 | 4,433,494 | 3,287,625 |
| Gross profit | <u>2,888,985</u> | <u>619,970</u> | <u>2,413,265</u> | <u>1,913,679</u> |
| Research and development expenses | 89,134 | 56,935 | 116,297 | 108,559 |
| Sales and marketing expenses | 182,194 | 193,875 | 392,306 | 191,791 |
| General and administrative expenses | 788,453 | 310,288 | 1,454,563 | 553,105 |
| Depreciation and amortization expenses | 96,580 | 65,459 | 143,573 | 94,999 |
| Total operating expenses | <u>1,156,361</u> | <u>626,557</u> | <u>2,106,739</u> | <u>948,454</u> |
| Income (loss) from operations | 1,732,624 | (6,587) | 306,526 | 965,225 |
| Interest expense | (63,791) | (44,728) | (50,971) | (44,927) |
| Other expense | — | (32,192) | (15,325) | (54,712) |
| Income (loss) before income taxes | 1,668,833 | (83,507) | 240,230 | 865,586 |
| Provision for income taxes | <u>(730,144)</u> | <u>—</u> | <u>(273,569)</u> | <u>(290,338)</u> |
| Net income (loss) | <u>\$ 938,689</u> | <u>\$ (83,507)</u> | <u>\$ (33,339)</u> | <u>\$ 575,248</u> |
| Net Income (loss) attributable to common stockholders | | | | |
| Net income (loss) per share — basic and diluted | | | | |
| Weighted average shares outstanding — basic and diluted | | | | |
| Pro forma net income per share — basic and diluted (unaudited) | | | | |
| Pro forma weighted average common shares outstanding — basic and diluted (unaudited) | | | | |

The following summary balance sheet data as of June 30, 2016 is presented:

- on an actual basis;
- on a pro forma basis after giving effect to the sale of _____ shares of common stock in this offering at an assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

| | As of June 30, 2016 (unaudited) | | As of December 31, | |
|--|------------------------------------|-----------------------------|-----------------------|------------|
| | 2016 | Pro Forma ⁽¹⁾ | 2015 | 2014 |
| Balance Sheet Data: | | | | |
| Cash and cash equivalents | \$ 200,859 | | \$ 263,418 | \$ 553,492 |
| Other current assets | 6,815,501 | | 3,682,877 | 1,636,812 |
| Other long-term assets | 1,024,039 | | 836,836 | 722,695 |
| Total assets | 8,040,399 | | 4,783,132 | 2,917,999 |
| Accounts payable, accrued expenses and other current liabilities | 4,527,251 | | 2,400,958 | 1,514,680 |
| Other long-term liabilities | 282,625 | | 127,840 | 197,541 |
| Common stock | 2,286,395 | | 2,248,895 | 1,167,000 |
| Retained earnings | 944,128 | | 5,439 | 38,778 |
| Total stockholders' equity | 8,040,399 | | 4,783,132 | 2,917,999 |

(1) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase (decrease) each of pro forma as adjusted cash and cash equivalents, total assets and total stockholders' equity (deficit) by approximately \$ _____ million, \$ _____ million and \$ _____ million, respectively, assuming that the number of shares we are offering, as set forth on the cover page of this prospectus, remains the same and the underwriters do not exercise their over-allotment option. Depending on market conditions and other considerations at the time we price this offering, we may sell a greater or lesser number of shares than the number set forth on the cover page of this prospectus. An increase (decrease) of 1.0 million shares in the number of shares we are offering would increase (decrease) each of pro forma as adjusted cash and cash equivalents, total assets and total stockholders' equity (deficit) by approximately \$ _____ million, \$ _____ million and \$ _____ million, respectively, assuming an initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions payable by us. An increase of 1.0 million shares in the number of shares we are offering, together with a \$1.00 increase in the public offering price per share, would increase each of pro forma as adjusted cash and cash equivalents, total assets and total stockholders' equity (deficit) by approximately \$ _____ million, \$ _____ million and \$ _____ million, respectively. A decrease of 1.0 million shares in the number of shares we are offering, together with a \$1.00 decrease in the public offering price per share, would decrease each of pro forma as adjusted cash and cash equivalents, total assets and total stockholders' equity (deficit) by approximately \$ _____ million, \$ _____ million and \$ _____ million, respectively.

RISK FACTORS

Investing in shares of our common stock involves a high degree of risk. You should carefully consider the risks described below, together with the other information contained in this prospectus, including our financial statements and the related notes appearing at the end of this prospectus, before making your decision to invest in shares of our common stock. We cannot assure you that any of the events discussed in the risk factors below will not occur. These risks could have a material and adverse impact on our business, results of operations, financial condition or prospects. If that were to happen, the trading price of our common stock could decline, and you could lose all or part of your investment.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus. See "Cautionary Note Regarding Forward-Looking Statements" for information relating to these forward-looking statements.

Risks Related to Our Financial Position and Need for Additional Capital

We may need to raise additional capital to fund our international operations, commercialize new products and further expand our existing operations.

Based on our current business plan, we believe the net proceeds from this offering, together with our current cash, cash equivalents, marketable securities, and our ability to borrow from our senior secured lender, will be sufficient to meet our anticipated cash requirements over at least the next 12 months. If our available cash balances, net proceeds from this offering and anticipated cash flow from operations are insufficient to satisfy our liquidity requirements, we may seek to sell common or preferred equity or convertible debt securities, enter into a new or amended credit facility or another form of third-party funding, or seek other debt financing.

We may consider raising additional capital in the future to further expand our business, to pursue strategic investments, to take advantage of financing opportunities, or for other reasons. We need additional liquidity and capital resources through debt and/or equity financings to fulfill our anticipated future product backlog. We may not be able to obtain adequate financing in a timely manner, on commercially reasonable terms or at all. Our failure to raise sufficient capital in a timely manner will restrict our growth and hinder our ability to compete. Our failure to obtain timely and adequate capital could have a material adverse effect on our business, financial condition and results of operations.

No assurances can be given that we will be successful in obtaining additional financing in the future. Any future financing that we may obtain may cause significant dilution to existing stockholders. Any debt financing or other financing of securities senior to our common stock that we are able to obtain will likely include financial and other covenants that will restrict our flexibility. At a minimum, we expect these covenants to include restrictions on our ability to pay dividends on our common stock. Any failure to comply with these covenants would have a material adverse effect on our business, prospects, financial condition, results of operations, and cash flows.

If adequate funds are not available, we may be required to delay, scale back or eliminate portions of our operations and product development efforts or to obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain of our technologies or potential products or other assets. Accordingly, the inability to obtain such financing could result in a significant loss of ownership and/or control of our proprietary technology and other important assets and could also adversely affect our ability to fund our continued operations and our development efforts and adversely affect our business.

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 prospectus.

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 (loss) 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 prospectus, 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 revolving line of credit facility with our senior secured lender contains certain affirmative and negative covenants that could restrict the manner in which we conduct business and, if we fail to comply with such covenants, it could restrict our ability to access the full amount available under the credit facility and result in the acceleration of the debt extended, if any, pursuant to such credit facility.

Our revolving line of credit facility with our senior secured lender provides us with a \$2.0 million line of credit for working capital and is secured by substantially all of the assets used in our continuing operations, contains certain financial covenants and other restrictions applicable to us which could reduce our flexibility in conducting our operations by limiting our ability to borrow money and may create a risk of default on our debt if we cannot continue to satisfy those covenants.

If we default in any of the affirmative or negative covenants applicable to us or otherwise default in the credit facility, the lender could, among other things, declare a default, accelerate the maturity date of any outstanding indebtedness and, if we are unable to repay, exercise its rights under the credit facility to, among other things, foreclose on our assets.

Risks Related to Our Business and Industry

We are dependent on a limited number of customers.

Currently, the majority of our revenues are derived from one customer. Revenues from our largest customer comprised 88% and 81% of our total revenues for the six months ended June 30, 2016 and the year ended December 31, 2015, respectively. We expect this trend to continue for the foreseeable future. An unfavorable change in our business relationship with our significant customer, or delays in customer implementation and deployment of our products, could have a material adverse effect on results of operation and financial condition.

To date, we have derived a significant percentage of our revenue from a limited number of products and markets. Our efforts to expand our product portfolio may not succeed, and may reduce our revenue growth rate.

To date, we have derived significant percentage of our revenue from a limited number of products and markets. Any factor adversely affecting sales of one or more of these products within these markets, 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. Our plan to expand our product offerings and the markets we serve may not be successful, which may harm the growth of our business and our results of operations.

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, our customers often require a significant technical review, tests and evaluations over long periods of time, 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 our 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 our customer and revenue from sales of that product. The length of this process combined with unanticipated delays in the development cycle could materially affect 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 high concentration of our sales within the telecommunications industry could result in a significant reduction in sales and negatively affect our profitability if demand for our DC power systems declines.

We expect to be predominately focused on the manufacturing, marketing and sales of DC power systems to telecommunications companies for the foreseeable future. We may be unable to shift our business focus away from these activities. Accordingly, the emergence of new competing DC power products may reduce the demand for our products. A downturn in the demand for our DC power systems within the telecommunications industry would likely materially and adversely affect our sales and profitability.

Any failure by management to properly manage our expected rapid growth could have a material adverse effect on our business, operating results and financial condition.

We anticipate that we will continue to grow rapidly in the near future. The growth of our business will require significant investments of capital and management's close attention. Our strategy envisions a period of growth that may impose a significant burden on our administrative, financial, and operational resources. If we experience difficulties in any of these areas, we may not be able to expand our business successfully or effectively manage our growth. Our ability to effectively manage our growth will require us to substantially expand the capabilities of our administrative and operational resources and to attract, train, manage and retain qualified management, engineers, and other personnel. We may be unable to do so. Further, our failure to properly manage our expected rapid growth could have a material adverse effect on our ability to retain key personnel. In addition, our failure to successfully manage our growth could result in our sales not increasing commensurately with our capital investments. Any failure by management to manage growth and to respond to changes in our business could have a material adverse effect on our business, financial condition and results of operations.

The industries 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 continue to grow rapidly 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 alternating current, or AC, power systems. If we are unable to fulfill the growing demand for products and services in a timely manner, our customers and potential customers may choose to purchase 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, including the telecommunications and renewable energy industries, in particular. 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 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 enhancements 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.

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 three key engine suppliers, Isuzu Motors, Yanmar and Kubota Corporation. Sales of our power systems incorporating engines from Isuzu, Yanmar and Kubota represented approximately 10%, 0% and 2% of our total sales for the total sales for 2014, respectively, and represented approximately 6%, 9% and 15% of our total sales for 2015, respectively. 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 to supply engines that meet our quality, quantity or cost requirements, or were to discontinue manufacturing any engines we source from them or providing any such engines to us, 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. 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 OEM 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.

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 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 adverse effect on 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 outlined may significantly increase material costs of our products. 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 is disrupted or our lead times extended, our business, results of operations or financial condition could be materially adversely affected.

We manufacture and assemble a majority of our products at one facility. 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 facility located in Gardena, California. Any prolonged disruption in the operations of our manufacturing and assembly facility, whether due to equipment or information technology infrastructure failure, labor difficulties, destruction of or damage to this facility 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 facility, 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.

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 current 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 in, without limitation, Australia, India, Africa and Latin America. In 2015 and 2014, our sales to international customers accounted for 2% and 27%, respectively, of total revenue. We expect that a significant portion of our future international sales will be from 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. 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:

- 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.

Failures or security breaches of our networks or information technology systems could have an adverse effect on our business.

We rely heavily on information technology, or IT, both in our products and services for customers and in our IT systems. Further, we collect and store sensitive information in our data centers and on our networks. Government agencies and security experts have warned about growing risks of hackers, cyber-criminals, malicious insiders and other actors targeting confidential information and all types of IT systems. These actors may engage in fraudulent activities, theft of confidential or proprietary information and sabotage.

Our IT systems and our confidential information may be vulnerable to damage or intrusion from a variety of attacks including computer viruses, worms or other malicious software programs. These attacks pose a risk to the security of the products, systems and networks of our customers, suppliers and third-party service providers, as well to the confidentiality of our information and the integrity and availability of our data. While we attempt to mitigate these risks through controls, due diligence, training, surveillance and other measures, we remain vulnerable to information security threats.

Despite the precautions we take, an intrusion or infection of our systems could result in the disruption of our business, loss of proprietary or confidential information, or injuries to people or property. Similarly, an attack on our IT systems could result in theft or disclosure of trade secrets or other intellectual property or a breach of confidential customer or employee information. Any such events could have an adverse impact on sales, harm our reputation and cause us to incur legal liability and increased costs to address such events and related security concerns. As the threats evolve and become more potent, we may incur additional costs to secure the products that we sell, as well as our data and infrastructure of networks and devices.

Ongoing adverse economic conditions, including weak or deteriorating business and market conditions and volatile and uncertain financial and capital markets, or significant downturns in the industries in which we operate, could materially and adversely affect our business and financial results in future periods.

The U.S. and world economies continue to suffer from uncertainty, volatility, disruption and other adverse conditions, and those conditions continue to adversely impact the business community and the financial markets. There is no assurance when or the extent to which these economic and business conditions will improve in the future. These adverse economic and financial market conditions may negatively affect our customers and our markets, and thus negatively impact our business and results of operations. For example, weak market conditions could extend the length of our sales cycle and cause potential customers to delay, defer or decline to make purchases of our products and services due to uncertainties surrounding the future performance of their businesses, limitations on their capital expenditures due to internal budget constraints, the inability to obtain financing in the capital markets, and the adverse effects of the economy on their business and financial condition. As a result, if economic and financial market conditions continue to be weak or even deteriorate, then our business, financial condition and results of operations, including our ability to grow and expand our business and operations, could be materially and adversely affected.

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 and This Offering

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

Based upon the assumed number of shares of common stock to be sold in this offering as set forth on the cover page of this prospectus, our Chairman, President and Chief Executive Officer, Arthur D. Sams, will beneficially own approximately % of our outstanding shares of common stock (assuming no exercise of the underwriters' option to purchase additional shares) after this offering. Mr. Sams will therefore have 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 will 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.

We are a “controlled company” within the meaning of the NASDAQ Listing Rules. Although we do not currently intend to rely on the exemptions from certain corporate governance requirements afforded to a “controlled company” under NASDAQ Listing Rules, we could potentially seek to rely on such exemptions in the future.

Upon the completion of this offering, our Chairman, President and Chief Executive Officer, Arthur D. Sams, will continue to control a majority of our common stock. As a result, we are a “controlled company” within the meaning of the NASDAQ Listing Rules. Under these rules, a company of which more than 50% of the voting power for the election of directors is held by an individual, a group or another company is a “controlled company” and may elect not to comply with certain NASDAQ corporate governance requirements, including, without limitation (i) the requirement that a majority of the board of directors consist of independent directors, (ii) the requirement that the compensation of our officers be determined or recommended to our board of directors by a compensation committee that is comprised solely of independent directors, and (iii) the requirement that director nominees be selected or recommended to the board of directors by a majority of independent directors or a nominating committee comprised solely of independent directors. We do not currently intend to rely on those exemptions afforded to a “controlled company.” Nonetheless, in the future, we could potentially seek to rely on certain of those exemptions afforded to a “controlled company,” and in such case, you would not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock. Therefore, if you purchase shares of our common stock in this offering, you will pay a price per share that substantially exceeds our net tangible book value per share after this offering. Based on the assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, you will experience immediate dilution of \$ per share, representing the difference between our pro forma net tangible book value per share after giving effect to this offering and the assumed initial public offering price. Purchasers of common stock in this offering will have contributed approximately percent of the aggregate price paid by all purchasers of our stock but will own only approximately percent of our common stock outstanding after this offering, excluding any shares of our common stock that they may have acquired prior to this offering. Furthermore, if the underwriters exercise their over-allotment option, you will experience further dilution. For a further description of the dilution that you will experience immediately after this offering, see “Dilution.”

No public market for our common stock currently exists and an active trading market may not develop or be sustained following this offering.

Prior to this offering, there has been no public market for our common stock. The initial public offering price for our common stock will be determined through negotiations with the underwriters. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our shares following this offering. Although we intend to apply to list our common stock on NASDAQ, an active trading market for our shares may never develop or, if developed, be maintained following this offering. If an active market for our common stock does not develop or is not maintained, it may be difficult for you to sell shares you purchase in this offering without depressing the market price for the shares or at all. An inactive trading market also may impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration. The lack of an active market also may reduce the fair market value of your shares.

We have broad discretion in the use of net proceeds from this offering and may not use them effectively.

Although we currently intend to use the net proceeds from this offering in the manner described in “Use of Proceeds” elsewhere in this prospectus, we will have broad discretion in the application of the net proceeds and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these net proceeds effectively could result in financial losses that could have a material adverse effect on our business, cause the price of our common stock to decline and delay the expansion of our business. Pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value.

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

The trading price of our shares of common stock is likely to be 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 prospectus, 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 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 NASDAQ;
- 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, scientific 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. If the market price of our shares of common stock after this offering does not exceed the initial public offering price, you may not realize any return on your investment in us and may lose some or all of your investment.

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 will depend, 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 commence 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.

A significant portion of our total outstanding shares of common stock is restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares of common stock intend to sell shares, could reduce the market price of our common stock. As of September 7, 2016, our Chairman, President and Chief Executive Officer, Arthur D. Sams, beneficially owned approximately 76% of our outstanding common stock. If Mr. Sams were to sell a substantial portion of the shares he holds, it could cause our stock price to decline. Based on shares outstanding as of _____, upon completion of this offering, we will have _____ outstanding shares of common stock, assuming no exercise of the underwriters' over-allotment option to purchase additional shares. This includes the _____ shares that we are selling in this offering. As of the date of this prospectus, of the remaining shares, approximately _____ shares of common stock will be subject to a 180-day contractual lock-up with the underwriters.

We intend to register, in a separate registration statement, _____ shares of common stock that we may issue under our 2016 Plan, which will become effective in connection with the completion of this offering. Once we register these shares, they can be freely sold in the public market upon issuance and once vested, subject to the lock-up periods under the lock-up agreements described in the "Underwriting" section of this prospectus.

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 be effective upon the completion of this offering 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 and Chief Executive Officer (who will beneficially own approximately _____ % 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 that will be effective upon the completion of this offering, 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 acquirors 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 our Company. 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 that will be effective upon the completion of this offering 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. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the provisions of certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find these provisions of our certificate of incorporation 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 adversely affect our business, financial condition or results of operations.

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 prospectus, 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 for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our shares of common stock held by non-affiliates exceeds \$700 million as of any June 30 before that time or if we have total annual gross revenue of \$1.0 billion or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31, or if we issue more than \$1.0 billion in non-convertible debt during any three-year period before that time, in which case we would no longer be an emerging growth company immediately. 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, will be 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 will be required to disclose changes made in our internal controls and procedures on a quarterly basis and our management will be 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” for up to five years. 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 may have difficulty operating as a publicly traded company.

As a publicly traded company, we believe that our business will benefit from, among other things, providing direct access to equity capital and a tailored capital structure, allowing us to better focus our financial and operational resources on our specific business, allowing our management to design and implement corporate strategies and policies that are based primarily on the business characteristics and strategic decisions of our business, allowing us to more effectively respond to industry dynamics and allowing the creation of effective incentives for our management and employees that are more closely tied to our business performance. However, we may not be able to achieve some or all of the benefits that we believe we can achieve as an independent company in the time we currently expect, if at all. Additionally, new appointees to our board of directors will have limited familiarity with our offerings, business and strategy, and it may take time for such appointees to become conversant in our business. Implementing these changes may take longer than we expect, result in the incurrence of additional costs or divert management's attention, which could adversely affect our business.

We will 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 will 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 will 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 will cause us to incur significant legal and financial compliance costs and will 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 Securities Exchange Act of 1934, or 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 NASDAQ.

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. Upon becoming a public company, we will be required to comply with certain of these rules, which will 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 second 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 Plan, we may grant equity awards covering up to _____ shares of our common stock. As of the date of this offering, we have not granted any options to purchase shares of common stock under the 2016 Plan or otherwise. We plan to register the number of shares 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.

Upon the completion of this offering, our board of directors will have 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.

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.

Our certificate of incorporation and bylaws that will be effective upon the completion of this offering provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law. In addition, as permitted by Section 145 of the Delaware General Corporation Law, our bylaws that will be effective upon the completion of this offering and our indemnification agreements that we plan to enter into with our directors and officers provide that:

- We will indemnify our directors and officers for serving us in those capacities or for serving other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.
- We may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law.

- We are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.
- We will not be obligated pursuant to our bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors or brought to enforce a right to indemnification.
- The rights conferred in our bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons.
- We may not retroactively amend our bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

To the extent that a claim for indemnification is brought by any of our directors or officers, it would reduce the amount of funds available for use in our business.

We intend to apply for listing of our common stock issued in this offering on NASDAQ in connection with this offering. There is no guarantee that our common stock will be listed on NASDAQ.

We intend to apply to have our shares of common stock we plan to issue in this offering listed for trading on NASDAQ. On the date of this prospectus, we believe that we will satisfy the listing requirements and expect that our common stock we plan to issue in this offering will be listed on NASDAQ. This listing, however, is not guaranteed. Even if such listing is approved, there can be no assurance any broker will be interested in trading our common stock issued in this offering. Therefore, it may be difficult to sell any shares of common stock you purchase in this offering if you desire or need to sell them. Our lead underwriter, Joseph Gunnar & Co., LLC, is not obligated to make a market in our common stock, and even after making a market, can discontinue market making at any time without notice. Neither we nor the underwriters can provide any assurance that an active and liquid trading market in our common stock will develop or, if developed, that the market will continue.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this prospectus regarding our strategy, future events, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth, among others, are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, without limitation, statements about:

- our ability to generate or secure sufficient funding to support our growth strategy;
- future sales of our common stock that could depress the trading price of our common stock, lower our value and make it more difficult for us to raise capital;
- our ability to compete effectively;
- our beliefs regarding our liquidity and sufficiency of cash to fund our operations; and
- the other matters described in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business.”

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in our forward-looking statements. We have included important factors in the cautionary statements included in this prospectus, particularly in the “Risk Factors” section beginning on page 10, which could cause actual results or events to differ materially from such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We estimate that the net proceeds from our issuance and sale of _____ shares of our common stock in this offering will be approximately \$ _____ million, assuming an initial public offering price of \$ _____ per share of common stock, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds from this offering will be approximately \$ _____ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

A \$1.00 increase or decrease in the assumed initial public offering price of \$ _____ per share of common stock would increase or decrease the net proceeds from this offering by approximately \$ _____ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions. Similarly, each increase or decrease of \$1.0 million in the amount of securities offered by us would increase or decrease the net proceeds that we receive from this offering by approximately \$ _____ million, assuming the assumed initial public offering price remains the same and after deducting the estimated underwriting discounts and commissions.

We currently intend to use the net proceeds from our sale of common stock in this offering as follows: approximately \$ _____ million for new product research and development, including development of a 200 kW DC power system; approximately \$ _____ million for existing product development and commercialization; approximately \$ _____ million for development of international markets, including setting up subsidiaries in key target markets in Asia and Sub-Saharan territories; approximately \$ _____ million to manufacture rental units of DC power systems for use in the U.S. telecommunications market; approximately \$ _____ million for the purchase of raw materials and component parts, such as engines, with long lead times; and approximately \$ _____ million for general corporate purposes.

This expected use of net proceeds from this offering represents our intentions based upon our current plans and business conditions. The amounts and timing of our actual expenditures may vary significantly depending on numerous factors, including, among other things, the cash generated by our operations and the rate of growth, if any, of our business. As a result, our management will retain broad discretion over the allocation of the net proceeds from this offering. We may find it necessary or advisable to use the net proceeds from this offering for other purposes, and we will have broad discretion in the application of net proceeds.

Although it is difficult to predict future liquidity requirements, we believe that the net proceeds from this offering and our existing cash flow from operations will be sufficient to fund our operations for the next twelve months.

Pending our use of the net proceeds from this offering, we intend to invest the net proceeds in a variety of capital preservation investments, including short-term, investment-grade, interest-bearing instruments, certificates of deposit, and direct or guaranteed obligations of the U.S. government.

DILUTION

If you purchase shares of common stock in this offering, your interest will be diluted immediately to the extent that the initial public offering price per share of our common stock exceeds the as adjusted net tangible book value per share of our common stock immediately following this offering.

Our net tangible book value as of June 30, 2016 was approximately \$3.3 million, or \$ per share. Net tangible book value per share represents our total stockholders' equity divided by the number of shares of common stock outstanding.

Dilution in net tangible book value per share of common stock to new investors represents the difference between the amount per share paid by purchasers in this offering and the as adjusted net tangible book value per share of common stock immediately after completion of this offering. After giving effect to our sale of shares of common stock in this offering at the assumed initial public offering price of \$ per share, which is the midpoint of the range set forth on the cover page of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of June 30, 2016 would have been \$ million, or \$ per share. This represents an immediate increase in net tangible book value of \$ per share to existing stockholders and an immediate dilution of \$ per share to new investors purchasing shares of our common stock in this offering, as illustrated in the following table:

| | | |
|---|----|----|
| Assumed initial public offering price per share | | \$ |
| Net tangible book value per share as of June 30, 2016 | \$ | |
| Increase in net tangible book value per share attributable to new investors | \$ | |
| Adjusted net tangible book value per share as of June 30, 2016, after giving effect to the offering | | \$ |
| Dilution per share to new investors in the offering | | \$ |

If the underwriters exercise their option to purchase additional shares in full, the pro forma as adjusted net tangible book value per share after giving effect to the offering would be \$ per share. This represents an increase in pro forma as adjusted net tangible book value of \$ per share to existing stockholders and dilution in pro forma as adjusted net tangible book value of \$ per share to investors purchasing shares in this offering.

A \$1.00 increase or decrease in the assumed initial public offering price of \$, the mid-point of the price range set forth on the cover page of this prospectus, would increase or decrease, as applicable, our pro forma as adjusted net tangible book value after this offering by \$ million and the pro forma as adjusted net tangible book value per share after this offering by \$ per share and would increase (decrease) the dilution per share to investors purchasing shares in this offering by \$ per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. The information discussed above is illustrative only and may change based on the actual initial public offering price and other terms of the offering determined at pricing.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and growth of our business and to repay indebtedness. Therefore, we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors, and will depend upon our results of operations, financial condition, capital requirements and other factors including contractual obligations that our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our cash and our capitalization as of June 30, 2016:

- on an actual basis; and
- on a pro forma as adjusted basis, after giving effect to (i) the one-for- reverse stock split of our shares of common stock that will be effected in connection with our reincorporation in the State of Delaware prior to the completion of this offering, and (ii) the sale of shares of common stock in this offering at the assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The following table assumes no exercise of the underwriters' option to purchase up to an additional shares of common stock to cover over-allotments, if any. The pro forma information below is only for illustrative purposes and our capitalization following the completion of this offering will be adjusted based on the actual offering price and other terms of this offering determined at pricing. You should read this table in conjunction with "Use of Proceeds" above as well as our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and financial statements and the related notes appearing elsewhere in this prospectus.

| | As of June 30, 2016 (unaudited) | |
|---|------------------------------------|--------------------------|
| | Actual | Pro Forma As Adjusted |
| Cash and cash equivalents | \$ 200,859 | \$ |
| Note payable | 503,713 | |
| Stockholders' equity | | |
| Preferred stock, no par value: 5,000,000 authorized, no shares issued and outstanding on June 30, 2016 | | |
| Preferred stock \$0.0001 par value; 5,000,000 authorized pro forma as adjusted; no shares issued and outstanding, pro forma as adjusted | | |
| Common stock, no par value: 50,000,000 shares authorized, shares issued and outstanding at June 30, 2016 | 2,286,395 | |
| Common stock, \$0.0001 par value: 50,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted | | |
| Retained earnings | 944,128 | |
| Total stockholder's equity | 3,230,523 | |
| Total capitalization | \$ 3,734,236 | \$ |

The table above excludes the following as of June 30, 2016:

- shares of common stock reserved for future issuance under the 2016 Plan, which will become effective in connection with the completion of this offering; and
- an aggregate of shares of common stock issuable upon exercise of the representative's warrants issued to the representative of the underwriters in connection with this offering.

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 prospectus. 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" beginning on page 10. 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.

Overview

We design, manufacture and sell DC power systems for applications in a number of markets. Our systems provide reliable and low-cost energy to service applications that do not have access to the utility grid or have critical power needs and cannot be without power in the event of utility grid failure. Our products include the following:

- **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 BMS 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 products are managed by our global network management tool using our proprietary software technology integrated into each DC power system, allowing us and our customers to not only monitor system performance and update our products remotely, but to collect data to improve the support of our products. We offer product installation and service directly, as well as utilize qualified regional independent service providers to perform service and repairs on our products. We maintain an extensive inventory of aftermarket parts to support our products well beyond their planned life.

Through our direct sales force and a network of independent service providers and dealers, we sell our products primarily to customers that operate within the telecommunications, military, electric vehicle charging, cogeneration, distributed power and uninterruptable power supply markets. In addition, we have established strategic relationships with local service partners in international markets to jointly promote, distribute and service our products.

We are currently focused on the global telecommunications tower market which is undergoing a rapid transition from AC power systems to DC power systems globally. Increased use of data and subscriber base has led to growth in infrastructure spending by mobile telecommunications network providers and telecommunications service companies. During 2015 and the first six months of 2016, approximately 89% and 92%, respectively, of our sales were to mobile telecommunications network providers in the U.S.

Financial Performance Summary – Six Months Ended June 30, 2016

Our total revenues increased by \$5,933,134, or 278%, to \$8,066,282 for the six months ended June 30, 2016, as compared to \$2,133,148 for the six months ended June 30, 2015. We reported net income of \$938,689 for the six months ended June 30, 2016, as compared to a net loss of \$83,507 for the same period in 2015. The significant improvement in our financial performance during the first six months of 2016 is a result of increased revenues combined with a lower material and labor, lower administrative, sales and engineering costs, as compared to the percentage of net sales during the first six months of 2015.

The significant increase in revenues during the first six months of 2016 is a direct result of the growth in sales of our DC power systems to mobile telecommunications providers in the U.S. During this period, we focused a significant amount of effort on increasing production capacity through the addition of automated equipment, jigs and fixtures. We plan to continue increasing production capacity and output, while expanding sales into other regions in U.S. and globally. Our backlog as of June 30, 2016 was \$8,679,541. Of that amount, \$8,011,213 is attributable to one mobile telecommunications provider located in the U.S. We believe as a result of our current backlog we will be able to maintain our build rate for the remainder of 2016 while we add production capacity.

We anticipate that the majority of our future sales during the next twelve months will be comprised of DC power systems for applications within the mobile telecommunications tower market in the U.S. market as we continue to increase our sales infrastructure in international markets.

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.

Comparison of the Six Months Ended June 30, 2016 and 2015

| | Six Months Ended June 30, | | Dollar Variance | Percentage Variance | Results as a Percentage of Net Revenues for the Six Months Ended June 30, | |
|---------------------------------------|------------------------------|--------------|----------------------------|----------------------------|--|--------|
| | 2016 | 2015 | | | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | Favorable (Unfavorable) | Favorable (Unfavorable) | | |
| Net sales | \$ 8,066,282 | \$ 2,133,148 | \$ 5,933,134 | 278% | 100% | 100% |
| Cost of sales | 5,177,297 | 1,513,178 | (3,664,119) | (242)% | 64.2% | 70.9% |
| Gross profit | 2,888,985 | 619,970 | 2,269,015 | 366% | 35.8% | 29.1% |
| Research and development expenses | 89,134 | 56,935 | (32,199) | (57)% | 1.1% | 2.7% |
| Sales and marketing expenses | 182,194 | 193,875 | 11,681 | 6% | 2.3% | 9.1% |
| General and administrative expenses | 788,453 | 310,288 | (478,165) | (110)% | 9.8% | 17.6% |
| Depreciation and amortization expense | 96,580 | 65,459 | (31,122) | (48)% | 1.2% | 3.1% |
| Total operating expenses | 1,156,361 | 626,557 | 529,804 | 85% | 14.3% | 29.4% |
| Income (loss) from operations | 1,732,624 | (6,587) | 1,739,211 | 26,403% | 21.5% | (0.3)% |
| Interest expense | (63,791) | (44,728) | (19,063) | (43)% | 0.8% | 2.1% |
| Other income (expense) | — | (32,192) | 32,192 | — | 0.0% | 1.5% |
| Income before income taxes | 1,668,833 | (83,507) | 1,752,340 | 2,098% | 24.4% | (1.6)% |
| Provision for income taxes | (730,144) | — | (730,144) | — | 9.1% | 0.0% |
| Net income (loss) | \$ 938,689 | \$ (83,507) | \$ 1,022,196 | 1,224% | 11.6% | (3.9)% |

Net Sales. Net sales increased \$5,933,134, or 278%, to \$8,066,282 for the six months ended June 30, 2016, as compared to \$2,133,148 for the six months ended June 30, 2015. The increase in net sales was primarily the result of increased sales of DC power systems to our largest telecommunications customer resulting from the completion of long term product testing by our largest customer combined with increased sales of DC power systems to customers located in new geographic regions operated by our largest telecommunications customer in the U.S., Verizon Wireless. The increase in net sales was also positively impacted by the implementation of automated assembly process and the addition of fabrication equipment and the expansion of our production facilities. Based on our current backlog, we believe that sales of our DC power systems to our largest telecommunications customer will remain a significant portion of our revenues for the remainder of 2016.

Cost of Sales. The principal elements of our cost of sales in our manufacturing operations are component parts and raw materials associated with manufacturing our products. Cost of sales increased \$3,664,119, or 242%, to \$5,177,292 for six months ended June 30, 2016, as compared to \$1,513,178 for the same period in 2015. However, the cost of sales as a percentage of net sales declined by 6.8% to 64.2% for the six months ended June 30, 2016, as compared to 70.9% for the same period in 2015. The decline of cost of sales as a percentage of net sales was primarily due to improved labor efficiency and higher utilization of factory overhead costs due to increased revenues.

Gross Profit. Gross profit increased by \$2,269,015, or 366%, to \$2,888,985 during the six months ended June 30, 2016, as compared to \$619,970 for the same period in 2015. Gross profit as a percentage of net sales increased to 35.8% during the six months ended June 30, 2016, as compared to 29.1% during the same period in 2015. This 6.8% increase in gross profit as a percentage of net sales was primarily due to a 4.5% decrease in labor costs to 11% of the net sales during the six months ended June 30, 2016, as compared to labor costs of 16% of net sales during the same period in 2015. In addition, material costs during the six months ended June 30, 2016 were 2.7% less than material costs during the same period in 2015. The reduction in labor and material costs are mainly due to improved process efficiency resulting from automation and volume price discounts due to higher purchasing volume.

Research and Development Expenses. During the six months ended June 30, 2016, research and development costs increased by \$32,199 to \$89,134, as compared to \$56,935 during the same period in 2015. The increase in research and development costs was primarily due to the addition of engineering personnel.

Sales and Marketing Expenses. Sales and marketing expenses declined by \$11,681, to \$182,194 during the six months ended June 30, 2016, as compared to \$193,875 during the same period in 2015. The decrease in expenses was primarily related to a \$23,499 reduction in expenses for tradeshow, offset by a \$17,296 increase in marketing expenses.

General and Administrative Expenses. During the six months ended June 30, 2016, general and administrative expenses increased by \$478,165, to \$788,453, as compared to \$310,288 during the same period in 2015. However, general and administrative expenses decreased by 7.8% as a percentage of net sales to 9.8%, as compared 17.6% during the same period in 2015. The increase in expenses was primarily due to a \$75,420 increase in officer salaries, a \$239,199 increase in accounting, legal and professional costs and a \$139,239 increase in administration salaries due to addition of employees. We expect that our general and administrative expenses will increase in absolute dollars and as a percentage of revenues for the remainder of 2016 due to addition of personnel to support growth and also increase in consulting expenses related to public offering.

Depreciation and Amortization Expenses. During the six months ended June 30, 2016, depreciation and amortization costs increased to \$96,580, as compared to \$65,459 during the same period in 2015. The \$31,122 increase in depreciation and amortization costs is primarily attributed to the acquisition of additional fabrication equipment to improve process efficiency and support higher production levels. Depreciation and amortization costs as a percentage of sales during the six months ended June 30, 2016 was 1.2%, compared to 3.1% during the same period in 2015. We anticipate continued investments in plant and equipment during the next twelve months to support increased production and to further improve our process efficiencies. We anticipate our depreciation and amortization expense to be approximately 1.5% of net revenues for the remainder of 2016.

Interest expense. During the six months ended June 30, 2016 our interest expenses was \$63,791, as compared to \$44,728 during the same period in 2015. Our interest expense is primarily attributable to interest paid for financing of production equipment and borrowing costs associated with our line of credit with Gibraltar Business Capital, which we utilize for funding our working capital needs.

Income Tax. Our income tax increased by \$730,144 during the six months ended June 30, 2016, as compared to \$0.00 for the same period in 2015. We have estimated an interim effective federal tax rate of 34% for 2015, excluding any 2015 federal research tax credits. In addition we estimate a California tax rate of 8.84% for 2015, excluding any state tax credits.

Net Income (Loss). As a result of the factors identified above, we generated net income of \$938,689, or 11.6% of our net sales during the six months ended June 30, 2016, as compared to a net loss of \$83,507 during the same period in 2015. Our earnings before taxes for the six months ended June 2016 was \$1,668,833, as compared to a loss of \$83,507 during the same period in 2015. The primary reason for this improvement is attributed to increased overhead absorption in manufacturing and administration due to increased revenues.

Comparison of the Years Ended December 31, 2015 and 2014

| | Years Ended | | Dollar Variance | Percentage Variance | Results as a Percentage of Net Revenues for the Years Ended | |
|--|--------------|-------------|--------------------|------------------------|--|----------------------------|
| | December 31, | | | | Favorable (Unfavorable) | Favorable (Unfavorable) |
| | 2015 | 2014 | 2015 | 2014 | | |
| Net sales | \$6,846,759 | \$5,201,304 | \$ 1,645,455 | 31.6% | 100.0% | 100.0% |
| Cost of sales | 4,433,494 | 3,287,625 | (1,145,869) | (34.9)% | 64.8% | 63.2% |
| Gross profit | 2,413,265 | 1,913,679 | 499,586 | 26.1% | 35.2% | 36.8% |
| Research and development expenses | 116,297 | 108,559 | (7,737) | (7.1)% | 1.7% | 2.1% |
| Sales and marketing expenses | 392,306 | 191,791 | (200,515) | (104.5)% | 5.7% | 3.7% |
| General and administrative expenses | 872,668 | 553,105 | (319,563) | (57.8)% | 12.7% | 10.6% |
| Compensation to related party | 581,895 | — | (581,895) | — | 8.5% | — |
| Depreciation and amortization expenses | 143,573 | 94,999 | (48,574) | (51.1)% | 2.1% | 1.8% |
| Total operating expenses | 2,106,739 | 948,454 | (1,158,285) | (122.1)% | 30.8% | 18.2% |
| Income (loss) from operations | 306,526 | 965,225 | 658,699 | 68.2% | 4.5% | 18.6% |
| Interest expense | (50,971) | (44,927) | (6,044) | (13.5)% | 0.7% | 0.9% |
| Other expense | (15,325) | (54,712) | 39,387 | 72.0% | 0.2% | 1.1% |
| Income (loss) before income taxes | 240,230 | 865,586 | (625,356) | (72.2)% | 3.5% | 16.6% |
| Provision for income taxes | 273,569 | 290,338 | 16,769 | 5.8% | 4.0% | 5.6% |
| Net income (loss) | \$ (33,339) | \$ 575,248 | \$ (608,587) | (105.8)% | (0.5)% | 11.1% |

Net Sales. Net sales increased by \$1,645,455, or 32%, to \$6,846,759 for the year ended December 31, 2015, as compared to \$5,201,304 for the year ended December 31, 2014. The increase in sales was primarily due to increased sales to our telecommunications customers in the U.S. We attribute our increased sales primarily to receipt of production orders from our largest telecommunications customer, Verizon Wireless, which accounted for 81% of our total revenue during 2015. In addition, in early 2015, we expanded our production facilities to increase our production capacity which, in turn, allowed us to meet the increased demand for our products resulting in higher revenues.

Cost of Sales. Cost of sales increased \$1,145,869, to \$4,433,494 during 2015, compared to \$3,287,625 during 2014, however cost of sales remained similar as a percentage of net sales due to a similar product mix of shipments during both periods. In 2015, a reduction in material and labor costs as compared to 2014 was offset by higher costs associated with product improvements and enhancements, the costs of which we were unable to pass on to our customers.

Gross Profit. Gross profit during 2015 increased by \$499,586, to \$2,413,265, as compared to \$1,913,679 during 2014. The increase in gross profit was mainly attributable to an increase in net sales during 2015, as compared to 2014, while maintaining similar cost of sales as a percentage of net sales.

Research and Development Expenses. During 2015, research and development expenses remained approximately the same as compared to 2014.

Sales and Marketing Expenses. Sales and marketing expenses increased to \$392,306 during 2015, as compared to \$191,791 during 2014. The \$200,515 increase in expenses was mainly related to a \$142,617 increase in salaries associated with the addition of sales and service personnel and a \$51,529 increase in advertising and tradeshow expenses during 2015, as compared to 2014.

General and Administrative Expenses. Our general and administrative expenses increased by \$319,563, to \$872,668 during 2015, as compared to \$553,105 during 2014. The increase in expenses was primarily due to a \$38,824 increase in rent expense associated with our relocation to a larger facility, a \$75,420 increase in officer salaries, a \$26,698 increase in legal and accounting consulting fees and a \$115,580 increase in salaries due to the addition of administration personnel.

Compensation to related party. In 2015 we recorded a loss of \$581,895 to our income statement from the sale of 1,442,527 shares of our common stock to a related party for a total purchase price of \$500,000. The recognition of the loss represents the difference between the selling price of our common stock to a related party and the selling price of the shares sold to an unaffiliated party in August 2014.

Depreciation and Amortization Expenses. During 2015, depreciation and amortization expenses increased by \$48,574, to \$143,573, as compared to \$94,999 during 2014. The increase in depreciation and amortization expenses is mainly attributable to the addition of automated fabrication equipment and improvements in our production facilities to increase process efficiency and production capacity.

Interest expense. During 2015, our interest expense was \$50,971, as compared to \$44,927 during 2014. Our interest expense is mainly attributable to interest paid for financing of production equipment and borrowing costs associated with our line of credit with Gibraltar Business Capital, which we utilize to fund our working capital needs.

Other Expense. During 2015, other expense decreased by \$39,387 to \$15,325, compared to \$54,712 during 2014. The reduction in other expense in 2015 is primarily attributable to a reduction in principal of \$18,570 in outstanding notes payable by the note holder.

Income Tax. Our income tax decreased \$16,769 to \$273,569 in 2015, as compared to \$290,338 for 2014. We have estimated an interim effective federal tax rate of 34% for both 2014 and 2015, excluding any applicable federal research tax credits. In addition we estimate our California tax rate of 8.84% for 2014 and 2015 excluding any applicable state tax credits.

Net Income (Loss). As a result of the factors identified above, we generated a net loss of \$33,339 for 2015, as compared to net income of \$575,248 for 2014, a decline of \$608,587. A significant portion of the decline in net income can be attributed to a loss of \$581,895 resulting from the issuance of shares of our common stock to a related party and a \$75,420 increase in officer salaries during 2015.

Liquidity and Capital Resources

Sources of Liquidity

During the year ended December 31, 2015 and the six months ended June 30, 2016, we funded our operations primarily from cash on hand, net proceeds from equity financings during these periods and during 2014 and borrowing from our revolving credit facility with Gibraltar Business Capital. These funds were also used to make capital expenditures and to increase inventory to support higher production. As of June 30, 2016, we had working capital of \$2,489,109, as compared to \$1,545,338 on December 31, 2015. This \$943,771 increase in working capital is primarily attributable to a \$2,362,891 increase in our accounts receivable balance since December 31, 2015. We have also realized a \$725,267 increase in inventory and a \$826,651 increase in accounts payable since December 31, 2015.

We have 60-day payment terms with our largest customer that accounted for 96% and 81% of our accounts receivable for the six months ending June 30, 2016 and the year ended December 31, 2015, respectively. On June 30, 2016, December 31, 2015 and December 31, 2014, our trade receivables totaled \$ 3,859,545, \$1,496,654 and \$628,238, of which \$3,697,525, \$1,211,579, \$400,956, respectively, represented customer account balances of our largest telecommunications customer with 60-day payment terms.

Our available capital resources on June 30, 2016 consisted primarily of \$200,859 in cash and cash equivalents. We expect our future capital resources will consist primarily of cash on hand, cash generated by operations, if any, and future debt or equity financings, if any.

Credit Facility

In August 2015, we entered into a Loan and Security Agreement with Gibraltar Business Capital to secure a revolving credit facility for an aggregate amount of up to \$2.0 million. The credit facility expires on September 1, 2017, subject to the continuing right of Gibraltar to demand payment at any time and an optional extension of one year. Interest accrues on the principal amount of revolving loans outstanding under the credit facility at a rate equal to the greater of (i) the floating per annum rate of interest as published in *The Wall Street Journal's* "Bonds, Rates and Yields Table" plus 4.75% or (ii) 8.0%. Interest on the credit facility is payable monthly. The credit facility is also subject to a monthly collateral management fee of \$1,500 and an exit fee of up to \$20,000. The credit facility is secured by a continuing first priority security interest in all of our assets (excluding our equipment and its products and proceeds). Upon the demand of Gibraltar Business Capital or in the event of a default under the credit facility, Gibraltar Business Capital may accelerate the payment of the principal balance requiring us to pay the entire indebtedness outstanding on that date.

The available borrowing base under the credit facility at any time may not exceed 85% of the net amount of (i) eligible accounts receivable, plus (ii) 50% of the lower of cost or market value of eligible inventory, subject to a \$750,000 cap on advances made against eligible inventory. Eligible accounts must, among other things, be evidenced by an invoice not more than 90 days past the invoice date. Further, the credit facility imposes certain limits on the borrowing capacity relating to single-source vendors. No more than 15% of eligible accounts, other than Verizon, AT&T and Sprint, or their affiliates, may be from any one account. The amount of the eligible accounts from Verizon or its affiliates is limited to \$1.2 million. As of June 30, 2016 we had availability under the credit line of \$427,407.

Other Sources of Liquidity

Between August 2014 and September 2014, we issued and sold an aggregate of _____ shares of our common stock and warrants to purchase an additional _____ shares of our common stock in a private placement transaction to eight accredited investors resulting in aggregate net proceeds of \$1,165,000.

In October 2015, we issued and sold _____ shares of our common stock in a private placement transaction to one accredited investor resulting in net proceeds of \$500,000.

In February 2016, we issued _____ shares of our common stock to an employee of our Company in exchange for services rendered to our Company.

Future Capital Requirements

We believe that the net proceeds from this offering, together with our existing cash and cash equivalents, will enable us to fund our operating expenses and capital expenditure requirements for the next twelve months. We intend to use the net proceeds from this offering for new product research and development, existing product development and commercialization, the development of international markets, the manufacturing of rental units for use in the U.S. telecommunications markets, the purchase of raw materials and component parts with long lead times, and for general corporate purposes. We may also use these proceeds as consideration for acquisitions of technologies or companies that we believe may be complementary to our current business and for which we believe may provide near term value to us.

We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Until such time, if ever, as we can generate significant positive operating cash flows, we may finance our cash needs through a combination of equity offerings or debt financings. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interests of our common stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

Cash Flow

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

| | Six Months Ended June 30, | | Year Ended December 31, | |
|--|--------------------------------------|---------------------|------------------------------------|-------------------|
| | 2016 | 2015 | 2015 | 2014 |
| Net Cash Provided By (Used In): | | | | |
| Operating Activities | \$ (283,010) | \$ (304,079) | \$ (620,727) | \$ (336,998) |
| Investing Activities | (197,709) | (234,351) | (403,423) | (218,140) |
| Financing Activities | 418,160 | 33,474 | 734,076 | 1,012,851 |
| Net increase (decrease) in cash | \$ (62,559) | \$ (504,957) | \$ (290,074) | \$ 457,713 |

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2016 was \$283,010, as compared to \$304,079 for the same period in 2015, a decrease of \$21,069. This decrease was primarily due to a \$387,446 increase in accounts payable. Additionally, we had net income for the six months ended June 30, 2016 of \$938,689, as compared to a net loss of \$83,507 in the same period in 2015.

Net cash used in operating activities for the year ended December 31, 2015 was \$620,727, as compared to \$336,998 for the year ended December 31, 2014, an increase of \$283,729. This increase was primarily due to a \$1,343,708 increase in inventory and a \$379,290 increase in accounts receivable.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2016 totaled \$197,709, as compared to \$234,351 for the same period in 2015, a decrease of \$36,682. This decrease was primarily due to a reduction in purchases of additional production equipment.

Net cash used by investing activities for the year ended December 31, 2015 totaled \$403,423, as compared to \$218,140 for the year ended December 31, 2014, an increase of \$185,283. This increase was primarily due to capital financing of new equipment purchased during 2015.

Financing Activities

Net cash provided by financing activities totaled \$418,160 for the six months ended June 30, 2016, as compared to net cash provided by financing activities of \$33,474 during the same period in 2015, an increase of \$384,686. This increase was primarily due to net proceeds of \$607,443 from our \$2.0 million credit facility used to finance receivables and inventory, offset by payments on notes payable of \$189,283.

Net cash provided by financing activities totaled \$734,076 for the year ended December 31, 2015, as compared to net cash provided by financing activities of \$1,012,851 during the year ended December 31, 2014, a decrease of \$278,775. This decrease was primarily due to raising \$1,165,000 in equity capital in September 2014, offset by a \$500,000 equity investment in October 2015 and the availability of our \$2.0 million in line of credit along with increased payments on our notes payable of \$578,925.

Backlog

As of June 30, 2016, we had a backlog of \$8,679,541. The amount of backlog represents revenue that we anticipate to recognize 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. Our backlog consists of \$8,281,200 in purchases for our DC power systems by telecommunications customers, of which \$8,011,213 is from our single largest telecommunications customer. In addition our backlog includes \$125,915 in purchases from military contractors, \$228,450 from customers related to marine markets and \$43,975 from other miscellaneous customers. We believe the majority of our backlog will be shipped within the next six 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.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that may have a significant impact on the portrayal of our financial condition and results of operations. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from these estimates.

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 from the sale of completed production units and parts when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occurs upon shipment of our product or delivery of the product to the destination specified by the customer.

We determine whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the buyer, which usually occurs when we place the products with the buyer's carrier. We regularly review our customers' financial positions to ensure that collectability is reasonably assured. Except for warranties, we have no post-sales obligations.

Warranty Costs. Warranty reserves are provided by management based on historical experience and expected future claims. Management believes that the current reserves are adequate to meet any foreseeable contingencies with respect to warranty claims.

Inventory. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value-based upon assumptions about future demand, future pricing and market conditions. If actual future-demand, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Once established, write-downs are considered permanent adjustments to the cost basis of the obsolete or unmarketable inventories.

Income Taxes. Our estimate of income taxes payable, deferred income taxes and the effective tax rate is based on an analysis of many factors including interpretations of federal and state income tax laws, the difference between tax and financial reporting bases of assets and liabilities, estimates of amounts currently due or owed in various jurisdictions, and current accounting standards. We review and update our estimates on a quarterly basis as facts and circumstances change and actual results are known. We recognize income taxes for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in our financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

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 — Recent Accounting Pronouncements" of the Notes to Financial Statements commencing on page F-7 of this prospectus.

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 of 1933, as amended, or 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) the last day of our fiscal year following the fifth anniversary of the date of the completion of this offering; (iii) the date on which we have issued more than \$1 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.

BUSINESS

Overview

We design, manufacture and sell DC power systems for applications in the telecommunications, military, electric vehicle charging, cogeneration, distributed power and uninterruptable power supply markets. Our systems provide reliable and low-cost energy for applications that do not have access to the utility grid or have critical power needs and cannot be without power in the event of utility grid failure. Our product offerings include DC power systems, DC hybrid power systems and DC solar hybrid power systems.

Our DC base power systems integrate a DC generator and automated controls with remote monitoring, which are typically contained within an environmentally-regulated enclosure. These DC power systems include battery-charging algorithms optimized to charge most battery chemistries which, in turn, power DC loads. If a customer requires alternating current, or AC, capability, an inverter is integrated into the system.

Our DC hybrid power systems incorporate lithium-ion batteries (or other advanced battery chemistries) with our proprietary battery management system, or BMS, into our standard DC power systems. Options for waste heat recovery and conversion of waste heat to air-conditioning (through absorption process) are also available on these systems.

Our DC solar hybrid power systems incorporate photovoltaic and other sources of renewable energy into our DC hybrid power system. An additional control module is added to optimize the combining of solar energy with fuel, with the goal of minimizing the consumption of fuel and generator run time. When necessary, DC air-conditioning is also provided.

Historical Background

We began operations in 1979, and in 1980 we released our first product, a solar powered vaccine refrigerator/freezer for use in remote areas worldwide. This product was developed in support of a World Health Organization initiative and the U.S. Agency for International Development, and was administered by the NASA Lewis Research Center. Since then, we have continued to expand our capabilities and product lines within the solar and renewable energy industries.

In 1984, we designed and manufactured test carts for Hughes Aircraft Company that provided cooling systems for the testing F-14 radar assemblies. During the same period, we also supplied Martin Marietta computerized environmental control units for testing laser guided missile launch systems and a cooling system for a Phalanx Gun system to General Dynamics.

During most of the 1980s, we generated a majority of our revenues through development contracts with the U.S. Department of Defense and major defense companies for the design of DC power and cooling systems. We retain design rights on all of our engineering and product development contracts. In 1991, we began commercialization of technologies originally pioneered by these military contracts, which led to the development of proprietary permanent magnet alternator and power electronics for DC power systems. During that period, we also manufactured solar powered refrigerators used by foreign aid agencies to store and preserve vaccines in field-operated medical care centers.

During the 1990s, we developed and commercialized an advanced Permanent Magnet Homopolar Hybrid, or PMHH, DC alternator that is lighter and more efficient than a conventional AC alternator. Over the ensuing years, our generators and controls were extensively field tested in a variety of military applications. Our PMHH DC alternator technology was used as an auxiliary power source in military vehicles and as a prime power generator for military missions in the field. During this time, we also engineered, manufactured and sold power systems for various other applications including oil and gas fields, rural homes and farms and telecommunications. We also generated revenues by providing short-run production, prototyping and design services to develop energy efficient DC power systems for customers within the military, renewable energy and telecommunications markets.

With the significant growth of the telecommunications market in the 1990s, we elected to transition from manufacturing products primarily for military applications to the development of products for the telecommunications market. We were one of the first to introduce high efficiency, light weight, compact DC power systems to this market.

In 2005, we developed and manufactured a computerized ground support unit for Martin Marietta that was used in the U-2 aircraft and in the Global Hawk Unmanned Aerial Vehicle. During the same year, we developed our low-cost, higher efficiency 8000 Series DC alternators and a fully integrated next generation Supra Controller™ Series power control system which is designed to monitor engine controls, power controls and battery management in a single integrated system.

From 2006 to 2011 we made significant improvements to our DC hybrid power systems for prime and backup power applications for all of our targeted markets; introduced our next generation of 8000 Series DC alternators with increased power output, efficiency and lower production costs and our Supra Controller™ Series of DC generators and hybrid systems with remote monitoring and controls; obtained UL 2200 listing for our DC generators and introduced lithium-ion battery hybrid systems with our proprietary BMS; made significant fuel efficiency improvements to our DC hybrid power systems by integrating solar panels, lithium-ion batteries to develop a high efficiency, off-grid power source for remote telecommunications tower locations; and we integrated our technologies into an outdoor container which can be field deployed in remote areas with minimum installation time.

In 2013, after four years of extensive field testing, we received product approval of our DC power systems from Verizon Wireless, the largest telecommunications provider in the U.S. We were authorized to demonstrate and market our DC power systems directly to Verizon Wireless regional facilities throughout the U.S.

During the 2013 and 2014, we shipped more than twenty of our DC hybrid power systems for use in remote areas by two of the largest telecommunications providers in Australia.

During 2013 and 2014, demonstrations and acceptance of our DC power systems by telecommunications providers have resulted in unprecedented growth in our sales, which led us to move our production facilities to our current location. During the past two years we have made significant investments in our manufacturing capacity through the addition of automated equipment and the design of efficient automated processes, tooling, jigs and fixtures.

Markets

We operate primarily within the telecommunications, military, electrical vehicle charging, cogeneration, distributed power and uninterruptable power supply markets.

Telecommunications

We believe that telecommunications services are a key driving force for the socio-economic development of any nation and that the significant increase in the use of data among smart mobile device subscribers and the rollout of 3G and 4G technologies services across the globe will result in a significant increase in the amount of investments made in telecommunications infrastructure. Due to the saturation of the subscriber base in developed nations like the U.S. and Europe, we believe that the focus of telecommunications providers is shifting to adding new services such as internet and video to increase the active usage of smart mobile devices. We believe that the key aspects fueling the growth of telecommunications operators are:

- improved operational efficiency of telecommunications towers, with an emphasis on reducing power consumption and power generation costs;
- increased active user base through the expansion of networks in remote or rural areas in developing nations; and
- increased densification and data transfer speeds that increase the usage of additional services like internet and video on smart mobile devices.

The increasing trend of mobile network providers divesting telecommunications tower operations by selling their tower assets to independent tower companies has reduced infrastructure capital costs and increased allocation of capital to their core marketing and engineering activities. This operational change has resulted in the rollout of new services, such as video, television and internet which has fueled the growth in data usage over mobile networks. With the anticipated increased usage of data and video, many telecommunications tower sites in urban areas are expected to exhaust their data capacity, requiring additional sites to be installed to meet future demand. In addition, upgrading of current 2G networks to 3G and 4G networks in developing nations is anticipated to increase demand for additional telecommunications tower sites worldwide, according to The Mobile Economy 2016 report published by GSM Association, or the GSMA 2016 Report. The increase in subscriber base in rural and remote areas is also expected to drive the development of new sites or additional tenancies for existing towers, according to the GSMA 2016 Report.

Increased data traffic has resulted in increased investments by mobile telecommunications tower operators worldwide.

At the end of 2015, almost two thirds of the world's population had at least one mobile subscription, totaling over 4.7 billion unique mobile subscribers, according to the GSMA 2016 Report. By 2020, it is estimated that over 70% of the global population will have a mobile subscription, with close to one billion new subscribers added over the period, according to the GSMA 2016 Report. The GSMA 2016 Report also noted that the growing number of smartphones and other advanced mobile network devices (e.g., tablets, computers, automobiles) is expected to increase the use of data traffic at a compounded annual growth rate of 49% until 2020. As a result of this increase in data growth, it is estimated that mobile telecommunications tower operators worldwide will invest over \$1.4 trillion in the construction of new cell towers and equipment upgrades by 2020, according to the Mobile Economy 2015 report published by GSM Association, or the GSMA 2015 Report.

The GSMA 2015 Report states that greater availability and affordability of smartphones, more extensive and deeper network coverage, and in some cases operator handset subsidies have resulted in an accelerating technology shift from 2G network technology to mobile broadband networks (i.e., 3G and 4G networks) and the increased use of data-intensive applications, such as video-streaming, thereby requiring more data capacity from mobile network providers worldwide. Although capital expenditures have increased since 2011, with annual global totals peaking in 2014, the trend reversed in 2015 with global totals declining modestly by 1.5% compared to 2014. The overall long-term trend is stabilization of investment levels, as capital investments over the next five years will reach \$900 billion, according to the GSMA 2016 Report.

Cisco, in its Visual Networking Index (VNI) Global Mobile Data Traffic Forecast Update, 2015-2020, or the Cisco Report, estimates that the typical smartphone can generate 41 times more mobile data traffic than the typical basic-feature cell phone, while a 4G connection will generate over three times more data traffic on average than a non-4G connection. The Cisco Report also noted that the increasing use of mobile broadband-enabled smartphones will generate a significant growth in data traffic, with volumes forecasted to grow at a compounded annual growth rate of 57% through 2019, an almost ten-fold increase. We believe all these factors described above will lead telecommunications operators and tower companies to enhance the energy infrastructure at their telecommunications tower sites.

DC power usage is a key operating cost component of any mobile tower operation, and therefore we believe that technologies that reduce operating and maintenance costs for tower operators will be a key competitive advantage for manufacturers of DC power systems worldwide.

Strict mandates to provide rural connectivity to mobile phone network providers in developing nations has lead to growth in off-grid and bad-grid tower installations.

In Sub-Saharan Africa, it is estimated that 30% of the rural population is not covered by any mobile network; meanwhile rural penetration in India is estimated to be below 40%, according to the Green Power for Mobile report published by GSM Association in December 2014, or the GSMA Green Power Report. Estimates also indicate that by 2020 the global telecommunications industry will deploy approximately 390,000 telecommunications towers that are off-grid, and 790,000 that are in a bad-grid locations, which are generally rural areas, according to the GSMA Green Power Report.

According to the GSMA Green Power Report, it is estimated that an additional 70,000 off-grid and 90,000 bad-grid towers will be deployed by 2020, with Africa and Asia accounting for 80% of the growth, with the remainder largely in Latin America. The GSMA Green Power Report also estimates that over 66,000 new installations will be deployed in Sub-Saharan Africa, and 31,200 new off-grid and bad-grid installations will be added in India.

More than 90% of all current off-grid and bad-grid towers use AC diesel generators, which we believe to have poor fuel efficiency and short operational life cycles. The conversion of these tower power solutions to greener alternative power solutions, including renewable energy hybrid solutions, could result in savings across the industry of upwards of \$13 billion in fuel costs and 40 million tons of CO₂ on an annual basis, according to the GSMA Green Power Report.

According to *Indianenergy.gov.in*, approximately 60% of the existing towers in India are located in rural or semi-urban areas with about 12 hours a day of grid availability and rest being operated by diesel generators, while the remaining 40% of urban towers currently rely on utility supplied power that may be available only 10 to 20 hours a day with 4 hours operated by diesel generators. According to the True Cost of Providing Energy to Telecom Towers in India report published by the GSM Association in 2012, or the GSMA India Tower Report, 70% of the approximately 400,000 mobile towers in India face electrical grid outages in excess of 8 hours a day. Telecommunications tower operators currently use AC diesel generators to address the demand-supply gap. The resulting energy costs alone account for 25% of the total network operating costs, affecting the profitability of the telecommunications tower operators, according to the GSMA India Tower Report. The Indian telecommunications industry consumes over 660 million gallons of diesel fuel annually. According to the GSMA India Tower Report, diesel generators currently powering most tower sites in India are responsible for over 6 million tons of CO₂ emissions annually.

Global emissions created by companies that operate within the telecommunications industry are expected to grow at a compounded annual growth rate of 4.8%, from 151 million tons of CO₂ in 2002 to 349 million tons of CO₂ in 2020, according to the GSMA Green Power Report. By 2020, all off-grid and bad-grid towers globally are expected to require 7.2 TWh (terawatt-hours) of non-grid electricity and consume 150 million barrels of diesel fuel a year, according to the GSMA Green Power Report.

According to Deloitte's article "*Tower Power Africa 2014*," or the Tower Power Report, the operators of an estimated 170,000 cell sites, with an estimated 145,000 off-grid sites, on the continent, face a high cost of expansion, with limited power supply being a factor. With regulators and service level agreements targeting 99%+ uptime, outages are generally unacceptable. Because power is intermittent and the sensitive radio equipment cannot handle large voltage fluctuations, most of these sites rely on diesel generators as primary or heavily-used backup power, running as long as 18-20 hours a day, even at sites connected to the electrical grid. We believe better fuel efficiency of our DC hybrid power systems and DC solar hybrid systems lower operating costs of telecommunications towers when compared to AC diesel generators. Given that approximately 60% of the operating cost of a telecommunications tower relates to power generation, we believe the off-grid and bad-grid markets are ideally suited for our energy efficient products.

A 2012 report published by ATKearney, or the ATKearney Report, outlines a trend of mobile network providers divesting tower operations assets to reduce operating costs.

According to the ATKearney Report, a significant number of mobile network providers throughout the world are contemplating selling off tower assets, including the related energy infrastructure, to independent tower service companies. Based on our experience, we believe that many mobile network providers focus their efforts on expanding networks, subscriber base and upgrading technology of active radio equipment and pay little or no attention to investments in reducing energy costs. However, many tower service companies, which in many cases are real estate companies and/or service companies, are further divesting from daily operations, maintenance and service of power generating equipment and are contracting required equipment operation services to independent third-party energy service companies, especially in off-grid and bad-grid applications, according to the ATKearney Report. A description of these companies is set forth below:

- *Tower Service Companies:* Companies that operate and maintain telecommunications towers for their mobile network provider tenants. Tower service companies typically bundle their services with other standard functions dedicated to site security, monitoring active equipment and upgrades of passive infrastructure such as power generating equipment and normally charge a fixed monthly fees for services rendered. A tower service company's energy generation cost can constitute more than half of mobile operators' operating expenses, with about 65% of this for tower site equipment, according to a Green Telecommunication white paper published by the Telecom Regulatory Authority of India, or the Green Tech White Paper. We believe that as a result, tower service companies are incentivized to seek long-term opportunities for improved energy efficiency, energy cost reduction and cost predictability.
- *Energy Service Companies:* These are dedicated energy providers that own and operate energy assets at telecommunications tower sites. Energy service companies derive revenues from selling energy to mobile network providers as well as to tower service companies and we believe share similar incentives as tower service companies to reduce energy costs by upgrading energy assets.

There are two types of contracts most common between mobile network providers and tower companies, a fixed fee monthly contract or a pass-through model where all the costs associated with operating the cell tower is passed on to the mobile network provider. Pass-through contracts do not incentivize service companies to reduce energy costs. In India, the focus for telecom operators has shifted greatly to operational optimization and prudence, resulting in an increased emphasis on efficiency, with efforts to reduce costs related to power and fuel being among the key initiatives, according to The Future is Data report published by Deloitte in June 2015, or the Deloitte Report. Today, there is more public and regulatory pressure to reduce telecommunications tower emissions, especially emissions from diesel generators. Alternative solutions like solar, battery storage, cleaner fuel and fuel cells are being explored to reduce the carbon footprint of telecommunications towers in densely populated urban areas. As an example, according to the Deloitte Report, operators are increasingly pushing for fixed power and fuel cost arrangements, rather than the traditional pass through contracts. In Africa during 2014, 82% of the towers were owned by tower service companies according to the Tower Power Report.

The increased need for communications during natural and manmade disasters results in an increase in demand for reliable and efficient DC power systems.

After hurricane Katrina in 2005, the Federal Communications Commission, or the FCC, established an independent panel, or the Katrina Panel, which proposed regulations requiring mobile network providers to install emergency backup power for their equipment in case of a power outage during emergency in its "*Independent Panel Reviewing the Impact of Hurricane Katrina on Communication Networks – and its Report and Recommendations to the Federal Communications Commission,*" issued in 2006, or the Katrina Report. The FCC ultimately adopted the Katrina Panel's recommendations set forth in the Katrina Report in 2007. In particular, all local exchange carriers and commercial mobile radio service providers must have an emergency backup power source for all assets that are normally powered from local grid-connected AC commercial power, including those inside central offices, telecommunications sites, remote switches and digital loop carrier system remote terminals. Mobile network providers are encouraged to maintain emergency backup power for a minimum of 24 hours for assets inside central offices and 8 hours for telecommunication sites, remote switches and digital loop carrier system remote terminals.

The Katrina Panel also noted in the Katrina Report that during the hurricane and throughout its aftermath, the power necessary to support the communications networks throughout the region was generally unavailable. Many of the backup batteries and generators that were installed did not provide adequate backup reserves and the network sites went off-line.

After hurricane Sandy in 2012, one of the largest wireless carriers in the U.S. began an initiative of upgrading existing tower infrastructure to add backup power generation capacity with minimum reserve of 72 hours, three times the hours federally mandated by the FCC. Our DC power systems, which provide significant fuel efficiency and reliability, have received approval from three of the top five U.S. mobile networks to be used in backup power generation applications. Our sales have significantly benefited since the enactment and implementation of this initiative.

Military

The rapid deployment and improved fuel efficiency of mobile electric power is a key component of military combat operations.

Food, communications and weapon systems are the lifeblood of a military unit. With few exceptions, military communications operate from 28 volts DC or 48 volts DC sources. Currently, many guns (including howitzers), cannons and motors use computers and require DC power. We believe that the demand for DC power with the military is increasing as the use of pulsed energy weapon systems (i.e., weapons that either use pulses of electricity to fire ammunition or operate by sending an electric current to a target) are more widely used on the battle field. This increased use of electronics in military missions has resulted in an increased need for DC power and for more efficient ways of generating, storing and distributing energy. The military has assigned a special program management department to oversee the development and standardization of a new range of higher efficiency mobile power generators ranging in size from 5 kW to 200 kW. With pulsed weapon systems, DC power requirements can climb as high as 6 megawatts.

The objectives of the creation of a new generation of power generators are:

- enhanced mobility, reliability and maintainability;
- improved fuel efficiency;
- reduced system size and weight;
- reduced infrared and acoustic signatures;
- increased survivability in rugged combat operations; and
- reduced total cost of ownership.

Once the Advanced Medium Mobile Power Sources, or the AMMPS, the U.S. Department of Defense's third generation of military power generators, is fully implemented in vehicles and stationary platforms, it is expected that the new generators will save over 50 million gallons of fuel per year, according to the Mobile Electric Power Systems Command Brief issued by the U.S. Department of Defense in 2009. The new generation of mobile electric power generators will also have the capability to connect together to form an efficient power distribution center to create "power islands" that serve both DC and AC loads. In addition, solar and wind power is being added to AMMPS to create hybrid systems that can function as self-sustaining power sources in remote areas. The next generation of power systems are required to provide 21% higher fuel efficiency, reduce noise and weight and be capable of performing in extreme environments. Our DC hybrid power systems, with integrated controls that manage energy produced by solar and lithium battery solutions, provide higher fuel efficiency than traditional fossil fuel powered power systems currently used by the military. We believe our complete line of commercialized DC hybrid power systems in use for the past decade provides us with a competitive advantage in meeting stated power system goals outlined by Department of Defense.

Improvements in sensors, navigation and communication technologies have led to increased integration of situational awareness systems that allow all combat assets to communicate and coordinate both defensive and offensive efforts in combat. Reliance on these systems has led to an effort to integrate DC auxiliary power units ranging in size from 3 kW to 20 kW onboard combat vehicles independent of engine driven alternators. Integration of auxiliary power units to run climate control and on-board electronics while idling saves a significant amount of fuel and maintenance, a critical asset during combat operations. We believe that the integration of smaller horsepower auxiliary power units to operate climate control and on-board electronics systems, rather than large horsepower vehicle engines while idling, may save a significant amount of fuel and maintenance, both of which are critical assets during combat operations.

During the past two decades we have shipped 2 kW and 30 kW advanced power units to the U.S. Department of Defense and to its prime contractors for a wide variety of missions covering the land, sea and air. During the six months ended June 2016 and 2015, 1.7% and 1.2%, respectively, of our total sales consisted of auxiliary power systems designed for use in military combat vehicles.

Electric Vehicle Charging

As of December 2015, over 462,000 electric cars and vans have been registered in the U.S., which is approximately 0.66% of the total automobile market, according to a Global EV Outlook 2016, report published by the International Energy Agency, or the Global EV Report. The total population of electric vehicles has steadily grown from 172,000 in 2013 to 410,000 in 2015, according to the Global EV Report. In California, the market share of plug-in electric vehicle reached 3.1% in 2015, far outpacing other states, according to the Global EV Report. This rapid growth is a result of better product offerings and technological improvements in battery technology. In addition, companies like Tesla, Nissan, General Motors and Ford have released new lower cost products with a higher range per charge. Further large reductions in battery prices will result in electric vehicles becoming a more economic option than gasoline or diesel cars, according to the Global EV Report. In addition, according to Global EV Report, the Paris Declaration on Electro-Mobility and Climate Change announced the deployment of 100 million electric cars by the year 2030.

We believe that as the population of on-road vehicles grows, the need for services such as road side assistance will be essential to rapidly charge vehicles stranded due to lack of charge. We also believe that the need for mobile off-grid chargers in remote areas where no electric grid is available will be essential part of the charging infrastructure required for electric vehicles.

In 2011, we developed mobile chargers for four of the major electric car manufacturers for use as rapid advanced battery chargers. Our DC chargers are being used as mobile, off-grid chargers, for on-road electric vehicle testing. Our off-grid DC fast chargers, installed on a pickup truck or a trailer, are designed with electronics and charging algorithms that can fully charge most small OEM electric vehicles stranded on the road in 45 to 60 minutes.

We believe there is a larger need for residential electric vehicle chargers that can reduce charge times to less than two hours. We plan to develop residential electric vehicle chargers that use a combination of natural gas and solar energy to rapidly charge electric vehicles. These products will be designed to reduce peak loads on existing grid resources while rapidly charging the vehicle. In addition our chargers can be used as a backup power source in case of power outages.

Cogeneration/Distributed Power/Uninterruptable Power Supply

Micro combined heat and power DC generators are the leading low carbon solution for cost effective use of energy sources.

With rising levels of greenhouse gases and increased demand for power worldwide, governments, companies, and consumers must find energy efficient methods to generate power. Cogeneration, also known as combined heat and power (CHP), or MicroCHP when applied to a small business or home, offers a cost efficient and environmentally responsible solution.

Any type of power generation creates excess heat. Typically, this excess heat goes unused and is released as waste into the natural environment. Cogeneration is a process that recycles this excess heat and repurposes it for a number of practical applications, without any additional fuel consumption. CHP, for example, can use the excess heat from electricity production to space heat commercial buildings. MicroCHP can likewise use excess heat from electricity production to warm a home or small business.

MicroCHP systems provide a number of advantages over traditional power generators. For example, MicroCHP systems utilize as much as 85% of the heat from the primary energy source for useful purposes, whereas modern heat engines without cogeneration utilize at most 45%. Likewise, MicroCHP systems are able to increase the total energy use of the primary energy fuel source. At the same time, MicroCHP systems are highly adaptable, and can repurpose excess heat for space heating, water heating, refrigeration, or excess electricity production.

The market for MicroCHP is expected to grow from \$2.29 billion in 2015 to \$4.44 billion in 2020, at a compounded annual growth rate of 14.2%, according to a global forecast report published by Markets and Markets in February 2016, or the Markets and Markets Report. Major factors, such as autonomous heat and electricity generation at a reduced cost, progressive government support in Europe and Asia, and the desire of businesses and individual consumers to reduce their carbon footprint, are driving the MicroCHP market across the globe, according to the Markets and Markets Report.

The Asia-Pacific market is the largest market for MicroCHP, with Japan and South Korea leading the market due to favorable government subsidies. The U.K., where over 14 million households are thought to be ideally suited for MicroCHP installations, offers a 10.63 % incentive subsidy for MicroCHP projects. Likewise, the U.S. federal government offers a 10% tax credit to promote energy efficiency. Moreover, the U.S. Department of Energy has set a goal for MicroCHP to attain 20% of electric generation capacity by the year 2030. Denmark is the leader in the MicroCHP market worldwide, comprising 55% of its total energy production according to the Markets and Markets Report.

We believe that a variety of markets should consider MicroCHP, including those that require both heat and reliable base load electricity throughout the year. In particular, the reliable power generated through MicroCHP would benefit bad-grid markets where electrical outages are frequent and costly. At the same time, MicroCHP systems are advantageous in markets where the cost of electricity is relatively high and the cost of natural gas is relatively low, such as the Northeastern U.S., California, Alaska and Hawaii.

We believe MicroCHP is also well-suited for a variety of industries. For a typical MicroCHP system, the ratio of usable heat to electricity is 1:1. Therefore, the benefit to be derived from this higher system efficiency depends upon steady heat usage. Markets that use the largest fraction of hot water relative to electric usage throughout the year include lodging (e.g., hotels and dormitories), laundries, dairy and some agricultural applications and multifamily residential buildings. Because these markets rely on steady heat usage relative to their electricity consumption, we believe they would benefit from the cost savings associated with a MicroCHP system.

We shipped our first DC hybrid cogeneration systems in 1995, which included our DC micro-gen system coupled with a DC generator, air-conditioning compressor and heat exchangers providing heating and cooling. Increases in electricity pricing over the past decade, the advent of charging stations for electric vehicles, technological improvements in heat exchangers and chillers, and government subsidies, have created an ideal market for our MicroCHP DC hybrid products. During 2015 and 2014, our sales of cogeneration systems as a percentage of net sales were 0.35% and 1.46%, respectively. We plan to develop next generation of MicroCHP systems to address small commercial and residential markets.

Uninterruptable Power Supplies and Data Centers

The convergence of voice and data networks and increased reliance on digital networks combined with the unprecedented demand on power grids are resulting in an increase in the global need for backup power.

Uninterruptable power supply systems are used in a variety of application including homes, offices, banks and hotels. Batteries are coupled with an inverter/charger to continue to provide power during loss of the utility grid. Other applications include security systems, medical devices, computers and data services.

In most industrial and commercial applications, uninterruptable power supply battery systems are used to temporarily provide base load for a short duration of time, until backup industrial generators are capable of providing the base load. The power ratings of backup generators for commercial and industrial uninterruptable power supply applications can vary from 5 kW to 200 kW. We began shipping 6 kW DC hybrid systems for outdoor backup applications in 1993.

The challenges with current technologies with uninterruptable power supply systems center around current battery performance, poor reliability and service life, high cost and maintenance. During 2014 and 2015, we developed back-up power systems for telecommunications customers that integrated our DC power systems with super-capacitors as storage devices, thereby eliminating the use of battery banks as storage devices in certain backup applications. We believe our solution provides higher reliability and longer life than a battery-powered backup system in on-grid and bad-grid applications. We plan to further develop 5kW to 200 kW configurations of our backup DC hybrid power system products for telecommunications and data center applications.

Our Competitive Strengths

We have over a 30 year history and have developed a reputation as a proven supplier of reliable and advanced proprietary technology products to customers within the telecommunications, military, industrial and marine markets. We have invested significant capital and engineering expertise to develop products that capitalize on the growing trend towards environmentally friendly and fuel efficient power generation systems. We further believe our success will be based on the following key competitive strengths:

- **Proprietary Technologies.** Our research and development efforts, which began at our inception in 1979, have resulted in the development of DC power systems with proprietary software and controls that are configured to meet the specific needs of our customers. In addition, we have invested significant resources in developing technologies that improve fuel efficiency and generate lower emissions than conventional solutions available in the marketplace.
- **Engineering Expertise.** We have a customer-centric approach, and we continually strive to design products that target specific application performance requirements. We believe our direct sales and service approach gives us an advantage in determining the customer needs, thereby providing us early insight into future market trends. Over the years, our customers have experienced a significant reduction in operating expenses and longer life cycles using our DC power systems. We believe that most of our competitors purchase off-the-shelf components and adapt these components to meet the needs of their customers, thereby increasing the complexity of the system and sacrificing reliability. We take a different approach in that we engineer our proprietary components and integrate these components to provide the most cost-effective solution without compromising performance. We believe our high level of integration reduces the size and weight of a DC power system, lowers fuel consumption and maintenance and provides greater reliability and a longer life, all at a lower cost to the end-user.
- **Manufacturing Competitiveness.** We believe that our vertical integration approach to manufacturing lowers our production costs and improves our overall operational efficiency. In addition, vertically integrated manufacturing of our proprietary components provides us greater control and intellectual property protection over our production processes. This approach allows us to take advantage of advanced production techniques and materials. We believe our product evolution planning, design documentation, subcontractor relationships, and in-house manufacturing allows for fast turnaround on purchase orders. We combine our resources with those of our subcontractors to rapidly increase production when needed.
- **Strong Customer Base.** Currently, our products are being used by several of the largest telecommunications providers, including Verizon, AT&T and Telstra. Additionally, we work directly with the U.S. Department of Defense, defense contractors, leading automobile manufacturers and large utility operators.
- **Experienced Management Team.** Our President and Chief Executive Officer and key engineers each have over 25 years of engineering and production experience in the design and manufacturing of power systems. Our engineers have equipment design experience, as well as hands-on skills to build prototypes. A key factor demonstrating management's abilities and our engineering aptitude is our successful track record over the last 25 years of executing fixed-cost research, design and engineering contracts, with an average of eight projects per year. Our management team has increased sales and production volumes by over 200% a year for the past three years.

· **Supply Chain Competitiveness.** We believe we have a well-developed network of reliable, low-cost global suppliers. Our growth in volume has enabled us to source components directly from manufacturers with favorable terms. We believe our long term relationships with our suppliers cannot easily be replicated. Vertical integration in the manufacturing of key components has yielded significantly greater control over our production processes.

Our Growth Strategy

We believe that the increased growth in the use of electronic devices and components within the telecommunications, military, automotive and industrial markets has led to the rapid rise in demand for DC power in both grid connected and off-grid applications. Our decades-long experience in design and manufacturing of DC power systems, combined with our 30-year reputation in the industry, provides us with what we believe to be an unprecedented opportunity to address the growing demand for DC power systems. The primary elements of our growth strategy include:

· **Further develop U.S. mobile telecommunications market.** During the past three years we have achieved significant success in selling our DC power systems to large mobile telecommunications providers. We believe that many operators of telecommunications towers in the U.S. are in the early stages of transitioning from AC power systems to DC power systems. Since 2011, we have invested significant capital and effort in developing proprietary technologies and to obtain product certification and approval from the top three telecommunications companies in the U.S. This has resulted in significant sales growth during the past two years. We believe that we are well positioned to lead this transition from inefficient AC power systems to efficient DC power systems and capitalize on the unprecedented growth in this market. Our immediate growth plans require us to further expand our sales, manufacturing and service infrastructure through strategic allocation of capital in operations and plant and equipment. In addition, we plan to increase our sales infrastructure nationwide to promote our DC power systems to all the regions in the U.S. including mid-level mobile telecommunications tower service companies. We also plan to qualify additional independent telecommunications tower service providers to increase our aftermarket service infrastructure nationwide.

· **Expand DC power systems sales into new geographic markets.** The increased use of broadband networks (i.e., 3G and 4G networks and soon, 5G networks), resulting in the increased use of data via internet by mobile users, requires the addition and expansion of the telecommunication infrastructure globally. In addition, the projected increase in subscriber base in rural and remote areas in the developing countries has increased the deployment of telecommunication sites in off-grid and bad-grid areas. While the growth of the subscriber base in the U.S. and Europe was below 1% in 2014, the growth rate in Sub-Saharan Africa was nearly 12%, according to the GSMA 2015 Report. Given that 97% of our sales of DC power systems are to U.S. customers, which represents only 4.7% of the total global telecommunications market, we believe a significant opportunity exists for sales of our DC power systems to customers located in developing nations, such as India, China and Sub-Saharan Africa. To successfully penetrate international markets, we plan to establish subsidiaries in South Asia, Africa and Australia to conduct sales and service and, when needed, we plan to incorporate final assembly operations to reduce non-value added costs. We are also actively pursuing strategic partnerships with established mobile telecommunications tower service companies located in Latin America, and Eastern Europe. Furthermore, we anticipate venturing into other global markets by partnering with local service partners to rent and lease our products.

· **Develop higher power DC power systems.** We are in the process of developing higher power DC power systems that will include solar hybrid systems for prime and backup power. We believe that higher power DC power systems will provide us with an opportunity to increase our customer base within the industrial, military, hospitality, data centers, agriculture and telecommunications markets. We plan to enhance and further develop our existing proprietary alternator and control technologies to increase power output capacity up to 200 kW. In addition, higher capacity DC power systems will address the backup power needs of large regional data centers and can be used for backup or peak load sharing applications in large renewable energy installations, such as large solar or wind farms.

· **Expand renewable solar energy product offerings.** We believe that increased environmental regulations combined with the declining cost of solar and advanced storage batteries has accelerated the shift of the telecommunications tower operators towards solar hybrid systems in off-grid and bad-grid regions worldwide. In addition, in many developing countries, mobile telecommunications providers are required by the local government to increase infrastructure and coverage into non-profitable rural and remote areas in return for lucrative urban contracts and favored spectrum availability, according to the GSMA Green Power Report. We believe the demand for renewable energy systems in the mobile telecommunications tower market will outpace the growth of traditional fossil fuel based power systems. In 2013, we delivered twenty solar hybrid renewable energy DC power systems to a largest mobile telecommunications provider in Australia for installation in remote mobile tower application. We plan to expand our DC solar hybrid power system product line to address off-grid and bad-grid applications in telecommunications, eco-resorts and military markets worldwide. Our expanded product line will be comprised of systems ranging from 10 kW to 200 kW that will be available in either low voltage or high voltage configurations and designed for outdoor installations. We plan to target power markets in India and Sub-Saharan Africa where local governments are incentivizing the use of renewable energy within the telecommunications industry through favored spectrum auctions and tax incentives.

· **Enter power rental market.** During the past five years, the telecommunications industry has undergone significant changes in the management of assets, especially telecommunications towers. A number of mobile network providers, including Verizon, AT&T, Sprint, Vodafone, Airtel and Reliance, have recently begun divesting operations relating to the development and management of mobile telecommunications towers to third party telecommunications tower service companies in order to focus on the development of new technologies and subscriber management. This change has resulted in the creation of a new category of telecommunications tower service companies, such as Indus Towers, Reliance, American Tower, Viom Networks and Crown Castle. These tower service companies develop and manage telecommunications tower assets and lease the capacity to the mobile network providers on a fixed cost basis.

The Green Tech White Paper suggests that over half of the overall cost of operating a telecommunications tower is related to the cost of energy. As a result, it has become essential to reduce energy costs. Many telecommunications tower operators are real estate investment trusts, which in many cases lack expertise in developing new technologies to improve operational efficiencies at a telecommunications tower sites. According to the GSMA Green Power Report, during the past three years in Asia and Africa, telecommunications tower service companies have begun to subcontract the power generating assets installation and management to independent service providers that install and maintain power generating equipment at these facilities.

We believe that our DC power systems provide the greatest opportunity to reduce energy costs at telecommunications tower facilities. We plan to introduce equipment rental program to enter the energy provider market in the telecommunication tower industry. We plan to target telecommunications tower installations located in the remote outdoor locations with high fuel and maintenance costs. We believe the market is rapidly transitioning towards independent energy providers managing all the power and energy assets at telecommunications tower sites. We believe our longer product life, higher energy efficiency combined with proprietary remote performance tracking telematics tools allows us to efficiently manage and monitor our assets, thereby providing us with lower life cycle cost than our competitors.

We plan to initially introduce rentals to the mobile telecommunications tower market in regions where we currently have factory direct service networks and then, if initial results are favorable, we plan to expand our rental program nationwide.

We believe, this rental strategy will allow us to also demonstrate our inherent product advantages related to lower operating and maintenance costs to the smaller U.S. telecommunications operators (estimated at over 1,500 companies). For overseas rental programs, we plan to associate with channel partners or dealers within the host country.

Our Technologies

Within the power generation market, AC has been the dominant technology for over a century. The advent of components like transistors, solid state electronics, solar photovoltaic cells, advanced batteries and LED lighting, all powered by DC power systems, has led to an increase in the use of televisions, computers, refrigerators, air-conditioners and cell phones in our daily lives. In addition, telecommunications towers, radio antennas, military hardware, electric vehicles and solar photovoltaic systems are also powered by DC power systems.

In 1991, we began introducing DC power systems to provide backup and prime power for off-grid and bad-grid applications. Our initial products were predominantly designed for military applications and used as auxiliary power for vehicles, tanks and radar sites. In the late 1990s we introduced our DC power systems for commercial applications like mobile telecommunications towers, solar refrigerators and oil field applications.

In 1992, we developed our own proprietary DC alternator to improve system efficiency, reduce costs and lower weight. Our design replaced a conventional 4 pole, three-phase designs with a light weight, low cost 12-pole and 32-pole designs (i.e., designs containing 12 or 36 magnetic poles) incorporating either 6 or 3 phases (i.e., containing 6 or 3 power circuits). Another unique aspect of the design of our DC alternators is the elimination of bearings, internal wiring connections, and an exciter (i.e., a device which supplies the magnetizing current to generate working flux) to provide a longer life cycle than conventional motor designs in the marketplace.

PMHH Technology

We combined the attributes of homopolar alternator technology with a permanent magnet to develop our proprietary design model 6200 PMHH alternator. When mounted on an engine and operated at either a fixed or variable speed, the model 6200 PMHH generates a precise amount of regulated voltage and current. The DC output can be used to power electronics or charge batteries. In addition, we have developed a proprietary fully integrated digital control system that manages and optimizes alternator output and engine speed, thereby maximizing power output.

In 2006, we introduced next generation 8000 Series alternators designed for higher power and voltage applications, which features our proprietary 32-pole permanent magnet alternator technology. The 8000 Series offers high efficiency at a low cost.

Our alternator technology is used in diverse applications including telecommunications towers, electric vehicle charging, military tank auxiliary power and marine yacht house power. The hardware components used in each system vary in power and voltage based on application needs.

Supra Controller™ Technology

Our power and control system architecture is controlled by our proprietary digital control system, Supra Controller™, which contains software configured to meet specific application needs. Our Supra Controller™ networks all components via CAN bus communications and software and has the ability to control, analyze, monitor, record and communicate all key system parameters to ensure efficiency, safety and reliability of the overall system. The ability to remotely monitor and calibrate each system parameter, receive system alarms and auto-reset the system when a fault is corrected are the key differentiating factors of our DC power systems.

Battery Management System and Software (BMS)

Most DC power systems contain backup storage batteries to deliver power to the load equipment when a grid connection has failed or not available. In the field, various types of battery chemistries are used as storage devices. We have designed a proprietary BMS that monitors the parameters of each cell and controls the safe and efficient charging and discharging of the battery pack. The unique design of our BMS integrated with our Supra Controller™ has the capability to be field configured for charging and discharging of virtually any type of battery chemistry. Our DC hybrid systems are equipped standard with lithium battery packs for energy storage applications.

Products and Services

We broadly classify our power systems into three categories:

- *DC base power systems.* Our basic system which is centered around a DC generator. Applications include both prime power and backup power.
- *DC hybrid power systems.* Our basic DC power system with added energy storage via lithium-ion or other battery chemistries.

· *DC Solar hybrid power systems.* Our DC hybrid power system with added renewable energy (i.e., solar panels).

DC Base Power Systems

Our DC base power systems are designed for use in prime power and backup power applications. All of our DC power systems are designed to last 20 years or more in backup applications and meet all UL2200 standards. To maximize operational life, we incorporate (over and above our competition) the following:

- all aluminum, powder coated, enclosure with stainless hardware, which is lightweight and corrosion resistant;
- 105 C rated signal wire, tinned copper strands;
- stainless steel braided covering hoses for fuel and coolant lines;
- Class 220 C magnet wire for alternator windings;
- watertight connectors in place of terminal strips and other non-sealed connectors; and
- our Supra Controller™ modules that are environmentally sealed.

We believe that the number one reliability issue with a generator set is the failure to start. To improve the reliability of our generators, we remove the engine's starting battery and replace it with a super capacitor. The super capacitor has a 15- to 20-year service life, greater cold cranking amps and withstands greater temperature extremes than conventional starting batteries.

To reduce maintenance and help ensure that there is always adequate oil, we increase the engine's oil capacity to provide for a 3,000 hour (natural gas / propane) or 1,500 hour (diesel) maintenance interval. Standard oil intervals for typical generators range from 200 to 500 hours.

DC Hybrid Power Systems

In most off-grid or bad-grid outdoor applications where DC loads are required, such as telecommunications towers in rural or remote areas, fuel costs of operating a generator accounts for more than 60% of the total operating costs, according to the Green Tech White Paper.

In most backup applications, such as telecommunications and uninterruptable power supply systems, lead acid batteries are used for providing transitional power while the generator starts up. In most of our prime power applications (including telecommunications) the goal is to reduce maintenance and fuel costs. Our Supra Controller™ automatically cycles the generator off when the loads are small and cycles it on again when the load increases or the battery charge is depleted. This cycling reduces engine maintenance and saves significant quantities of fuel.

Additional fuel saving are realized by using lithium-ion batteries in place of lead acid batteries. Lead acid batteries, when compared with lithium-ion batteries, have high internal resistance, are inherently inefficient during charging or discharging in cyclic load applications and therefore require longer to charge, resulting in higher fuel costs. In 2011, we completed the design and testing of a hybrid power system, where our DC power system was integrated with lithium-ion batteries to provide a longer life and higher fuel efficiency to cyclic DC power applications like telecommunications towers.

Our DC hybrid power systems can monitor the charge/discharge cycle of either lithium-ion or lead acid batteries, or other battery types, on a cell by cell basis using our BMS. Our Supra Controller™ system incorporates a CAN bus communications capability that provides communication and control between the battery and the DC hybrid power system. Each cell in the battery pack is individually monitored for voltage and temperature, ensuring the safety and longevity of the battery bank. These power systems include enclosures, a lithium-ion battery pack, our proprietary BMS and our proprietary Supra Controller™ system that controls engine output, battery charging algorithms, cooling system and power control circuits that optimize DC load outputs.

DC Solar Hybrid Power Systems

Our DC solar hybrid power system combines our DC hybrid power system with solar photovoltaic modules and a custom engineered multi power point tracking charge controller. In most off-grid or bad-grid outdoor applications, such as telecommunications towers in rural or suburban areas, the fuel costs of operating a generator accounts for more than half of the total operating costs, according to the Green Tech White Paper. We believe that incorporating renewable energy sources, such as solar, with our DC hybrid power systems is ideal solution for numerous off-grid and bad-grid applications worldwide. Our DC solar hybrid power systems incorporate the following features:

- *Hybrid power panel.* We produce distribution panel assemblies that make use of punched and plated buss bars to make the heavy current connections between appliances. The industry standard is using labor intensive hand crimped wires and lugs which are accomplished in the field.
- *Photovoltaic Arrays.* Our telecommunications customers request photovoltaic array structures to withstand winds of 150 mph and 200 mph. We satisfy these requirements against the industry standard of 120 mph.
- *Shelter.* We provide all-weather light-weight aluminum walk-in shelter that is easy to transport by truck or helicopter.
- *Lightning protection.* We provide the highest degree of lightning protection through the use of air-coil type inductors designed by us.
- *Air-Conditioning.* We provide DC air-conditioning if required in very hot weather environments. We also provide cooling systems using ambient air.

Service and Support

Global Network Management Tools

We offer global network management services through our telematics tool, which consists of our proprietary Supra Controller™ technology integrated with monitoring software. This hardware is integrated into each DC power system and collects critical data from the equipment and transmits this data back to the customer and our service department. This capability allows us and our customers to monitor system performance remotely and to remotely update the equipment with new revision software in the field.

Our telematics capabilities and services include:

- automated and continuous remote monitoring with auto alerts and notifications that can be transmitted via email or text messaging;
- maintenance management, which provides ability to schedule preventative maintenance based on actual equipment usage; and
- real-time, bi-directional communication capability for remote upgrades, testing and troubleshooting.

Our telematics tools also provide information to our customers on specific equipment utilization that provides the abilities to determine the functional status of the equipment and proactively schedule maintenance. We believe these tools assist in reducing equipment downtime, thereby reducing the overall cost of ownership. In addition, we plan to use these tools to monitor and provide accurate billing for our rental equipment deployed at customer facilities.

Aftermarket and Service Parts

We offer extensive aftermarket and service parts programs. We maintain an extensive inventory of aftermarket parts and sell parts directly to customers or through our qualified network of service providers. In addition, we require our regional service providers to maintain sufficient quantities of aftermarket parts in their inventory to ensure minimum downtime upon product failure.

We maintain accurate records of bill of materials for each serial number shipped and service our products well beyond their recommended lives. In the marketplace, our products are known for their long life and durability.

Product and Warranty Support

We offer product commissioning as an added service to all our customers and require the purchase of such services as a condition for acceptance of any warranty claims in the future. We offer installation of the equipment, preliminary testing, integration of equipment with other assets located at the site and introductory maintenance and safety training. We offer various levels of fee based services to support our products in the field. In addition, we have trained product and application engineers that deliver high quality, responsive lifetime technical support to all our customers worldwide.

We further support our customers by using qualified regional independent service providers to perform warranty and aftermarket service and repair on our products. Our regional service providers are factory trained and certified prior to being authorized to repair or service our equipment. We generally reimburse regional service providers for the warranty services they perform on our systems.

Sales and Marketing

Our direct sales and marketing approach focuses on end users, service providers and OEM's in the telecommunications, defense, automotive, marine and industrial markets to maintain a maximum interface with our customers. Our direct sales force strategy has achieved significant success in marketing our DC power products to mobile telecommunications providers in the U.S. We seek to expand our direct sales force to increase our penetration into other regions of the U.S. and into the international mobile telecommunications tower market.

We target our telecommunications tower markets based on key market indicators related to growth in off-grid energy needs, growth in new mobile telecommunications tower installations, regional environmental regulations and fuel prices. Our direct sales strategy to large multinational companies provides us with the ability to design and configure a wide range of product solutions to meet regional market needs. In addition, our direct sales strategy allows us to better understand customer application needs which, in turn, allows us to deliver systems that meet our customer's expectations.

We market our products through our web site and by exhibiting our products at trade shows but historically, we have generated most of our sales through word of mouth. We rely on product demonstrations and short term rentals to demonstrate the capabilities of our products and value proposition to large mobile network providers worldwide. We plan to add additional capacity to our rental fleet to increase rental revenues and product demonstrations to regional telecommunications providers in the U.S.

Distribution and Service

We market our products through various distribution channels that promote our products and brand and provide effective aftermarket support and service. While the majority of our sales are achieved through our direct sales force, we also utilize independent service providers and dealers to complement our global sales strategy.

We plan to expand sales within the mobile telecommunications tower market by adding sales offices in key target markets globally and adding regional managers to expand our sales network in North America. We utilize a combination of factory trained technicians and independent service providers to provide installation, maintenance, service and training at customer locations throughout the U.S. The majority of our growth is the result of increased sales of DC power systems to telecommunications companies in the U.S. We currently provide products to the top three U.S. mobile telecommunications providers and several independent telecommunications tower operators.

In the international markets, we utilize local service partners to perform installation and service on our equipment. In the past decade we have shipped our DC power systems to customers located in over 30 countries and have developed strategic relationships in an additional five countries to expand our sales and service network. We plan to hire and train our own personnel in key strategic international markets to provide sales and aftermarket support for our customers.

In markets other than telecommunications, on a selective basis we have established collaborative relationships with OEM's and value added resellers to jointly develop products or product configurations to address market needs. A significant portion of our military sales is conducted through the supply of components and subsystems to large defense contractors for integration into larger complete systems.

Competition

DC Base Power Systems

Within the DC power systems market, we compete with well-established AC power systems providers and storage technologies such as fuel cells and lead acid batteries. We target markets for our products that require continuous (prime power) or backup power of DC output power to operate electronic equipment or to charge storage batteries.

In prime power applications, our main competitors are well established global manufacturers of AC generators that use power conversion devices to convert AC output power to DC output power. We believe our technology provides significant advantages over our competitors in terms of fuel efficiency, reliability, product life and total cost of ownership. Our competitors include Caterpillar, Generac, Cummins, 3-Tech, Ascot, Ausonia, Controllis and Kohler. In addition, incumbent technologies like hydrogen fuel cells are being evaluated and currently do not have a significant market presence. Our fuel cell competitors include Plug Power, Ballard Power and Intelligent Energy.

In backup power applications, we compete with AC generator manufacturers as well as battery backup solution providers which utilize battery storage as a means to provide DC output power in case of a power outage. In these applications, the intermittent use of batteries requires periodic maintenance, charging and replacement due to the finite shelf life of a battery. Unlike battery storage products, the low hours of usage in backup power applications significantly extends the life cycle of our DC power systems. We believe our technology provides significant maintenance and life cycle cost advantages in backup power applications. Our competitors include battery manufacturers like Tesla, Exide, EnerSys, Panasonic, Axiom, Samsung, Deka and Trojan batteries.

DC Hybrid Power Systems

The DC hybrid power system market targets mainly prime power applications in both off-grid and bad-grid applications. These systems utilize a DC power generator as a battery charger that charges the batteries, while DC load output is delivered by the batteries.

We compete with well-established AC power system resellers that combine an AC generator with lead acid batteries and deliver the end product to customers. In most cases, these resellers are generator distributors or small dealers specializing in battery system integration. These competitive solutions have fairly rudimentary charging and control technologies due to the use of lead acid batteries.

Our DC hybrid power systems are designed with lithium-ion batteries which provide higher efficiency charging, zero maintenance, longer life cycle and are light weight. In addition, our proprietary Supra Controller™ and BMS provide protection from over-charging and over-discharging of the battery pack, thereby increasing battery life. We believe our technology provides significant fuel and life cycle cost savings when compared to AC hybrid power systems. Our competitors include Ascot, Eltek Valere, General Electric, Schneider Electric, Alpha Technologies and Emerson Power.

DC Solar Hybrid Power Systems

The DC solar hybrid power system market targets mainly remote telecommunications off-grid or bad-grid sites. These systems rely on energy from solar photovoltaic panels to charge the batteries and power the load. Any excess energy from the solar photovoltaic panels is stored in the batteries. If the photovoltaic panels and/or the batteries are unable to provide all the power the load requires, the DC power system contributes the additional power required.

We compete with AC generator resellers that combine an AC generator, power converter with lead acid batteries and solar photovoltaic panels to deliver a DC power system for remote telecommunications sites.

Our DC solar hybrid power system integrates solar charge controllers, inverters (if required), our BMS and engine controls into our proprietary Supra Controller™ that contains algorithms to optimize the use of solar energy while ensuring adequate charge protection for the lithium-ion battery pack. We believe that our integrated product solution provides lower energy cost, long life cycle and lower maintenance cost when compared to AC solar hybrid power systems. Our competitors include Ascot, Eltek Valere, General Electric, Schneider Electric, Alpha Technologies and Emerson Power.

Manufacturing and Assembly

A significant percentage of our business comes from multinational global corporations seeking configured product solutions ready to be field deployed with a minimum installation time. Our manufacturing process begins with our direct sales force and engineering team defining customer application needs and concludes with the production of a custom configured product solution. We believe our ability to have total control over the sales and manufacturing process is a key competitive differentiator in the markets we serve.

By implementing vertical integration throughout our manufacturing processes we believe that we reduce overall manufacturing costs, thereby increasing profitability and market competitiveness. Our production processes encompass all aspects of production of our DC power systems, which includes alternators, aluminum enclosures, engine configurations, control electronics, cooling systems, wiring harnesses, exhaust systems and final assembly. Manufacturing of our proprietary technologies requires proprietary automated equipment that ensures total control and agility in our production processes. Over the past decade, we have made significant investments in highly specialized manufacturing tooling, jigs and fixtures that allow us to manufacture products at lower cost while maintaining the highest quality.

Our production assembly lines are designed to be flexible, and we utilize advanced manufacturing planning software to predict, monitor and control demand levels and product mix to provide the shortest delivery time to our customers. We utilize 3-D CAD software to product design and document assembly instructions throughout our production process. All our products are 100% tested to customer specific application requirements prior to shipment.

Throughout our operations we utilize computerized ERP software that integrates all our processes from lead generation to product shipment and aftermarket support. Our focus on safety, quality and on-time delivery is supported by employee training and information systems that monitor process and product quality, and communicate trends and findings to senior management on a real-time basis.

Design Engineering / Research and Development

Our research and development efforts are market driven. We conduct research and development at our facility in Gardena, California. Our research and development is focused on the development of new technologies and product improvements, as well as reducing costs, improving product quality and reliability. In the DC power systems market, we have developed proprietary PMHH alternator technology integrated with engine, control devices and battery management system. Over the past two decades we have been one of the first to market DC hybrid power systems and DC solar hybrid power systems to the telecommunications tower industry.

A significant part of our research and development effort has focused on the development of control software that integrates engine controls, power management and battery algorithms to fully optimize fuel consumption in both prime power and backup power generation applications. We use a high level of integration with a single control and communication module, our Supra Controller™, rather than competitive system designs with a number of independent control modules controlling a single function. Our integrated approach ensures software compatibility, reduces complexity in wiring, increases reliability and reduces cost.

Our engineering process begins with our sales team identifying and defining market needs and concludes with our engineering team developing and integrating proprietary technologies into product configurations that meet application needs. We maintain an in-house design, prototyping, testing and application engineering capabilities including expertise in 3-D solid modeling and finite element analysis, computer based modeling and testing, rapid prototyping, design verification testing and document publication, which includes manufacturing assembly instructions, supplier drawings and product manuals. In addition, we utilize third party testing laboratories to certify our products compliance to current applicable UL standards.

Our core engineering team, since the early 1980s, has been actively involved in engineering and developing new technologies for alternators, power control electronics and engine controls, providing us with extensive experience and know-how in the design of DC power systems.

Intellectual Property

We possess a broad intellectual property portfolio comprised of electronics, software, engines, alternators, thermal systems and production techniques. We rely on trademark, copyright and trade secret laws to protect our intellectual property. Currently, we rely on common law rights to protect our "Polar Power, Inc." trade name. We protect our trade secrets and other proprietary information by requiring confidentiality agreements from our employees, consultants and third parties that have access to such information. Despite these efforts, there can be no assurance that others will not gain access to our trade secrets, or that we can meaningfully protect our technology. In addition, effective trademark, copyright and trade secret protection may be unavailable or limited in certain foreign countries.

We consider our manufacturing process to be a trade secret, and have non-disclosure agreements with current employees to protect the trade secrets held by us. However, such methods may not afford complete protection, and there can be no assurance that others will not independently develop similar know-how or obtain access to our know-how and manufacturing concepts. We plan to register patents and trademarks in future to protect our intellectual property rights and enhance our competitive position.

Suppliers

We attempt to mitigate the material adverse effect of component shortages in our business through detail material planning and by qualifying multiple vendor sources for key components and outside processes. In order to meet our customer demands, we forecast the supply of our long lead time items such as engines, castings and electronic components through strategic planning of inventory levels. We plan to invest capital in tooling, jigs and fixtures for our proprietary components to gain additional production capacity needed to meet anticipated growth in the markets we serve.

Quality Control

We began concentrating on our quality control in the early 1980s, much of which was required by our customers at the time, including NASA and Hughes Aircraft. In the late 1980s, we implemented the MIL-I-45208A quality control system monitored by U.S. Department of Defense, to meet prime source requirements for a contract we received from the U.S. Army Picatinny Arsenal, to design and manufacture an advanced battery and monitoring system for a security device used in nuclear munitions depots around the world. We are currently in the process of obtaining an ISO 9000 certification.

Certifications

Our DC generator systems comply with UL2200 safety standards. Our products also comply with applicable regulatory emission standards of the Environmental Protection Agency, and the California Air Quality Management District.

Product Warranties

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. Under our standard warranty, we recognize the cost of our product warranties at the time a claim is filed and accepted, while on extended warranties, we plan to accrue anticipated warranty costs based on historical costs. Historically, we have experienced warranty costs within industry norms.

Information Systems

We utilize integrated information systems (i.e., ERP) that link our lead management, sales planning, order entry, purchasing, engineering, production control, manufacturing, inventory and accounting systems. During the past five years we have made significant investments to upgrade and customize our information systems to improve productivity and our ability to accurately forecast inventory and manpower requirements. We plan to invest additional capital in software and information systems to integrate aftermarket sales and service with our ERP system to improve post sales customer experience with our products and services.

Government Regulations and Environmental matters

Our products and their installations are subject to oversight and regulations at federal, state and local levels in accordance with regional statutes and ordinances relating to, building codes, fire codes, public safety, electrical and fuel connections, security protocols and local and state licensing requirements. We are also regulated by federal, state and international environmental laws governing our use, transport and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to required compliance with air emissions standards applicable to internal combustion engines. Our products integrate engines with our proprietary technologies to produce efficient DC power. We rely on our engine suppliers to conform to the regional regulations and statutes to meet regional emission requirements.

Employees

As of September 7, 2016, we had 77 full-time employees. Currently all employees are located at our corporate headquarters in Gardena, California. None of our employees are represented by labor unions, and there have not been any work stoppages at our facility. We consider our relationships with our employees to be generally satisfactory. In addition, from time to time, we utilize outside consultants or contractors for specific assignments.

Facilities

Our principal offices are located in Gardena, California, where we lease a 40,000 square feet facility that includes our corporate staff offices, our manufacturing facility, and our research and development center. We believe that our current facility is sufficient to accommodate our anticipated production volumes for the next twelve months. If required, additional office and manufacturing space is available within less than three miles from our present location.

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 material adverse effect on our business, prospects, financial condition or results of our operation.

Internet Website

Our Internet websites are www.polarpower.com and www.polarpowerinc.com. The content of our Internet websites do not constitute a part of this prospectus. In addition, maintain a website at www.polarpowerinc.net that is used as a service support portal by our customers and service providers.

MANAGEMENT

Executive Officers, Directors and Other Key Employees

The following table sets forth the names, ages and positions of our executive officers, directors and key employees as of the date of this prospectus.

| <u>Name</u> | <u>Age</u> | <u>Positions Held</u> |
|-------------------------------|------------|--|
| Executive Officers | | |
| Arthur D. Sams | 65 | Chairman of the Board, President and Chief Executive Officer |
| Rajesh Masina | 34 | Vice President Operations |
| Luis Zavala | 46 | Vice President Finance and Acting Chief Financial Officer |
| Non-Employee Directors | | |
| Keith Albrecht | 65 | Director |
| Matthew Goldman | 39 | Director |
| Key Employees | | |
| Richard Ulinski | 75 | Vice President Engineering |
| Adam Szczepanek | 52 | Vice President Business Development |

Executive Officers

Arthur D. Sams has served as our President, Chief Executive Officer and Chairman of our board of directors since August 1991. Under his leadership, we have grown to be a leading brand name in the design and manufacturing of DC power systems for the telecommunications, defense, automotive, marine and industrial markets. He specializes in the design of thermodynamics and power generation systems. During his early career, he gained vast industry experience while working as a machinist, engineer, project manager, chief technical officer and consultant for various Fortune 500 companies and the U.S. Department of Defense and the U.S. Department of Energy. Mr. Sams studied at California State Polytechnic University Pomona and the University California at Irvine with a dual major in biology and engineering.

In nominating Mr. Sams, our board of directors considered his diverse and global experience in engineering and manufacturing combined with a successful entrepreneurial career as a key attribute in his selection. The board of directors believes that through his experience in product development and international operations over the past two decades he can provide our company with particular insight into global opportunities and new markets for our current and planned future product lines.

Rajesh Masina has served as our Vice President Operations since August 2009. Prior to joining us, Mr. Masina served as the Supply Chain Consultant to International Game Technology, a large gaming equipment company in Reno, Nevada, from December 1998 to June 2009. Mr. Masina worked as the Assistant Manager for Applied Photonics Worldwide Inc., an engineering services company, from January 2006 to January 2008. He has extensive business experience in India, where he and his family was involved in providing passive infrastructure for the telecommunications towers operators. We believe Mr. Masina has a unique combination of technical and business knowledge that is vital to our growth strategy. Mr. Masina's key strengths include business analytics, supply chain management, make vs. buy decision making, production scheduling, client relations, and strategic planning. Mr. Masina is a minority investor in a startup equipment rental company, Smartgen Solutions, Inc., serving the Southern California telecommunications equipment market. Smartgen Solutions, Inc. provides installation and maintenance service for various telecommunications tower companies and also is an authorized service dealer for Polar products. Mr. Masina has a Master's Degree in Electrical Engineering from the University of Nevada Reno and an MBA from the University of Nevada Reno's Supply Chain Program.

Luis Zavala has served as our Vice President Finance since August 2009 and as our Acting Chief Financial Officer since March 2016. Prior to that, Mr. Zavala served as the President of Sky Limited Enterprises, a general contractor, from June 2006 to August 2009. Prior thereto, Mr. Zavala worked as Director of Finance for Legacy Long Distance International, a finance management company, from March 2001 to May 2006. Mr. Zavala also has over 20 years of experience managing accounting and finance departments in various industries, including banking and telecommunications. Mr. Zavala earned his Bachelor's Degree in Business Administration from the California State University of Northridge and his MBA at Keller Graduate School of Management, Long Beach.

Non-Employee Directors

Keith Albrecht has served as a member of our board of directors since May 2016 and will serve as a member of each of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee effective at the time of this offering. Mr. Albrecht has extensive experience as a commercial real estate appraiser for commercial banks and local governments. Mr. Albrecht was an appraiser for commercial buildings for the County of Orange, California, from 1996 to 2007, where he was responsible for the assessment of property values of shopping malls, office buildings, hotels and apartment buildings. Prior thereto, Mr. Albrecht was an appraiser for Security Pacific and Bank of America, from 1985 to 1996. Mr. Albrecht is currently retired and invests in startups and small cap companies. In nominating Mr. Albrecht, our board of directors considered his commercial real estate appraisal experience, which our board of directors believes gives him particular insight into analysis of income statements and balance sheets, debt analysis and audits of large commercial institutions.

Matthew Goldman has served as a member of our board of directors since August 2014 and will serve as a member of each of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee effective at the time of this offering. Mr. Goldman is the co-founder of High Tide Capital, a global macro hedge fund manager in the process of launching its first investment product, and has been its Fund Manager since February 2015. Prior thereto, Mr. Goldman founded Polaris Capital, LLC, a private equity and investment business engaged in investing and advisory services for startup and small cap companies, and served as its Director from May 2010 to February 2015. Mr. Goldman currently serves on the Board of Directors and Advisory Boards of several of the Polaris portfolio companies. Mr. Goldman began his career in 2006 at Blackrock, a financial planning and investment management firm, where he worked in the financial modeling group as a programmer, developing proprietary bond calculation engine. Mr. Goldman holds a Bachelor of Science degree in electrical engineering and computer science, with a minor in psychology, from Massachusetts Institute of Technology. In nominating Mr. Goldman, our board of directors considered his private equity and hedge fund experience, which our board of directors believes gives him particular insight into investments in, and the development of, early stage companies, as well as his high level of financial literacy and expertise regarding mergers, acquisitions, investments and other strategic transactions.

Key Employees

Richard Ulinski has served as our Vice President of Engineering since December 2005. Mr. Ulinski has been instrumental in designing the electronics within our DC generator and hybrid systems. Mr. Ulinski designs our electronic hardware and manages software programming, as well as their subsequent testing. From December 1998 to December 2005, Mr. Ulinski was the Chief Engineer at Aura Systems, an industrial equipment manufacturing company, and developed its electronics controls and related software. From July 1975 to December 1998, Mr. Ulinski founded, managed and sold RJS Inc. and Cactus Logic, both of which developed, manufactured, and marketed network products that he designed.

Adam Szczepanek has served as our Vice President Business Development since September 2014 and is responsible for identifying new business opportunities. Prior thereto, Mr. *Szczepanek* served as President of Hugart Inc., a leading packaging equipment company, from September 2010 to September 2014. From February 2001 to September 2010, Mr. *Szczepanek* worked as program manager for Aerovironment Inc., a leading manufacturer of industrial and electric vehicle chargers. Mr. *Szczepanek* previously worked at Allied Signal, as a project engineer for the company, from February 1999 to February 2001, where he designed turbogenerators. Mr. *Szczepanek* has a Master's Degree in Electrical Engineering from the University of Southern California and a Master's Degree in Mechanical Engineering from the Warsaw Polytechnic University in Poland.

Election of Officers; Family Relationships

Our executive officers are appointed by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Board Composition

Our board of directors currently consists of three members; Arthur D. Sams, Matthew Goldman and Keith Albrecht. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

Our certificate of incorporation and bylaws that will be effective upon completion of this offering provide that the authorized number of directors may be changed only by resolution of the board of directors. Our certificate of incorporation and bylaws also provide that any vacancy on our board of directors, including a vacancy resulting from an expansion of our board of directors, may be filled only by vote of a majority of our directors then in office, although less than a quorum or by a sole remaining director.

We have no formal policy regarding board diversity. Our priority in selection of board members is identification of members who will further the interests of our stockholders through his or her established record of professional accomplishment, the ability to contribute positively to the collaborative culture among board members, knowledge of our business and understanding of the competitive landscape.

Independence of our Board of Directors and Board Committees

Rule 5605 of the NASDAQ Listing Rules requires a majority of a listed company's board of directors to be comprised of "independent directors," as defined in such rule, subject to specified exceptions. In addition, the NASDAQ Listing Rules require that, subject to specified exceptions: each member of a listed company's audit, compensation and nominating committees be independent as defined under the NASDAQ Listing Rules; audit committee members also satisfy independence criteria set forth in Rule 10A-3 under the Exchange Act; and compensation committee members also satisfy an additional independence test for compensation committee members under the NASDAQ Listing Rules.

Our board of directors has evaluated the independence of its members based upon the rules of the NASDAQ Stock Market and the SEC. Applying these standards, our board of directors determined that none of the directors who will serve immediately following the completion of this offering, other than Mr. Sams, have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of those directors is “independent” as that term is defined under Rule 5605(a)(2) of the NASDAQ Listing Rules. Mr. Sams is not considered independent because he is an officer of Polar. As such, a majority of our board of directors is comprised of “independent directors” as defined under the NASDAQ Listing Rules.

Controlled Company Exemption

Upon the completion of this offering, Mr. Sams, our Chairman, President and Chief Executive Officer, will continue to control a majority of our common stock. As a result, we are a “controlled company” within the meaning of the NASDAQ Listing Rules. Under these rules, a company of which more than 50% of the voting power for the election of directors is held by an individual, a group or another company is a “controlled company” and may elect not to comply with certain NASDAQ corporate governance requirements. We do not currently intend to rely on those exemptions afforded to a “controlled company;” nonetheless, we could potentially seek to rely on certain of those exemptions afforded to a “controlled company” in the future. See “Risk Factors—We are a “controlled company” within the meaning of the NASDAQ Listing Rules. Although we do not currently intend to rely on the exemptions from certain corporate governance requirements afforded to a “controlled company” under the NASDAQ Listing Rules, we could potentially seek to rely on such exemptions in the future.”

Board Committees

Our board of directors has established standing committees in connection with the discharge of its responsibilities. Upon the commencement of the trading of our common stock on NASDAQ, these committees will include an audit committee, a compensation committee and a nominating and corporate governance committee. The composition and responsibilities of each committee are described below. Members will serve on committees until their resignation or until otherwise determined by our board of directors. Each of these committees will adopt a written charter that satisfies the applicable standards of the SEC and the NASDAQ Listing Rules, which we will post on the investor relations section of our website upon the completion of this offering.

Audit Committee

Effective at the time of this offering, the members of our audit committee will be Mr. Goldman and Mr. Albrecht. Mr. Albrecht will be the chair of the audit committee. Messrs. Goldman and Albrecht satisfy the heightened audit committee independence requirements under the NASDAQ Listing Rules and Rule 10A-3 of the Exchange Act. As a company listing on NASDAQ in connection with our initial public offering, we are permitted to phase-in our compliance with the independent audit committee member requirements set forth in the NASDAQ Listing Rules and relevant SEC rules as follows: (i) one independent member at the time of listing; (ii) a majority of independent members within 90 days of listing; and (iii) all independent members within one year of listing. We intend to add a third independent director elected to our board of directors to our audit committee as soon as possible but in no event later than one year after our initial listing on the NASDAQ Capital Market. Accordingly, we expect that the audit committee will, subject to the phase-in provisions, comply with the applicable audit committee composition and independence requirements. We have determined that the fact that our audit committee is not made of three independent directors does not materially adversely affect the ability of the audit committee to act independently and to satisfy the other requirements of the SEC and NASDAQ.

In addition, our board of directors has determined that Mr. Albrecht qualifies as an audit committee financial expert, as that term is defined under SEC rules, and possesses the requisite financial sophistication, as defined under the NASDAQ Listing Rules. Our audit committee will assist our board of directors in its oversight of our accounting and financial reporting process and the audits of our financial statements. Under its charter, our audit committee will be responsible for, among other things:

- overseeing accounting and financial reporting process;
- selecting, retaining and replacing independent auditors and evaluating their qualifications, independence and performance;
- reviewing and approving scope of the annual audit and audit fees;
- discussing with management and independent auditors the results of annual audit and review of quarterly financial statements;
- reviewing adequacy and effectiveness of internal control policies and procedures;
- approving retention of independent auditors to perform any proposed permissible non-audit services;
- overseeing internal audit functions and annually reviewing audit committee charter and committee performance;
- preparing the audit committee report that the SEC requires in our annual proxy statement; and
- reviewing and evaluating the performance of the Audit Committee, including compliance with its charter.

Compensation Committee

Effective at the time of this offering, the members of our compensation committee will be Mr. Goldman and Mr. Albrecht. Mr. Goldman will be the chair of the compensation committee. Each member of our compensation committee will be independent as defined under the NASDAQ Listing Rules and satisfies NASDAQ's additional independence standards for compensation committee members. Messrs. Goldman and Albrecht are non-employee directors within the meaning of Rule 16b-3 under the Exchange Act and outside directors as defined by Section 162(m) of the Internal Revenue Code. Our compensation committee assists our board of directors in the discharge of its responsibilities relating to the compensation of our executive officers. Under its charter, our compensation committee will be responsible for, among other things:

- developing and maintaining an executive compensation policy and monitor the results of that policy;

- recommending to our board of directors for approval compensation and benefit plans;
- reviewing and approving annually corporate and personal goals and objectives to serve as the basis for the CEO's compensation, evaluating the CEO's performance in light of those goals and objectives and determining the CEO's compensation based on that evaluation;
- determining and approving the annual compensation for other executive officers;
- retaining or obtaining the advice of a compensation consultant, outside legal counsel or other advisor;
- approving any grants of stock options, restricted stock, performance shares, stock appreciation rights, and other equity-based incentives to the extent provided under our equity compensation plans;
- reviewing and making recommendations to our board of directors regarding the compensation of non-employee directors; and
- reviewing and evaluating the performance of the compensation committee, including compliance with its charter.

Nominating and Corporate Governance Committee

Effective at the time of this offering, the members of our nominating and corporate governance committee will be Messrs. Goldman and Albrecht. Mr. Goldman will be the chair of the nominating and corporate governance committee. Each member of our nominating and corporate governance committee will be independent as defined under the NASDAQ Listing Rules. Under its charter, our nominating and corporate governance committee will be responsible for, among other things:

- considering and reviewing periodically the desired composition of our board of directors;
- establishing any qualifications and standards for individual directors;
- identifying, evaluating and nominating candidates for election to our board of directors;
- ensuring that the members of our board of directors satisfy SEC and NASDAQ independence and other requirements relating to membership on our board of directors and committees;
- making recommendations to our board of directors regarding the size of the board of directors, the tenure and classifications of directors, and the composition of the committees of the board of directors; and
- considering other corporate governance and related matters as requested by our board of directors.

Compensation Committee Interlocks and Insider Participation

During 2015, Arthur D. Sams, Chairman of our Board of Directors, solely determined all executive officer compensation

None of our executive officers serves, or in the past has served, as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers serving as members of our board of directors or our compensation committee. None of the members of our compensation committee is or has been an officer or employee of Polar.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Following this offering, a copy of the code will be made available on the investor relations section of our website, which is located at www.polarpower.com. If we make any substantive amendments to, or grant any waivers from, the code of business conduct and ethics for any officer or director, we will disclose the nature of such amendment or waiver on our website or in a current report on Form 8-K.

EXECUTIVE AND DIRECTOR COMPENSATION

This executive compensation section sets forth certain information regarding total compensation earned by our named executives for the years set forth below, as well as equity awards held by our named executives on December 31, 2015. Our compensation packages for executive officers primarily consist of salary, annual bonuses, and, in certain instances, perquisites and other benefits.

The tables and discussion below present compensation information for our chief executive officer and our two other most highly compensated officers for the year ended December 31, 2015, whom we refer to collectively as our named executive officers. These officers are:

- Arthur D. Sams, our President, Chief Executive Officer and Chairman of the Board;
- Rajesh Masina, our Vice President Operations; and
- Luis Zavala, our Vice President Finance and Acting Chief Financial Officer.

Summary Compensation Table

The following table sets forth the compensation paid or accrued during the fiscal years ended December 31, 2015 and 2014 to our named executive officers.

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) ⁽¹⁾ | Total (\$) |
|--|------|-------------|---------------------------|------------|
| Arthur D. Sams, President and Chief Executive Officer | 2015 | 150,000 | 7,500 | 157,500 |
| | 2014 | 75,000 | – | 75,000 |
| Rajesh Masina, Vice President Operations | 2015 | 92,383 | 5,750 | 98,133 |
| | 2014 | 81,600 | – | 81,600 |
| Luis Zavala, Vice President Finance and Acting Chief Financial Officer | 2015 | 84,123 | 5,750 | 89,873 |
| | 2014 | 75,000 | – | 75,000 |

- (1) Annual bonuses are discretionary. The determination of bonus amounts is based on a non-formulaic assessment of factors that vary from year to year. In determining individual annual bonus amounts, we consider a variety of factors regarding our overall performance, such as growth in profitability or achievement of strategic objectives, an individual's performance and contribution to our company, and general bonus expectations previously established between us and the executive. We do not quantify the weight given to any specific element or otherwise follow a formulaic calculation; however, our company's performance tends to be the dominant driver of the ultimate bonus amount. For 2015 bonuses, we considered a variety of factors, including year-over-year revenue and Adjusted EBITDA growth, levels of cash flow generated from operations, and certain strategic accomplishments.

Employment Agreements

Arthur D. Sams

Our Amended and Restated Executive Employment Agreement with Arthur D. Sams, dated as of July 8, 2016, provides for at-will employment of Mr. Sams as our President and Chief Executive Officer. Mr. Sams' current annual base salary is \$200,000. Mr. Sams is eligible to receive an annual discretionary cash bonus to be paid based upon performance criteria set by our board of directors and is eligible to participate in all of our employee benefit programs including our 2016 Plan, which will become effective in connection with the completion of this offering.

Upon termination by Polar without cause or resignation by Mr. Sams for good reason, Mr. Sams is entitled to receive (i) a lump sum cash payment equal to 200% of his then-current base salary, (ii) a lump sum cash payment equal to 200% of the amount of average incentive bonus paid to Mr. Sams during the two calendar years preceding the termination, and (iii) continued health insurance coverage for eighteen months. If Mr. Sams is terminated without cause or resigns for good reason within three months before or twelve months after a change in control, Mr. Sams is entitled to (a) a lump sum cash payment equal to 200% of his then-current base salary, (b) a lump sum cash payment equal to 200% of the amount of average incentive bonus paid to Mr. Sams during the two calendar years preceding the termination, and (c) continued health insurance coverage for eighteen months. If Mr. Sams becomes disabled, Mr. Sams is entitled to receive a lump sum cash payment equal to 100% of his then-current base salary and continued health coverage for twelve months.

The term "for good reason" is defined in the Amended and Restated Executive Employment Agreement as (i) the assignment to Mr. Sams of any duties or responsibilities that result in the material diminution of Mr. Sams' authority, duties or responsibility, (ii) a material reduction by Polar in Mr. Sams' annual base salary, except to the extent the base salaries of all other executive officers of Polar are accordingly reduced, (iii) a relocation of Mr. Sams' place of work, or Polar's principal executive offices if Mr. Sams' principal office is at these offices, to a location that increases Mr. Sams' daily one-way commute by more than fifty miles, or (iv) any material breach by Polar of any material provision of the Amended and Restated Executive Employment Agreement.

The term "cause" is defined in the Amended and Restated Executive Employment Agreement as (i) Mr. Sams' indictment or conviction of any felony or of any crime involving dishonesty, (ii) Mr. Sams' participation in any fraud or other act of willful misconduct against Polar, (iii) Mr. Sams' refusal to comply with any lawful directive of Polar, (iv) Mr. Sams' material breach of his fiduciary, statutory, contractual, or common law duties to Polar, or (v) conduct by Mr. Sams which, in the good faith and reasonable determination of our board of directors, demonstrates gross unfitness to serve; provided, however, that in the event that any of the foregoing events is reasonably capable of being cured, Polar shall, within twenty days after the discovery of the event, provide written notice to Mr. Sams describing the nature of the event and Mr. Sams shall thereafter have ten business days to cure the event.

A "change in control" of Polar is deemed to have occurred if, in a single transaction or series of related transactions (i) any person (as the term is used in Section 13(d) and 14(d) of the Exchange Act), or persons acting as a group, other than a trustee or fiduciary holding securities under an employee benefit program, is or becomes a "beneficial owner" (as defined in Rule 13-3 under the Exchange Act), directly or indirectly of securities of Polar representing a majority of the combined voting power of Polar, (ii) there is a merger, consolidation or other business combination transaction of Polar with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of Polar outstanding immediately prior to the transaction continue to hold (either by the shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of Polar (or the surviving entity) outstanding immediately after the transaction, or (iii) all or substantially all of our assets are sold.

Rajesh Masina

Our Executive Employment Agreement with Rajesh Masina, dated as of July 8, 2016, provides for at-will employment as our Vice President Operations. Mr. Masina's current annual base salary is \$120,000. Mr. Masina is eligible to receive an annual discretionary cash bonus to be paid based upon performance criteria set by our board of directors and is eligible to participate in all of our employee benefit programs including our 2016 Plan, which will become effective in connection with the completion of this offering.

Upon termination by Polar without cause, resignation by Mr. Masina for good reason or upon Mr. Masina's disability, Mr. Masina is entitled to receive (i) a lump sum cash payment equal to 50% of his then-current base salary, and (ii) continued health insurance coverage for six months. If Mr. Masina is terminated without cause or resigns for good reason within three months before or twelve months after a change in control, Mr. Masina is entitled to (a) a lump sum cash payment equal to 50% of his then-current base salary, and (b) continued health insurance coverage for six months.

The terms "for good reason," "cause" and "change in control in Mr. Masina's Executive Employment Agreement are identical to the definitions contained in Mr. Sams' Amended and Restated Executive Employment Agreement.

Luis Zavala

Our Executive Employment Agreement with Luis Zavala, dated as of July 8, 2016, provides for at-will employment as our Vice President Finance. The terms of Mr. Zavala's Executive Employment Agreement are identical to the terms of Mr. Masina's Executive Employment Agreement.

2016 Omnibus Incentive Plan

On July 8, 2016 our board of directors and stockholders adopted the 2016 Plan. The material terms of the 2016 Plan are summarized below.

Summary of the Material Terms of the 2016 Plan

Purpose. We established the 2016 Plan to attract, retain and motivate our employees, officers and directors, to promote the success of our business by linking the personal interests of our employees, officers, consultants, advisors and directors to those of our stockholders and to encourage stock ownership on the part of management. The 2016 Plan is intended to permit the grant of stock options (both incentive stock options, or ISOs and non-qualified stock options, or NQSOs or, collectively, Options), stock appreciation rights, or SARS, restricted stock awards, or Restricted Stock Awards, restricted stock units, or RSUs, incentive awards, or Incentive Awards, other stock-based awards, or Stock Based Awards, dividend equivalents, or Dividend Equivalents, and cash awards, or Cash Awards.

Administration. The 2016 Plan is administered by our Compensation Committee. Our Compensation Committee may act through subcommittees or, with respect to awards granted to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act and who are not members of our board of directors or the board of directors of our Affiliates (as defined by the 2016 Plan), delegate to one or more officers all or part of its duties with respect to such awards. Our Compensation Committee may, at its discretion, accelerate the time at which any award may be exercised, become transferable or nonforfeitable or become earned and settled including without limitation (i) in the event of the participant's death, disability, retirement or involuntary termination of employment or service (including a voluntary termination of employment or service for good reason) or (ii) in connection with a Change in Control (as defined in the 2016 Plan).

Authorized Shares. Under the 2016 Plan, we may issue a maximum aggregate of shares of common stock, all of which may be issued pursuant to Options, SARs, Restricted Stock Awards, RSUs, Incentive Awards, Stock-Based Awards or Dividend Equivalents. Each share issued in connection with an award will reduce the number of shares available under the 2016 Plan by one, and each share covered under a SAR will reduce the number of shares available under the 2016 Plan by one, even though the share is not actually issued upon settlement of the SAR. Shares relating to awards that are terminated by expiration, forfeiture, cancellation or otherwise without issuance of shares of common stock, settled in cash in lieu of shares, or exchanged prior to the issuance of shares for awards not involving shares, will again be available for issuance under the 2016 Plan. Shares not issued as a result of net settlement of an award, tendered or withheld to pay the exercise price, purchase price or withholding taxes of an award or shares purchased on the open market with the proceeds of the exercise price of an award will not again be available for issuance under the 2016 Plan.

Written Agreements. All awards granted under the 2016 Plan will be governed by separate written agreements between the participants and us. The written agreements will specify the terms of the particular awards.

Transferability. Generally, an award is non-transferable except by will or the laws of descent and distribution, and during the lifetime of the participant to whom the award is granted, the award may only be exercised by, or payable to, the participant. However, the Compensation Committee may provide that awards, other than ISOs or a Corresponding SAR that is related to an ISO, may be transferred by a participant to immediate family members or trust or other entities on behalf of the Participant and/or family members for charitable donations. Any such transfer will be permitted only if (i) the participant does not receive any consideration for the transfer and (ii) the Compensation Committee expressly approves the transfer. The holder of the transferred award will be bound by the same terms and conditions that governed the award during the period that it was held by the participant, except that such transferee may only transfer the award by will or the laws of descent and distribution.

Maximum Award Period. No award shall be exercisable or become vested or payable more than ten years after the date of grant.

Compliance With Applicable Law. No award shall be exercisable, vested or payable except in compliance with all applicable federal and state laws and regulations (including, without limitation, tax and securities laws), any listing agreement with any stock exchange to which we are a party, and the rules of all domestic stock exchanges on which our shares may be listed.

Payment. The exercise or purchase price of an award, and any taxes required to be withheld with respect to an award, may be paid in cash or, if the written agreement so provides, the Compensation Committee may allow a participant to pay all or part of the exercise or purchase price, and any required withholding taxes, by tendering shares of common stock, through a broker-assisted cashless exercise, by means of “net exercise” procedure, or any other specified medium of payment.

Stockholder Rights. No participant shall have any rights as our stockholder as a result of issuance of an award until the award is settled by the issuance of common stock (other than a Restricted Stock Award or RSUs for which certain stockholder rights may be granted).

Forfeiture Provisions. Awards do not confer upon any individual any right to continue in our employ or service or in the employ or service of our Affiliates. All rights to any award that a participant has will be immediately forfeited if the participant is discharged from employment or service for “Cause” (as defined in the 2016 Plan).

Types of awards

Options. Both ISOs and NQSOs may be granted under the 2016 Plan. Our Compensation Committee will determine the eligible individuals to whom grants of Options will be made, the number of shares subject to each option, the exercise price per share, the time or times at which the option may be exercised, whether any performance or other conditions must be satisfied before a participant may exercise an option, the method of payment by the participant, the method of delivery of shares to a participant, whether the Option is an ISO or a NQSO, and all other terms and conditions of the award. However, the exercise price of an Option may not be less than the fair market value of a share of common stock on the date the Option is granted. No participant may be granted ISOs that are first exercisable in any calendar year for shares of common stock having an aggregate fair value (determined on the date of grant) that exceeds \$100,000. With respect to an ISO granted to a participant who is a Ten Percent Shareholder (as defined in the 2016 Plan), the exercise price per share may not be less than 110% of the fair market value of the common stock on the date the Option is granted. At the Compensation Committee’s discretion, an Option may be granted with or without a Corresponding SAR (as defined below).

SARs. A SAR entitles the participant to receive, upon exercise, the excess of the fair market value on that date of each share of common stock subject to the exercised portion of the SAR over the fair market value of each such share on the date of the grant of the SAR. A SAR can be granted alone or in tandem with an Option. A SAR granted in tandem with an Option is called a Corresponding SAR and entitles the participant to exercise the Option or the SAR, at which time the other tandem award expires with respect to the number of shares being exercised. The Compensation Committee is authorized to determine the eligible individuals to whom grants of SARs will be made, the number of shares of common stock covered by the grant, the time or times at which a SAR may be exercised and all other terms and conditions of the SAR. However, no participant may be granted Corresponding SARs that are related to ISOs which are first exercisable in any calendar year for shares of common stock having an aggregate fair market value (determined on the date of grant) that exceeds \$100,000.

Restricted Stock Awards and RSUs. A Restricted Stock Award is the grant or sale of shares of common stock, which may be subject to forfeiture for a period of time or subject to certain conditions. A RSU entitles the participant to receive, upon vesting, shares of our common stock. We will deliver to the participant one share of common stock for each RSU that becomes earned and payable. With regard to Restricted Stock Awards, the Compensation Committee is authorized to determine the eligible individuals to whom grants will be made, the number of shares subject to such grants, the purchase price, if any, to be paid for each share subject to the award of restricted stock, the time or times at which the restrictions will terminate, and all other terms and conditions of the restricted stock. With regard to RSUs, the Compensation Committee is authorized to determine the eligible individuals to whom grants will be made, the number of shares subject to such grants and the vesting conditions entitling a participant to settlement of the RSUs.

Incentive Awards. An Incentive Award entitles the participant to receive cash or common stock when certain conditions are met. The Compensation Committee has the authority to determine the eligible individuals to whom grants will be made and all other terms and conditions of the Incentive Award.

Stock-Based Awards. Stock-Based Awards may be denominated or payable in, valued by reference to or otherwise based on shares of common stock, including awards convertible or exchangeable into shares of common stock (or the cash value thereof) and common stock purchase rights and awards valued by reference to the fair market value of the common stock. The Compensation Committee has the authority to determine the eligible individuals to whom grants will be made and all other terms and conditions of Stock-Based Awards. However, the purchase price for the common stock under any Stock-Based Award in the nature of a purchase right may not be less than the fair market value of a share of common stock as of the date the award is granted. Cash awards, as an element of or supplement to any other award under the 2016 Plan, may also be granted.

Our Compensation Committee is authorized under the 2016 Plan to grant shares of common stock as a bonus, or to grant shares of common stock or other awards in lieu of any of our obligations or of our affiliates to pay cash or to deliver other property under the 2016 Plan or under any other of our plans or compensatory arrangements or any of our affiliates.

Dividend Equivalents. Our Compensation Committee may also grant Dividend Equivalents under the 2016 Plan. A Dividend Equivalent is an award that entitles the participant to receive cash, shares of common stock, other awards or other property equal in value to all or a specified portion of dividends paid with respect to shares of our common stock. The Compensation Committee is authorized to determine the eligible individuals to whom grants will be made and all other terms and conditions of the Dividend Equivalents. However, no Dividend Equivalents may be awarded with an Option, SAR or Stock-Based Award in the nature of purchase rights.

Cash Awards. Cash Awards will also be authorized under the 2016 Plan. Cash Awards may be granted as an element of or a supplement to any other award under the 2016 Plan or as a stand-alone Cash Award. The Compensation Committee will determine the terms and conditions of any such Cash Awards.

Material terms of the performance-based compensation

Awards that are paid to Named Executive Officers (as defined in the 2016 Plan) are potentially subject to the tax deduction limitations of Section 162(m) of the Code. The limitations of Section 162(m) of the Code do not apply, however, to performance-based compensation that meets certain requirements, including stockholder approval of the eligibility requirements, business criteria for performance goals and individual award limits of the 2016 Plan pursuant to which such awards are made.

Eligibility. Any of our employees or service providers, employees or service providers of our Affiliates (as defined in the 2016 Plan), and nonemployee members of our board of directors or of any board of directors of our Affiliates is eligible to receive an award under the 2016 Plan.

Award Limits. In any calendar year, no participant may be granted awards that relate to more than _____ shares of common stock. For these purposes, an Option and its corresponding SAR will be counted as a single award. For any award stated with reference to a specific dollar limit, the maximum amount payable with respect to any 12-month performance period to any one participant is \$2,000,000 (pro-rated up or down for performance periods greater or less than 12 months). For any Cash Awards that are intended to constitute annual incentive awards, the maximum amount payable to any one participant with respect to any 12-month period is \$5,000,000. Award limits that are expressed as a number of shares are subject to the adjustment provisions of the 2016 Plan as described below.

Performance Criteria. Our Compensation Committee has the discretion to establish objectively determinable performance conditions for when awards will become vested, exercisable and payable. Objectively determinable performance conditions generally are performance conditions (a) that are established in writing (i) at the time of the grant or (ii) no later than the earlier of (x) ninety (90) days after the beginning of the period of service to which they relate and (y) before the lapse of twenty-five percent of the period of service to which they relate; (b) that are uncertain of achievement at the time they are established and (c) the achievement of which is determinable by a third party with knowledge of the relevant facts. These performance conditions may be based on one or any combination of metrics related to our financial, market or business performance. The form of the performance conditions also may be measured on a company, affiliate, division, business unit or geographic basis, individually, alternatively or in any combination, subset or component thereof. Performance goals may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure of the selected performance conditions. Profits, earnings and revenues used for any performance condition measurement may exclude any extraordinary or nonrecurring items. The performance conditions may, but need not, be based upon an increase or positive result under the aforementioned business criteria and could include, for example and not by way of limitation, maintaining the status quo or limiting the economic losses (measured, in each case, by reference to the specific business criteria). An award that is intended to become exercisable, vested or payable on the achievement of performance conditions means that the award will not become exercisable, vested or payable solely on mere continued employment or service. However, such an award, in addition to performance conditions, may be subject to continued employment or service by the participant. The performance conditions may include any or any combination of the following: (a) revenue, (b) earnings before interest, taxes, depreciation and amortization, or EBITDA, (c) cash earnings (earnings before amortization of intangibles), (d) operating income, (e) pre-or after-tax income, (f) earnings per share, (g) net cash flow, (h) net cash flow per share, (i) net earnings, (j) return on equity, (k) return on total capital, (l) return on sales, (m) return on net assets employed, (n) return on assets or net assets, (o) share price performance, (p) total stockholder return, (q) improvement in or attainment of expense levels, (r) improvement in or attainment of working capital levels, (s) net sales, (t) revenue growth or product revenue growth, (u) operating income (before or after taxes), (v) pre-or after-tax income (before or after allocation of corporate overhead and bonus), (w) earnings per share; (x) return on equity, (y) appreciation in and/or maintenance of the price of the shares of common stock, (z) market share, (aa) gross profits, (bb) comparisons with various stock market indices; (cc) reductions in cost, (dd) cash flow or cash flow per share (before or after dividends), (ee) return on capital (including return on total capital or return on invested capital), (ff) cash flow return on investments; (gg) improvement in or attainment of expense levels or working capital levels, and/or (hh) stockholder equity.

The foregoing performance conditions represent the criteria on which performance goals may be based under the 2016 Plan for awards that are intended to qualify for the “qualified performance-based compensation” exception to Section 162(m) of the Code. At its sole discretion, our Compensation Committee may grant an award that is subject to the achievement or satisfaction of performance conditions that are not set forth in the 2016 Plan to the extent our Compensation Committee does not intend for such award to constitute “qualified performance-based compensation” within the meaning of Section 162(m) of the Code.

Our Compensation Committee has the discretion to select one or more periods of time over which the attainment of one or more of the foregoing performance conditions will be measured for the purpose of determining when an award will become vested, exercisable or payable. The Compensation Committee has the authority to adjust goals and awards in the manner set forth in the 2016 Plan.

Change in Control. In the event of a “Change in Control” (as defined in the 2016 Plan) and, with respect to awards that are subject to Section 409A of the Internal Revenue Code of 1986, as amended, or the Code, and such awards, 409A Awards, only to the extent permitted by Section 409A of the Code, our Compensation Committee in its discretion may, on a participant-by-participant basis (a) accelerate the vesting of all unvested and unexercised Options, SARs or Stock-Based Awards in the nature of purchase rights and/or terminate such awards, without any payment therefore, immediately prior to the date of any such transaction after giving the participant at least seven days written notice of such actions; (b) fully vest and/or accelerate settlement of any awards; (c) terminate any outstanding Options, SARs or Stock-Based Awards in the nature of purchase rights after giving the participant notice and a chance to exercise such awards (to the extent then exercisable or exercisable upon the change in control); (d) cancel any portion of an outstanding award that remains unexercised or is subject to restriction or forfeiture in exchange for a cash payment to the participant of the value of the award; or (e) require that the award be assumed by the successor corporation or replaced with interests of an equal value in the successor corporation.

Amendment and Termination. The 2016 Plan will expire 10 years after its effective date, unless terminated earlier by our board of directors. Any award that is outstanding as of the date the 2016 Plan expires will continue in force according to the terms set out in the award agreement. Our board of directors may terminate, amend or modify the 2016 Plan at any time. However, stockholder approval may be required for certain types of amendments under applicable law or regulatory authority. Except as may be provided in an award agreement or the 2016 Plan, no amendment to the 2016 Plan may adversely affect the terms and conditions of any existing award in any material way without the participant’s consent.

An amendment will be contingent on approval of our stockholders, to the extent required by law, by the rules of any stock exchange on which our securities are then traded or if the amendment would (i) increase the benefits accruing to participants under the 2016 Plan, including without limitation, any amendment to the 2016 Plan or any agreement to permit a re-pricing or decrease in the exercise price of any outstanding awards, (ii) increase the aggregate number of shares of common stock that may be issued under the 2016 Plan, (iii) modify the requirements as to eligibility for participation in the 2016 Plan or (iv) change the stated performance conditions for performance-based compensation within the meaning of Section 162(m) of the Code. Additionally, to the extent the Compensation Committee deems necessary for the 2016 Plan to continue to grant awards that are intended to comply with the performance-based exception to the deduction limits of Section 162(m) of the Code, the Compensation Committee will submit the material terms of the stated performance conditions to our stockholders for approval no later than the first stockholder meeting that occurs in the fifth year following the year in which our stockholders previously approved the performance goals.

Material U.S. federal income tax consequences of awards under the 2016 Plan

The following discussion summarizes the principal federal income tax consequences associated with awards under the 2016 Plan. The discussion is based on laws, regulations, rulings and court decisions currently in effect, all of which are subject to change.

ISOs. A participant will not recognize taxable income on the grant or exercise of an ISO (although the excess of the fair market value of the common stock over the exercise price will be included for alternative minimum tax purposes). A participant will recognize taxable income when he or she disposes of the shares of common stock acquired under the ISO. If the disposition occurs more than two years after the grant of the ISO and more than one year after its exercise, the participant will recognize long-term capital gain (or loss) to the extent the amount realized from the disposition exceeds (or is less than) the participant's tax basis in the shares of common stock. A participant's tax basis in the common stock generally will be the amount the participant paid for the stock. If common stock acquired under an ISO is disposed of before the expiration of the ISO holding period described above, the participant will recognize as ordinary income in the year of the disposition the excess of the fair market value of the common stock on the date of exercise of the ISO over the exercise price. Any additional gain will be treated as long-term or short-term capital gain, depending on the length of time the participant held the shares. Special rules apply if a participant pays the exercise price by delivery of common stock. We will not be entitled to a federal income tax deduction with respect to the grant or exercise of an ISO. However, in the event a participant disposes of common stock acquired under an ISO before the expiration of the ISO holding period described above, we generally will be entitled to a federal income tax deduction equal to the amount of ordinary income the participant recognizes.

NQSOs. A participant will not recognize any taxable income on the grant of a NQSO. On the exercise of a NQSO, the participant will recognize as ordinary income the excess of the fair market value of the common stock acquired over the exercise price. A participant's tax basis in the common stock is the amount paid plus any amounts included in income on exercise. Special rules apply if a participant pays the exercise price by delivery of common stock. The exercise of a NQSO generally will entitle us to claim a federal income tax deduction equal to the amount of ordinary income the participant recognizes.

SARs. A participant will not recognize any taxable income at the time SARs are granted. The participant at the time of receipt will recognize as ordinary income the amount of cash and the fair market value of the common stock that he or she receives. We generally will be entitled to a federal income tax deduction equal to the amount of ordinary income the participant recognizes.

Restricted Stock Awards and RSUs. With regard to Restricted Stock Awards, a participant will recognize ordinary income on account of a Restricted Stock Award on the first day that the shares are either transferable or not subject to a substantial risk of forfeiture. The ordinary income recognized will equal the excess of the fair market value of the common stock on such date over the price, if any, paid for the stock. However, even if the shares under a Restricted Stock Award are both nontransferable and subject to a substantial risk of forfeiture, the participant may make a special "83(b) election" to recognize income, and have his or her tax consequences determined, as of the date the Restricted Stock Award is made. The participant's tax basis in the shares received will equal the income recognized plus the price, if any, paid for the Restricted Stock Award. We generally will be entitled to a federal income tax deduction equal to the ordinary income the participant recognizes. With regard to RSUs, the participant will not recognize any taxable income at the time RSUs are granted. When the terms and conditions to which the RSUs are subject have been satisfied and the RSUs are paid, the participant will recognize as ordinary income the fair market value of the common stock he or she receives. We generally will be entitled to a federal income tax deduction equal to the ordinary income the participant recognizes.

Incentive Awards. A participant will not recognize any taxable income at the time an Incentive Award is granted. When the terms and conditions to which an Incentive Award is subject have been satisfied and the award is paid, the participant will recognize as ordinary income the amount of cash and the fair market value of the common stock he or she receives. We generally will be entitled to a federal income tax deduction equal to the amount of ordinary income the participant recognizes, subject to the deduction conditions and limits applicable under Section 162(m) of the Code.

Stock-Based Awards. A participant will recognize ordinary income on receipt of cash or shares of common stock paid with respect to a Stock-Based Award. We generally will be entitled to a federal tax deduction equal to the amount of ordinary income the participant recognizes.

Dividend Equivalents. A participant will recognize as ordinary income the amount of cash and the fair market value of any common stock he or she receives on payment of the Dividend Equivalents. To the extent the Dividend Equivalents are paid in the form of other awards, the participant will recognize income as otherwise described herein.

Limitation on Deductions. The deduction for a publicly-held corporation for otherwise deductible compensation to a “covered employee” generally is limited to \$1,000,000 per year. An individual is a covered employee if he or she is the chief executive officer or one of the three highest compensated officers for the year (other than the chief executive officer or chief financial officer). The \$1,000,000 limit does not apply to compensation payable solely because of the attainment of performance conditions that meet the requirements set forth in Section 162(m) of the Code and the underlying regulations. Compensation is considered performance-based only if (a) it is paid solely on the achievement of one or more performance conditions; (b) two or more “outside directors” set the performance conditions; (c) before payment, the material terms under which the compensation is to be paid, including the performance conditions, are disclosed to, and approved by, the stockholders and (d) before payment, two or more “outside directors” certify in writing that the performance conditions have been met. The 2016 Plan has been designed to enable the Compensation Committee to structure awards that are intended to meet the requirements for performance-based compensation that would not be subject to the \$1,000,000 per year deduction limit.

Other Tax Rules. The 2016 Plan is designed to enable our Compensation Committee to structure awards that will not be subject to Section 409A of the Code, which imposes certain restrictions and requirements on deferred compensation. However, our Compensation Committee may grant awards that are subject to Section 409A of the Code. In that case, the terms of such 409A Award will be (a) subject to the deferral election requirements of Section 409A of the Code; and (b) may only be paid upon a separation from service, a set time, death, disability, a change in control or an unforeseeable emergency, each within the meanings of Section 409A of the Code. Our Compensation Committee shall not have the authority to accelerate or defer a 409A Award other than as permitted by Section 409A of the Code. Moreover, any payment on a separation from service of a “Specified Employee” (as defined in the 2016 Plan) will not be made until six months following the participant’s separation from service (or upon the participant’s death, if earlier) as required by Section 409A of the Code.

Non-Employee Director Compensation

Prior to this offering, our non-employee directors received no cash or equity compensation for serving on our board of directors. Upon completion of this offering, our non-employee directors will receive a quarterly cash retainer of \$2,500. In addition, we will reimburse all of our directors for travel and other necessary business expenses incurred in the performance of director services and extend coverage to them under our directors' and officers' indemnity insurance policies.

Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law, or the DGCL, provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any threatened, pending or completed actions, suits or proceedings in which such person is made a party by reason of such person being or having been a director, officer, employee or agent to the corporation. The DGCL provides that Section 145 is not exclusive of other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise. Sections and of Article of our bylaws that will be in effect upon the completion of this offering provide for indemnification by us of our directors, officers, employees and agents to the fullest extent permitted by the DGCL.

Article of our certification of incorporation that will be in effect upon the completion of this offering eliminates the liability of a director or stockholder for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under Delaware law. Under Section 102(b)(7) of the DGCL, a director shall not be exempt from liability for monetary damages for any liabilities arising (i) from any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) from acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit.

Prior to the completion of this offering, we will enter into agreements to indemnify our directors and officers as determined by our board of directors. These agreements will provide for indemnification of related expenses including attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions of our amended and restated certificate of incorporation or our amended and restated bylaws, or otherwise, we have been informed that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

RELATED PARTY TRANSACTIONS

The following is a summary of transactions since January 1, 2013 to which we have been a participant, in which:

- the amount involved exceeded or will exceed \$36,700, which equals one percent of the average of our total assets at year-end for our fiscal years ended December 31, 2015 and 2014; and
- any of our directors (and director nominees), executive officers, or holders of more than 5% of our voting securities, or immediate family member or affiliate of such persons, had or will have a direct or indirect material interest, other than compensation and other arrangements that are described under “Executive and Director Compensation” in this prospectus, or that were approved by our compensation committee.

All of the related person transactions described below have been approved by a majority of the independent and disinterested members of our board of directors. We believe that each of the transactions described below were on terms no less favorable to us than terms we would have obtained from unaffiliated third parties.

It is our intention to ensure that all future transactions, if any, between us and related persons are approved by our audit committee or a majority of the independent and disinterested members of our board of directors (except for compensation arrangements, which are approved by our compensation committee), and are on terms no less favorable to us than those that we could obtain from unaffiliated third parties. See “Policies and Procedures for Related Person Transactions” below.

Transactions with Stockholders, Officers and Directors

Agreement with Smartgen Solutions, Inc.

On March 1, 2014, we entered into a Subcontractor Installer Agreement with Smartgen Solutions, Inc., or Smartgen, a company engaged in business of equipment rental and providing maintenance, repair and installation services to mobile telecommunications towers in California. Rajesh Masina, our Vice President of Operations, owns 40% of the share capital of Smartgen and an additional 40% is owned by his brother. On July 8, 2016, our board of directors reviewed the terms and conditions of, and ratified, the Subcontractor Installer Agreement.

Under the terms of the agreement, Smartgen has been appointed as a non-exclusive, authorized service provider for the installation, repair and service of Polar products in Southern California. The agreement has a term of three years from the date of execution and automatically renews for additional one year periods if not terminated. Once we have completed this offering and established an audit committee, all transactions involving this agreement will be monitored by our audit committee.

During 2014 and 2015, we received and paid purchase orders to Smartgen valued at \$0 and \$96,590, respectively. During the same period, Smartgen purchased parts and equipment from Polar valued at \$273,087 and \$17,650, respectively. During the six month periods ended June 30, 2016 and 2015, Smartgen purchased \$89 and \$0, respectively, in goods, parts and services from Polar.

Sales of Common Stock to Officers and Directors

Certain of the current members of our board of directors participated in our August 2014 private placement offering and purchased an aggregate of 1,050,000 shares of our common stock for an aggregate consideration equal to \$1,050,000 in cash. When we failed to meet the registration requirements contained in the offering described above on December 31, 2015 and pursuant to the terms of the offering, we issued an aggregate of 346,500 additional shares of common stock to these directors.

Sale of Common Stock to a Related Entity

On October 1, 2015, we entered into a Securities Purchase Agreement with Smartgen for the sale of 1,442,528 shares of our common stock at a price per share of approximately \$0.35, for a total purchase price of \$500,000. In recognition of the fact that the shares of common stock sold to Smartgen had a lower price per share than the shares of common stock sold to prior investors in August 2014, we recorded a compensation charge of \$581,896, representing the difference between the sales price to Smartgen and the price sold to other investors, as unrealized gains on our income statement for the year ended December 31, 2015.

Employment Agreements

We have entered into an employment agreement with each of Arthur D. Sams, our President and Chief Executive Officer, Rajesh Masina, our Vice President Operations and Luis Zavala, our Vice President Finance and Acting Chief Financial Officer, providing for, without limitation, certain payments upon termination and change in control. See “Executive and Director Compensation—Employment Agreements” in this prospectus for a further discussion of these agreements.

Indemnification of Officers and Directors

Our certificate of incorporation and our bylaws that will be in effect upon the completion of this offering provide that we will indemnify our directors and officers with respect to certain liabilities, expenses and other accounts imposed upon them because of having been a director or officer, except in the case of willful misconduct or a knowing violation of criminal law. See “Description of Capital Stock—Limitation on Liability and Indemnification of Directors and Officers” on page 99 of this prospectus.

Policies and Procedures for Related Person Transactions

Our board of directors will adopt a written policy with respect to related person transactions, which will become effective at the time of this offering. This policy will govern the review, approval or ratification of covered related person transactions. The audit committee of our board of directors will manage this policy.

For purposes of the policy, a “related person transaction” is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we were, are or will be a participant, and the amount involved exceeds the applicable dollar threshold set forth under Item 404 of Regulation S-K and in which any related person had, has or will have a direct or indirect material interest. As defined in Item 404 of Regulation S-K, “related person” generally includes our directors (and director nominees), executive officers, holders of more than 5% of our voting securities, and immediate family members or affiliates of such persons.

The policy will generally provide that we may enter into a related person transaction only if:

- the audit committee pre-approves such transaction in accordance with the guidelines set forth in the policy,
- the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party and the audit committee (or the chairperson of the audit committee) approves or ratifies such transaction in accordance with the guidelines set forth in the policy,
- the transaction is approved by the disinterested members of the board of directors, or
- the transaction involves compensation approved by the compensation committee of the board of directors.

In the event a related person transaction is not pre-approved by the audit committee and our management determines to recommend such related person transaction to the audit committee, such transaction must be reviewed by the audit committee. After review, the audit committee will approve or disapprove such transaction. If our Chief Executive Officer, in consultation with our audit committee, determines that it is not practicable or desirable for us to wait until the next audit committee meeting, the chairperson of the audit committee will possess delegated authority to act on behalf of the audit committee. The audit committee (or the chairperson of the audit committee) may approve only those related person transactions that are in, or not inconsistent with, our best interests and the best interests of our stockholders, as the audit committee (or the chairperson of the audit committee) determines in good faith. All approvals made by chairperson of the audit committee will be ratified by the full audit committee at the next regularly scheduled meeting or within 120 days from approval by chairperson.

We expect that our audit committee will determine that that the following transactions, even if the amount exceeds the applicable dollar threshold set forth under Item 404 of Regulation S-K in the aggregate, will be deemed to be pre-approved by the audit committee:

- any employment of certain named executive officers that would be publicly disclosed;
- director compensation that would be publicly disclosed;
- transactions with other companies where the related person's only relationship is as a director or owner of less than ten percent of such company (other than a general partnership), if the aggregate amount involved does not exceed the greater of \$200,000 or five percent of that company's consolidated gross revenues;
- transactions where all stockholders receive proportional benefits;
- transactions involving competitive bids;
- transactions with a related person involving the rendering of services at rates or charges fixed in conformity with law or governmental authority; and
- transactions with a related person involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services.

In addition, the audit committee will review the policy at least annually and recommend amendments to the policy to the board of directors from time to time.

The policy will provide that all related person transactions will be disclosed to the audit committee, and all material related person transactions will be disclosed to the board of directors. Additionally, all related person transactions requiring public disclosure will be properly disclosed, as applicable, on our various public filings.

The audit committee will review all relevant information available to it about the related person transaction. The policy will provide that the audit committee may approve or ratify the related person transaction only if the audit committee determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, our best interests and the best interests of our stockholders. The policy will also provide that the audit committee may, in its sole discretion, impose such conditions as it deems appropriate on us or the related person in connection with approval of the related person transaction.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of our common stock as of , 2016 by:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our shares of common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

The table is based on information provided to us by our directors, executive officers and principal stockholders. Beneficial ownership is determined in accordance with the rules of the SEC, and generally means that a person has beneficial ownership of a security if he, she or it possesses sole or shared voting or investment power of that security, including stock options and warrants that are exercisable within 60 days of , 2016. To our knowledge, except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Shares of common stock underlying derivative securities, if any, that are currently exercisable or exercisable within 60 days after , 2016 are deemed to be outstanding in calculating the percentage ownership of the applicable person or group, but are not deemed to be outstanding as to any other person or group.

For purposes of computing percentage ownership after our initial public offering, we have assumed that shares of our common stock will be issued by us in our initial public offering. The table below assumes that the initial public offering price for shares of our common stock to be sold in this offering is \$ per share, which is the midpoint of the range on the front cover of this prospectus. The precise holdings of shares of our common stock by particular existing owners after the offering would differ from that presented in the table below if the actual initial public offering price per share differs from the assumed price.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Polar Power, Inc., 249 E. Gardena Boulevard, Gardena, California 90248.

| Name and Address of Beneficial Owner | Shares of Common Stock Beneficially Owned Prior to the Offering | | Shares of Common Stock Beneficially Owned After the Offering | |
|---|---|-------------------|---|-------------------|
| | Number | Percentage (1) | Number (2) | Percentage (3) |
| Directors and Named Executive Officers (4) | | | | |
| Arthur D. Sams | | % | | % |
| Rajesh Masina (5) | | % | | % |
| Luis Zavala | | % | | % |
| Keith Albrecht | | % | | % |
| Matthew Goldman (6) | | % | | % |
| Greater than 5% stockholders | | | | |
| Smartgen Solutions, Inc. (5) | | % | | % |
| Polaris Capital, LLC (6) | | % | | % |
| All directors and executive officers as a group (5 persons) | | % | | % |

* Less than 1%.

- (1) Percentage of beneficial ownership prior to the offering is based on _____ shares of common stock outstanding as of _____, 2016.
- (2) Assumes no purchase of shares of common stock in this offering by our directors, executive officers and greater than 5% stockholders.
- (3) Percentage of beneficial ownership after the offering is based on _____ shares of common stock, consisting of _____ shares of common stock outstanding as of _____, 2016 and an assumed _____ shares of our common stock that will be issued by us in this offering. The percentage of shares beneficially owned after the offering assumes no exercise of (i) the underwriters' over-allotment option to purchase additional shares of our common stock and (ii) the representative's warrants.
- (4) Messrs. Sams, Albrecht and Goldman are directors of Polar. Messrs. Sams, Masina and Zavala are named executive officers of Polar.
- (5) Mr. Masina owns 40% of the share capital of Smartgen Solutions, Inc. Mr. Masina disclaims beneficial ownership over the shares of common stock of Polar held by Smartgen Solutions, Inc. Jayamadhuri Penumarthi, the President and Secretary of Smartgen Solutions, Inc., has voting and investment power over such shares of common stock.
- (6) Includes _____ shares of common stock held by Polaris Capital, LLC. Mr. Goldman, the sole member of Polaris Capital, LLC, has voting and investment power over such shares of common stock.

DESCRIPTION OF CAPITAL STOCK

The following description summarizes the most important terms of our capital stock, as they are expected to be in effect upon the completion of this offering. We are currently incorporated in California and will reincorporate in Delaware prior to the completion of this offering. We expect to adopt a Delaware certificate of incorporation and bylaws in connection with the completion of this offering, and this description summarizes certain of the provisions that are expected to be included in those documents. This summary does not purport to be complete and is qualified in its entirety by the provisions in our certificate of incorporation and bylaws, copies of which have been filed with the SEC as exhibits to the registration statement of which this prospectus is a part, and to the applicable provisions of Delaware law.

Immediately following the completion of this offering, our authorized capital stock will consist of 50,000,000 shares of common stock, \$0.0001 par value per share, and 5,000,000 shares of undesignated preferred stock, \$0.0001 par value per share.

Common Stock

We are authorized to issue up to a total of 50,000,000 shares of common stock, par value \$0.0001 per share. Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of our stockholders. Holders of our common stock have no cumulative voting rights. Further, holders of our common stock have no preemptive, conversion, redemption or subscription rights and there are no sinking fund provisions applicable to our common stock. Upon our liquidation, dissolution or winding-up, holders of our common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preferences of any of our outstanding shares of preferred stock. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors, or board, out of our assets which are legally available.

As of _____, 2016, there were _____ shares of common stock issued and outstanding and there were approximately _____ holders of record of our common stock, assuming the conversion of each _____ shares of our then outstanding common stock into one share of common stock upon our reincorporation in Delaware, which we expect will occur prior to the completion of this offering.

Preferred Stock

Our board of directors is authorized to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights and rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any vote or action by our stockholders. Any preferred stock to be issued could rank prior to our common stock with respect to dividend rights and rights on liquidation. Our board of directors, without stockholder approval, may issue preferred stock with voting and conversion rights which could adversely affect the voting power of holders of our common stock and discourage, delay or prevent a change in control of our Company.

Qualification and Election of Directors

Our bylaws that will be in effect upon the completion of this offering provide that to be eligible to be a nominee for election to our board of directors, a person must submit a written questionnaire regarding his or her background and qualifications and must agree to other representations as set forth in our bylaws. In addition, we have adopted a director resignation policy. The director resignation policy is incorporated into our bylaws and Corporate Governance Guidelines and provides that any nominee for director in an uncontested election who receives a greater number of votes “withheld” from his or her election than votes “for” his or her election must tender his or her resignation to the board of directors for consideration in accordance with the procedures set forth in our Corporate Governance Guidelines. The Nominating and Corporate Governance Committee will then evaluate the best interests of our company and our stockholders and will recommend to the board of directors the action to be taken with respect to the tendered resignation. Following the board of directors’ determination, we will promptly publicly disclose the board of directors’ decision of whether or not to accept the resignation and an explanation of how the decision was reached, including, if applicable, the reasons for rejecting the resignation.

Anti-Takeover Provisions of Delaware Law, our Certificate of Incorporation and our Bylaws

The provisions of Delaware law, our certificate of incorporation and our bylaws that will be in effect upon completion of this offering discussed below could discourage or make it more difficult to accomplish a proxy contest or other change in our management or the acquisition of control by a holder of a substantial amount of our voting stock. It is possible that these provisions could make it more difficult to accomplish, or could deter, transactions that stockholders may otherwise consider to be in their best interests or in our best interests. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage certain types of transactions that may involve an actual or threatened change of our control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. Such provisions also may have the effect of preventing changes in our management.

Advance Notification of Stockholder Nominations and Proposals

Our bylaws that will be in effect upon the completion of this offering provide that, for nominations to our board of directors or for other business to be properly brought by a stockholder before a meeting of stockholders, the stockholder must first have given timely notice of the proposal in writing to our Chief Executive Officer. For an annual meeting, a stockholder’s notice generally must be delivered not less than 90 days nor more than 120 days prior to the anniversary of the mailing date of the proxy statement for the previous year’s annual meeting. For a special meeting, the notice must generally be delivered not earlier than the 90th day prior to the meeting and not later than the later of (i) the 60th day prior to the meeting or (ii) the 10th day following the day on which public announcement of the meeting is first made. Detailed requirements as to the form of the notice and information required in the notice are specified in the restated bylaws. If it is determined that business was not properly brought before a meeting in accordance with our bylaw provisions, such business will not be conducted at the meeting. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer’s own slate of directors or otherwise attempting to obtain control of our company.

Board Vacancies; Removal

Our bylaws that will be in effect upon the completion of this offering provide that any vacancy occurring on our board of directors may be filled by a majority of directors then in office, even if less than a quorum. Our certificate of incorporation will provide that directors may be removed only for cause by affirmative vote of the holders of a majority of the voting power of the outstanding shares of common stock entitled to vote. Furthermore, any vacancy on our board of directors, however occurring, including a vacancy resulting from an increase in the size of board, may only be filled by the affirmative vote of a majority of our directors then in office even if less than a quorum. In addition, the number of directors constituting our board of directors will be permitted to be set only by a resolution adopted by our board of directors. These provisions would prevent a stockholder from increasing the size our or board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.

Special Meetings of Stockholders

Our bylaws that will be in effect upon the completion of this offering provide that only our board of directors may call a special meeting, and that stockholders may only conduct business at special meetings of stockholders that was specified in the notice of the meeting. This provision will limit the ability of a stockholder to call a special meeting of the stockholders.

Issuance of Undesignated Shares of Preferred Stock

Our board of directors will have the authority, without further action by the stockholders, to issue up to 5,000,000 shares of undesignated preferred stock with rights, preferences and privileges, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock would enable our board of directors to render more difficult or to discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or other means.

Exclusive Forum

Our certificate of incorporation that will be effective upon the completion of this offering 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. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees.

Limitation on Liability and Indemnification of Directors and Officers

Upon the completion of this offering, our certificate of incorporation will contain provisions that eliminate, to the maximum extent permitted by the General Corporation Law of the State of Delaware, or the DGCL, the personal liability of our directors and executive officers for monetary damages for breach of their fiduciary duties as directors or officers. Our certificate of incorporation and bylaws will provide that we must indemnify our directors and executive officers and may indemnify our employees and other agents to the fullest extent permitted by the DGCL.

Sections 145(a) and 102(b)(7) of the DGCL empowers a corporation to indemnify any director, officer, employee or agent, or former director, officer, employee or agent, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of such person's service as a director, officer, employee or agent of the corporation, or such person's service, at the corporation's request, as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding; *provided* that such director, officer employee or agent acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation; and, with respect to any criminal action or proceeding, *provided* that such director, officer employee or agent had no reasonable cause to believe his conduct was unlawful.

Section 145(b) of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit; *provided* that such director, officer, employee or agent acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such director, officer, employee or agent shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such director, officer, employee or agent is fairly and reasonably entitled to indemnity for such expenses that the court shall deem proper.

Prior to the completion of this offering we will enter into indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our certificate of incorporation and bylaws, and we intend to enter into indemnification agreements with any new directors and executive officers in the future.

We have purchased and currently intend to maintain directors' and officers' liability insurance.

Listing

There is currently no established public trading market for our common stock, and a liquid public trading market for our common stock may not develop or be sustained after this offering. We intend to apply to have our shares of common stock listed for trading on the NASDAQ Capital Market under the symbol "POLA". No assurance can be given that such listing will be approved.

Transfer Agent

, will serve as transfer agent and registrar for our common stock.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there has been no established public trading market for our common stock, and a liquid public trading market for our common stock may not develop or be sustained after this offering. Future sales of significant amounts of our common stock, including shares issued under our 2016 Plan, in the public market after this offering, or the anticipation of those sales, could adversely affect the public market prices prevailing from time to time and could impair our ability to raise capital through sales of our equity securities. We intend to apply to have our common stock listed on NASDAQ under the symbol "POLA".

Based on _____ shares of common stock outstanding as of _____, 2016, after giving effect to the issuance of the shares of our common stock offered in this offering, we will have outstanding an aggregate of _____ shares of common stock (or _____ shares of common stock if the underwriters exercise in full their option to purchase additional shares of our common stock). Also, upon completion of this offering, _____ shares of our common stock will be issuable upon the exercise of the representative's warrants.

The _____ shares of common stock sold by us in this offering (or _____ shares if the underwriters exercise in full their option to purchase additional shares of our common stock) will be freely tradable without further restriction or registration under the Securities Act, except that any shares purchased by our "affiliates," as defined in Rule 144 under the Securities Act, or Rule 144, may generally only be sold in compliance with Rule 144, which is described below.

Of the remaining shares of common stock, _____ shares will not be "restricted securities," and _____ shares will be deemed "restricted securities," as defined in Rule 144. Restricted securities may be sold in the public market only if they qualify for an exemption from registration under Rule 144 or any other applicable exemption.

Rule 144

All shares of our common stock held by our "affiliates," as that term is defined in Rule 144, generally may be sold in the public market only in compliance with Rule 144. Rule 144 defines an affiliate as any person who directly or indirectly controls, or is controlled by, or is under common control with, the issuer, which generally includes our directors, executive officers, 10% stockholders and certain other related persons.

Under Rule 144, a person (or persons whose shares are aggregated) who is deemed to be an "affiliate" of ours would be entitled to sell within any three month period a number of shares of our common stock that does not exceed the greater of (i) 1% of the then outstanding shares of our capital stock, or (ii) an amount equal to the average weekly trading volume of our common stock on NASDAQ during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to a six-month holding period and requirements relating to manner of sale, notice and the availability of current public information about us.

Rule 144 also provides that a person who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has for at least six months beneficially owned shares of our common stock that are restricted securities, will be entitled to freely sell such shares of our common stock without regard to the limitations described above, subject to our compliance with Exchange Act reporting obligations for at least 90 days prior to the sale, and provided that such sales comply with the current public information requirements of Rule 144. A person who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned for at least one year shares of our common stock that are restricted securities, will be entitled to freely sell such shares of our common stock under Rule 144 without regard to the current public information requirements of Rule 144, subject to our compliance with Exchange Act reporting obligations for at least 90 days prior to the sale.

Rule 701

In general, under Rule 701 under the Securities Act, any of an issuer's employees, directors, officers, consultants or advisors who purchases shares from the issuer in connection with a compensatory stock or option plan or other written agreement before the effective date of a registration statement under the Securities Act is entitled to sell such shares 90 days after the effective date of the registration statement in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period restriction, contained in Rule 144.

Lock-up Agreements

We, all of our directors and officers and all of our stockholders have agreed not to sell or otherwise transfer or dispose of any common stock for a period of 180 days from the date of this prospectus in the case of us and our principal stockholders and 12 months from the date of this prospectus in the case of our offices and directors, subject to certain exceptions and extensions. See "Underwriting" for a description of these lock-up provisions.

Registration Statement on Form S-8

We intend to file with the SEC a registration statement on Form S-8 covering the shares of common stock reserved for issuance under the 2016 Plan. That registration statement is expected to be filed and become effective as soon as practicable after the closing of this offering. Upon effectiveness, the shares of common stock covered by that registration statement will be eligible for sale in the public market, subject to the lock-up agreements and Rule 144 restrictions described above.

UNDERWRITING

We have entered into an underwriting agreement with Joseph Gunnar & Co., LLC acting as the representative for the underwriters named below. Subject to the terms and conditions of the underwriting agreement, the underwriters named below have agreed to purchase, and we have agreed to sell to them, the number of shares of common stock at the public offering price, less the underwriting discounts and commissions, as set forth on the cover page of this prospectus and as indicated below:

| Underwriter | Number of Shares |
|--------------------------|-------------------------|
| Joseph Gunnar & Co., LLC | |
| Total | |

All of the shares to be purchased by the underwriters will be purchased from us.

The underwriting agreement provides that the obligations of the underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to various conditions and representations and warranties, including the approval of certain legal matters by their counsel and other conditions specified in the underwriting agreement. The shares of common stock are offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them. The underwriters reserve the right to withdraw, cancel or modify the offer to the public and to reject orders in whole or in part. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares of common stock are taken, other than those shares of common stock and warrants covered by the over-allotment option described below.

Over-Allotment Option

We have granted to the underwriters an option, exercisable no later than 45 calendar days after the closing of this offering, to purchase up to an additional _____ shares of common stock (15% of the shares of common stock sold in this offering) from us to cover over-allotments, if any, at a price per share of common stock of \$ _____, less the underwriting discounts and commissions. The underwriters may exercise this option only to cover over-allotments made in connection with this offering. If the underwriters exercise this option in whole or in part, then the underwriters will be severally committed, subject to the conditions described in the underwriting agreement, to purchase these additional shares of common stock. If any additional shares of common stock are purchased, the underwriters will offer the additional shares of common stock on the same terms as those on which the shares of common stock are being offered hereby.

Discounts and Commissions

The representative has advised us that the underwriters propose to offer the shares of common stock to the public at the initial public offering price per share set forth on the cover page of this prospectus. The underwriters may offer shares to securities dealers at that price less a concession of not more than \$ _____ per share, of which up to \$ _____ per share may be reallocated to other dealers. After the initial offering to the public, the public offering price and other selling terms may be changed by the representative.

The following table summarizes the public offering price, underwriting discounts and commissions and proceeds before expenses to us assuming both no exercise and full exercise by the underwriters of their over-allotment option:

| | <u>Per Share</u> | <u>Total Without Over- Allotment</u> | <u>Total With Over- Allotment</u> |
|---|------------------|--|---|
| Public offering price | | | |
| Underwriting discounts and commissions (7%) | | | |
| Non-accountable expense allowance (1%)(1) | | | |
| Proceeds, before expenses, to us | | | |

- (1) The non-accountable expense allowance of 1% is not payable with respect to the shares sold upon exercise of the underwriters' over-allotment option.

We have paid an expense deposit of \$50,000 to the representative, which will be applied against the out-of-pocket accountable expenses that will be paid by us to the underwriters in connection with this offering, and will be reimbursed to us to the extent not incurred.

In addition, we have also agreed to pay the following expenses of the underwriters relating to the offering: (a) all fees, expenses and disbursements relating to background checks of our officers and directors in an amount not to exceed \$15,000 in the aggregate; (b) all filing fees and communication expenses associated with the review of this offering by FINRA; (c) all fees, expenses and disbursements relating to the registration, qualification or exemption of securities offered under the securities laws of foreign jurisdictions designated by the underwriter, including the reasonable fees and expenses of the underwriter's blue sky counsel up to \$15,000; (d) \$29,500 for the underwriters' use of Ipreo's book-building, prospectus tracking and compliance software for this offering; (e) the underwriters' legal fees incurred in connection with this offering in an amount up to \$75,000; (f) \$20,000 of the representative's actual accountable road show expenses for the offering; and (g) the costs associated with bound volumes of the public offering materials as well as commemorative mementos and Lucite tombstones in an amount not to exceed \$2,500.

We estimate the expenses of this offering payable by us, not including underwriting discounts and commissions, will be approximately \$.

Representative's Warrants

Upon closing of this offering, we have agreed to issue to the representative as compensation warrants to purchase a number of shares of common stock equal to 5% of the aggregate number of shares of common stock sold in this initial public offering, or the Representative's Warrants. The Representative's Warrants will be exercisable at a per share exercise price equal to 125% of the public offering price per share of the shares of common stock sold in this offering. The Representative's Warrants are exercisable at any time and from time to time, in whole or in part, during the four year period commencing one year from the effective date of the registration statement related to this offering. The Representative's Warrants also provide for one demand registration of the shares of common stock underlying the Representative's Warrants, and unlimited "piggyback" registration rights with respect to the registration of the shares of common stock underlying the Representative's Warrants. The demand registration right provided will not be greater than five years from the effective date of the registration statement related to this offering in compliance with FINRA Rule 5110(f)(2)(G). The piggyback registration rights provided will not be greater than seven years from the effective date of the registration statement related to this offering in compliance with FINRA Rule 5110(f)(2)(G).

The Representative's Warrants and the shares of common stock underlying the Representative's Warrants have been deemed compensation by FINRA and are, therefore, subject to a 180-day lock-up pursuant to FINRA Rule 5110(g)(1). The representative, or permitted assignees under such rule, may not sell, transfer, assign, pledge, or hypothecate the Representative's Warrants or the securities underlying the Representative's Warrants, nor will the representative engage in any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the Representative's Warrants or the underlying shares of common stock for a period of 180 days from the effective date of the registration statement. Additionally, the Representative's Warrants may not be sold transferred, assigned, pledged or hypothecated for a 180-day period following the effective date of the registration statement except to any underwriter and selected dealer participating in the offering and their bona fide officers or partners. The Representative's Warrants will provide for adjustment in the number and price of the Representative's Warrants and the shares of common stock underlying such Representative's Warrants in the event of recapitalization, merger, stock split or other structural transaction, or a future financing undertaken by us.

Right of First Refusal

Until 24 months from the effective date of the registration statement of which this prospectus is a part, the representative shall have an irrevocable right of first refusal to act as sole investment banker, sole book-runner and/or sole placement agent, at the representative sole discretion, for each and every future public and private equity and debt offerings for the Company, or any successor to or any subsidiary of the Company, including all equity linked financings, on terms customary to the representative. The representative shall have the sole right to determine whether or not any other broker-dealer shall have the right to participate in any such offering and the economic terms of any such participation. The representative will not have more than one opportunity to waive or terminate the right of first refusal in consideration of any payment or fee.

Prior to the offering, there has been no public market for shares of our common stock. The initial public offering price has been negotiated among us and the representative. Among the factors considered in determining the initial public offering price of the shares of common stock, in addition to prevailing market conditions, were the information set forth in this prospectus and otherwise available to the representative; our history and prospects and the history and prospects for the industry in which we compete; estimates of our business potential and earnings prospects; an assessment of our management; recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our common stock, or that the shares will trade in the public market at or above the initial public offering price.

We have applied to list the shares of our common stock on NASDAQ under the symbol "POLA."

The representative has advised us that the underwriters propose to offer the shares directly to the public at the public offering price set forth on the cover of this prospectus. After the offering to the public, the offering price and other selling terms may be changed by the representative without changing our proceeds from the underwriters' purchase of the shares.

The underwriters and their affiliates may in the future provide various investment banking and other financial services for us, for which they may receive, in the future, customary fees.

Lock-Up Agreements

We, each of our directors and officers and all of our stockholders, have agreed for a period of (i) 12 months after the date of this prospectus in the case of our directors and officers and (ii) 180 days after the date of this prospectus in the case of the Company and any other holder of our outstanding securities, without the prior written consent of the representative, not to directly or indirectly:

- issue (in the case of us), offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any shares of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock; or
- in the case of us, file or cause the filing of any registration statement under the Securities Act with respect to any shares of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock; or
- complete any offering of our debt securities, other than entering into a line of credit with a traditional bank; or
- enter into any swap or other agreement, arrangement, hedge or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock, whether any transaction described in any of the foregoing bullet points is to be settled by delivery of our common stock or other capital stock, other securities, in cash or otherwise, or publicly announce an intention to do any of the foregoing.

Price Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Specifically, the underwriters may over-allot in connection with this offering by selling more shares than are set forth on the cover page of this prospectus. This creates a short position in our common stock for its own account. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares of common stock over-allotted by the underwriters is not greater than the number of shares of common stock that they may purchase in the over-allotment option. In a naked short position, the number of shares of common stock involved is greater than the number of shares common stock in the over-allotment option. To close out a short position, the underwriters may elect to exercise all or part of the over-allotment option. The underwriters may also elect to stabilize the price of our common stock or reduce any short position by bidding for, and purchasing, common stock in the open market.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter or dealer repays selling concessions allowed to it for distributing shares of common stock in this offering because the underwriter repurchases the shares of common stock in stabilizing or short covering transactions.

Finally, the underwriters may bid for, and purchase, shares of our common stock in market making transactions, including “passive” market making transactions as described below.

These activities may stabilize or maintain the market price of our common stock at a price that is higher than the price that might otherwise exist in the absence of these activities. The underwriters are not required to engage in these activities, and may discontinue any of these activities at any time without notice. These transactions may be effected on NASDAQ, in the over-the-counter market, or otherwise.

In connection with this offering, the underwriters and selling group members, if any, or their affiliates may engage in passive market making transactions in our common stock immediately prior to the commencement of sales in this offering, in accordance with Rule 103 of Regulation M under the Exchange Act. Rule 103 generally provides that:

- a passive market maker may not effect transactions or display bids for our common stock in excess of the highest independent bid price by persons who are not passive market makers;
- net purchases by a passive market maker on each day are generally limited to 30% of the passive market maker's average daily trading volume in our common stock during a specified two-month prior period or 200 shares, whichever is greater, and must be discontinued when that limit is reached; and
- passive market making bids must be identified as such.

Indemnification

We have agreed to indemnify the underwriters against liabilities relating to the offering arising under the Securities Act and the Exchange Act, liabilities arising from breaches of some or all of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

Electronic Distribution

A prospectus in electronic format may be made available on a website maintained by one or more underwriters, or selling group members, if any, participating in this offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representative of the underwriters to underwriters and selling group members that may make internet distributions on the same basis as other allocations. In connection with the offering, the underwriters or syndicate members may distribute prospectuses electronically. No forms of electronic prospectus other than prospectuses that are printable as Adobe® PDF will be used in connection with this offering.

The underwriters have informed us that they do not intend to confirm sales to accounts over which they exercise discretionary authority in excess of five percent of the total number of shares of common stock offered by them.

Other than the prospectus in electronic format, the information on any underwriter's website and any information contained in any other website maintained by an underwriter is not part of the prospectus or the registration statement of which this prospectus is a part, has not been approved and/or endorsed by us or any underwriter in its capacity as underwriter and should not be relied upon by investors.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by Troutman Sanders LLP, Irvine, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Loeb & Loeb LLP, New York, New York.

EXPERTS

The financial statements as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015 included in this prospectus and in the registration statement have been audited by Weinberg & Company, independent registered public accounting firm, as set forth in their report appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus, which constitutes a part of the registration statement on Form S-1 filed with the SEC, does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. Accordingly, we refer you to the registration statement, including the exhibits and schedules thereto, for further information about us and the shares of common stock to be sold in this offering. Statements or summaries in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract or document is filed as an exhibit to the Registration Statement, each statement or summary is qualified in all respects by reference to the exhibit to which the reference relates. You may read and copy the registration statement, including the exhibits and schedules to the registration statement, without charge at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Our filings with the SEC, including the registration statement, are also available to you for free on the SEC's internet website at www.sec.gov.

Upon completion of this offering, we will become subject to the informational and reporting requirements of the Exchange Act and, in accordance with those requirements, will file periodic reports, proxy and information statements and other information with the SEC. You will be able to inspect and copy these periodic reports, proxy and information statements and other information at the addresses set forth above. In addition, you will be able to request a copy of any of our periodic reports filed with the SEC at no cost, by writing or telephoning us at the following address:

Investor Relations
Polar Power, Inc.
249 E. Gardena Boulevard
Gardena, California 90248
(310) 830-9153

We also currently intend to maintain an internet website at www.polarpower.com following the completion of this offering. Information contained on or accessible through our website is not part of this prospectus.

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REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

To the Board of Directors and Stockholders
Polar Power, Inc.

We have audited the accompanying balance sheets of Polar Power, Inc. as of December 31, 2015 and 2014, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Polar Power, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Weinberg & Company, P.A.

Los Angeles, California
September 9, 2016

POLAR POWER, INC.
BALANCE SHEETS

| | June 30, 2016 (Unaudited) | December 31, 2015 | December 31, 2014 |
|--|--|------------------------------|------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 200,859 | \$ 263,418 | \$ 553,492 |
| Accounts receivable | 3,859,545 | 1,496,654 | 628,238 |
| Inventories, net | 2,818,366 | 2,093,099 | 900,272 |
| Prepaid expenses | 137,590 | 93,125 | 108,302 |
| Total current assets | <u>7,016,360</u> | <u>3,946,296</u> | <u>2,190,304</u> |
| Other assets: | | | |
| Property and equipment, net | 791,484 | 542,892 | 434,996 |
| Deposits | 96,444 | 88,944 | 102,699 |
| Deferred tax assets | <u>136,111</u> | <u>205,000</u> | <u>190,000</u> |
| Total assets | <u>\$ 8,040,399</u> | <u>\$ 4,783,132</u> | <u>\$ 2,917,999</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable | \$ 1,009,535 | \$ 182,884 | \$ 78,061 |
| Customer deposit | 365,843 | 229,602 | 240,347 |
| Income Taxes payable | 741,696 | 295,778 | 38,405 |
| Accrued liabilities and other current liabilities | 575,281 | 268,636 | 69,621 |
| Current portion of notes payable | 221,088 | 327,693 | 777,031 |
| Line of credit | 1,572,593 | 965,150 | — |
| Payable for acquired technology | 41,215 | 131,215 | 311,215 |
| Total current liabilities | <u>4,527,251</u> | <u>2,400,958</u> | <u>1,514,680</u> |
| Notes payable, net of current portion | <u>282,625</u> | <u>127,840</u> | <u>197,541</u> |
| Total liabilities | <u>\$ 4,809,876</u> | <u>\$ 2,528,798</u> | <u>\$ 1,712,221</u> |
| Commitments and Contingencies | | | |
| Shareholders' Equity | | | |
| Preferred stock, no par value, 5,000,000 shares authorized, no shares issued and outstanding | — | — | — |
| Common stock, no par value, 50,000,000 shares authorized, 21,041,977, 20,991,977, 19,165,000 shares issued and outstanding, respectively | 2,286,395 | 2,248,895 | 1,167,000 |
| Retained earnings | 944,128 | 5,439 | 38,778 |
| Total shareholders' equity | <u>3,230,523</u> | <u>2,254,334</u> | <u>1,205,778</u> |
| Total liabilities and shareholders' equity | <u>\$ 8,040,399</u> | <u>\$ 4,783,132</u> | <u>\$ 2,917,999</u> |

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

POLAR POWER, INC.
STATEMENTS OF OPERATIONS

| | Six Months Ended June 30, | | Years Ended December 31, | |
|--|------------------------------|--------------------|-----------------------------|-------------------|
| | 2016 | 2015 | 2015 | 2014 |
| | (Unaudited) | (Unaudited) | | |
| Net sales | \$ 8,066,282 | \$ 2,133,148 | \$ 6,846,759 | \$ 5,201,304 |
| Cost of sales | 5,177,297 | 1,513,178 | 4,433,494 | 3,287,625 |
| Gross profit | <u>2,888,985</u> | <u>619,970</u> | <u>2,413,265</u> | <u>1,913,679</u> |
| Operating Expenses | | | | |
| General and administrative | 788,453 | 310,288 | 1,454,563 | 553,105 |
| Research and development | 89,134 | 56,935 | 116,297 | 108,559 |
| Sales and Marketing | 182,194 | 193,875 | 392,306 | 191,791 |
| Depreciation and amortization | 96,580 | 65,459 | 143,573 | 94,999 |
| Total operating expenses | <u>1,156,361</u> | <u>626,557</u> | <u>2,106,739</u> | <u>948,454</u> |
| Income (loss) from operations | <u>1,732,624</u> | <u>(6,587)</u> | <u>306,526</u> | <u>965,225</u> |
| Other expense | | | | |
| Interest expense | (63,791) | (44,728) | (50,971) | (44,927) |
| Other expense | — | (32,192) | (15,325) | (54,712) |
| Total other expense | <u>(63,791)</u> | <u>(76,920)</u> | <u>(66,296)</u> | <u>(99,639)</u> |
| Income (loss) before income taxes | <u>\$ 1,668,833</u> | <u>\$ (83,507)</u> | <u>\$ 240,230</u> | <u>\$ 865,586</u> |
| Income tax provision | (730,144) | — | (273,569) | (290,338) |
| Net Income (loss) | <u>938,689</u> | <u>(83,507)</u> | <u>(33,339)</u> | <u>575,248</u> |
| Net Income (loss) per share – basic and diluted | <u>\$ 0.04</u> | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> | <u>\$ 0.03</u> |
| Weighted average shares outstanding, basic and diluted | <u>21,033,413</u> | <u>19,165,000</u> | <u>19,472,137</u> | <u>18,340,082</u> |

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

POLAR POWER, INC.
STATEMENT OF SHAREHOLDERS' EQUITY

| | Common Stock, No Par Value | | Retained Earnings | Total Shareholders' Equity |
|---|---------------------------------------|---------------------|------------------------------|---|
| | Number | Amount | | |
| Balances, December 31, 2013 | 18,000,000 | \$ 2,000 | \$ (536,470) | \$ (534,470) |
| Common shares issued for cash | 1,165,000 | 1,165,000 | — | 1,165,000 |
| Net income | — | — | 575,248 | 575,248 |
| Balances, December 31, 2014 | 19,165,000 | 1,167,000 | \$ 38,778 | \$ 1,205,778 |
| Common shares issued for cash to related party | 1,442,527 | 500,000 | — | 500,000 |
| Additional cost of shares issued to related party | | 581,895 | — | 581,895 |
| Additional shares issued to related party | 384,450 | — | — | — |
| Net loss | — | — | (33,339) | (33,339) |
| Balances, December 31, 2015 | 20,991,977 | 2,248,895 | \$ 5,439 | \$ 2,254,334 |
| Common shares issued for services | 50,000 | 37,500 | — | 37,500 |
| Net income | — | — | 938,689 | 938,689 |
| Balances, June 30, 2016 (Unaudited) | <u>21,041,977</u> | <u>\$ 2,286,395</u> | <u>\$ 944,128</u> | <u>\$ 3,230,523</u> |

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

POLAR POWER, INC.
STATEMENTS OF CASH FLOWS

| | Six Months Ended | | Years Ended | |
|--|-------------------|------------------|-------------------|-------------------|
| | June 30, | | December 31, | |
| | 2016 | 2015 | 2015 | 2014 |
| | (Unaudited) | (Unaudited) | | |
| Cash flows from operating activities: | | | | |
| Net Income (loss) | \$ 938,689 | \$ (83,507) | \$ (33,339) | \$ 575,248 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | | |
| Common shares issued for services | 37,500 | — | — | — |
| Additional costs of shares issues to related party | — | — | 581,895 | — |
| Depreciation and amortization | 96,580 | 65,459 | 143,573 | 94,999 |
| Changes in operating assets and liabilities | | | | |
| Accounts receivable | (2,362,891) | (542,702) | (868,416) | (489,125) |
| Inventories | (725,267) | (359,525) | (1,192,827) | 150,881 |
| Prepaid expenses | (44,465) | 40,699 | 15,177 | (47,049) |
| Deposits | (7,500) | 13,755 | 13,755 | (75,665) |
| Deferred tax assets | 68,889 | (53) | (15,000) | 235,000 |
| Accounts payable | 826,651 | 439,205 | 104,823 | (120,558) |
| Income taxes payable | 445,918 | (6,446) | 257,373 | 38,405 |
| Customer deposits | 136,241 | 113,497 | 173,244 | (727,691) |
| Accrued expenses and other current liabilities | 306,645 | 15,539 | 199,015 | 28,557 |
| Net cash used in operating activities | <u>(283,010)</u> | <u>(304,079)</u> | <u>(620,727)</u> | <u>(336,998)</u> |
| Cash flows from investing activities: | | | | |
| Acquisition of property and equipment | (107,709) | (144,351) | (223,423) | (85,140) |
| Payable for acquired technology | (90,000) | (90,000) | (180,000) | (133,000) |
| Net cash used in investing activities | <u>(197,709)</u> | <u>(234,351)</u> | <u>(403,423)</u> | <u>(218,140)</u> |
| Cash flows from financing activities: | | | | |
| Advances from credit line | 6,600,000 | — | 4,900,000 | — |
| Repayment of credit line | (5,992,557) | — | (3,934,850) | — |
| Repayment of notes | (189,283) | 33,474 | (731,074) | (152,149) |
| Proceeds from issuance of common stock | — | — | 500,000 | 1,165,000 |
| Net cash provided by financing activities | <u>418,160</u> | <u>33,474</u> | <u>734,076</u> | <u>1,012,851</u> |
| Increase (decrease) in cash and cash equivalents | (62,559) | (504,956) | (290,074) | 457,713 |
| Cash and cash equivalents, beginning of period | 263,418 | 553,492 | 553,492 | 95,779 |
| Cash and cash equivalents, end of period | <u>\$ 200,859</u> | <u>\$ 48,536</u> | <u>\$ 263,418</u> | <u>\$ 553,492</u> |
| Supplemental Cash Flow Information: | | | | |
| Interest paid | \$ 63,791 | \$ 44,728 | \$ 50,971 | \$ 44,927 |
| Supplemental non-cash investing and financing activities: | | | | |
| Assets acquired under notes payable | 237,463 | — | 28,046 | — |
| Transfer of customer deposit to notes payable | — | — | 183,989 | — |

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

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The Company

Polar Power Inc., a California corporation (the “Company” or “Polar”), was incorporated on October 9, 1991. In 1979, the Company 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. 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 applications. The Company’s products integrate DC generator and proprietary automated controls, lithium batteries and solar systems to provide low operating cost and lower emissions alternative power needs in telecommunications, defense, automotive and industrial markets.

Basis of Presentation of Unaudited Financial Information

The unaudited financial statements of the Company for the six months ended June 30, 2016 and 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been prepared pursuant to the rules and regulations of the SEC and, in the opinion of management, reflect all normal and recurring adjustments necessary to fairly present the interim periods of unaudited financial results of operations and cash flows of the company for the periods presented. Operating results for interim periods are not necessarily indicative of operating results for the entire fiscal year or any other future periods.

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, income tax accruals, accruals for potential liabilities and assumptions made in valuing the fair market value of equity transactions. Actual results may differ from those estimates.

Revenue

The Company recognizes revenue from the sale of completed production units and parts when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occurs upon shipment of the Company’s product or delivery of the product to the destination specified by the customer.

The Company determines whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the buyer, which usually occurs when the Company places the products with the buyer’s carrier or delivers the product to customer location. The Company regularly reviews its customers’ financial positions to ensure that collectability is reasonably assured. Except for warranties, the Company has no post-sales obligations.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

Inventories

Inventories consist mainly of raw materials and are stated at the lower of cost or market. Cost is determined principally on a first-in-first-out average cost basis. Inventory quantities on hand are reviewed regularly and write-downs for obsolete inventory is recorded based on an estimated forecast of the inventory item demand in the near future. As of June 30, 2016, December 31, 2015 and 2014, the Company has established inventory reserves of \$250,000, \$250,000 and \$200,000, respectively, for obsolete inventory.

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 estimates the actual historical warranty claims coupled with an analysis of unfulfilled claims to record a liability for specific warranty purposes. The Company's product warranty obligations are included in other accrued liabilities in the balance sheet. As of June 30, 2016, December 31, 2015 and 2014, the Company had accrued a liability for warranty reserve of \$175,000, \$25,000 and \$25,000, respectively.

Accounts Receivable

Trade receivables are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts, as needed. The Company uses the allowance method to account for uncollectible trade receivable balances. Under the allowance method, if needed, an estimate of uncollectible customer balances is made based upon specific account balances that are considered uncollectible. Factors used to establish an allowance include the credit quality and payment history of the customer. The Company did not deem it necessary to provide an allowance for doubtful accounts as of June 30, 2016, and as of December 31, 2015 and 2014.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is computed using the straight-line method over estimated useful life. Maintenance and repairs that do not improve or extend useful life of the respective assets are expensed. Estimated useful lives of the principal classes of assets are as follows:

| | <u>Estimated life</u> |
|------------------------------------|--|
| Production tooling, jigs, fixtures | 3-5 years |
| Shop equipment and machinery | 5 years |
| Vehicles | 3-5 years |
| Leasehold improvements | Shorter of the lease term or estimated useful life |
| Office equipment | 5 years |
| Software | 5 years |

Management regularly reviews property, equipment and other long-lived assets for possible impairment. This review occurs annually or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Based upon management's annual assessment, there were no indicators of impairment of the Company's property and equipment and other long-lived assets as of June 30, 2016, December 31, 2015 or December 31, 2014.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

Income Taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Financial Assets and Liabilities Measured at Fair Value

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. 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 and accounts payable, approximate their fair values because of the short maturity of these instruments. The carrying values of the notes payable and long-term financing obligations approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

Concentrations

Cash. The Company maintains cash balances at one bank. At times, the amount on deposit exceeds the federally insured limits. Management believes that the financial institution that holds the Company's cash is financially sound and, accordingly, minimal credit risk exists.

Revenues. For the six months ended June 30, 2016, 88% of revenues were from one customer, while 2.2% of revenues were generated by another customer. For the six months ended June 30, 2015, 77% of revenues were generated by one customer, while 4% of revenues were generated by another customer. For the year ended December 31, 2015, 81% of revenues were from one customer, while 4% of revenues were generated by another customer. For the year ended December 31, 2014, 37% of revenues were from one customer, while 23% of revenues were generated by another customer.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

Accounts receivable. At June 30, 2016, 96% of accounts receivable are from one customer. At December 31, 2015, 81% of accounts receivable were from one customer, while 6% of accounts receivable were from another customer. At December 31, 2014, 64% of accounts receivable were from one customer, while 22% of accounts receivable were from another customer

Accounts payable. As of June 30, 2015, accounts payable to the largest vendor represented 17%, while accounts payable to the other two largest vendors represented 15% and 6% respectively. On December 31, 2015, accounts payable to the Company's largest vendor represented 17%, while the other two largest vendors represented 8% each. On December 31, 2014, accounts payable to the Company's largest vendor represented 31%, while the other two largest vendors represented 18% and 16% respectively.

Purchases. The Company has established relationships with third party engine suppliers and other key suppliers from which the Company sources components for its power systems. The Company is substantially dependent on its three key engine suppliers, Isuzu Motors, Yanmar Engines Company and Kubota Corporation. Cost of sales of its power systems, incorporating engines purchased from Isuzu, Perkins and Kubota, represented approximately 10%, 0% and 2% of the Company's total cost of sales for 2014, respectively, and represented approximately 6%, 9% and 15% of the Company's total cost of sales for 2015, respectively. For the six months ended June 30, 2016 and 2015, purchases from major suppliers represented 26% and 28%, respectively.

In 2015 and 2014, sales to international customers accounted for 2% and 27%, respectively, of total revenue. Sales to international customers for the six months ended June 30, 2015 and 2016 represented 5% and 0%, respectively, of total sales.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing the net income applicable to common stock holders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued using the treasury stock method. Potential common shares 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 common shares during the reporting period.

Basic and diluted net loss per common share is the same for the years ended December 31, 2015 and 2014, and the six months ended June 30, 2016 and 2015 because the exercise price of the warrants were higher than the average fair market value of common shares during the reporting period.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is in the process of evaluating the impact of ASU 2014-09 on the Company's financial statements and disclosures.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the expected impact that the standard could have on its financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | June 30, 2016 (Unaudited) | December 31, 2015 | December 31, 2014 |
|---|--|------------------------------|------------------------------|
| Production tooling, jigs, fixtures | \$ 70,749 | \$ 70,749 | \$ 70,749 |
| Shop equipment and machinery | 1,180,483 | 842,698 | 710,209 |
| Vehicles | 58,683 | 58,683 | 54,983 |
| Leaschold improvements | 42,173 | 42,173 | — |
| Office equipment | 100,245 | 98,811 | 34,428 |
| Software | 46,763 | 40,810 | 32,086 |
| Total property and equipment, cost | <u>1,499,096</u> | <u>1,153,924</u> | <u>902,455</u> |
| Less: accumulated depreciation and amortization | <u>(707,612)</u> | <u>(611,032)</u> | <u>(467,459)</u> |
| Property and equipment, net | <u>\$ 791,484</u> | <u>\$ 542,892</u> | <u>\$ 434,996</u> |

Depreciation and amortization expense on property and equipment for the six months ended June 30, 2016 and 2015 was \$96,580 and \$65,459, respectively. Depreciation and amortization expense on property and equipment for the years ended December 31, 2015 and 2014 was \$143,573 and \$94,999, respectively.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

NOTE 3 – NOTES PAYABLE

Notes payable consist of the following:

| | | June 30, 2016 (Unaudited) | December 31, 2015 | December 31, 2014 |
|----------------------------|-----|--|------------------------------|------------------------------|
| Note payable, individual | (a) | \$ 50,000 | \$ 110,000 | \$ 205,000 |
| Equipment notes | (b) | 407,715 | 207,541 | 267,572 |
| Customer note | (c) | 45,998 | 137,992 | - |
| Note payable, individual | (d) | — | — | 500,000 |
| Note payable, other | | — | — | 2,000 |
| Total Notes Payable | | 503,713 | 455,533 | 974,572 |
| Current Portion | | 221,088 | 327,693 | 777,031 |
| Notes Payable, Long term | | <u>\$ 282,625</u> | <u>\$ 127,840</u> | <u>\$ 197,541</u> |

- (a) In August 1997, an individual lent the Company the principal sum of \$200,000. Unpaid interest of \$100,000 accrued from August 1997 through April 2014. On April 17, 2014, the Company entered into a Promissory Note Agreement with the Lender, which superseded all previously executed note agreements to make payment arrangements to settle the total payable amount to Lender of \$300,000. The principal balance due under the note was \$50,000, \$110,000 and \$205,000 as of June 30, 2016, December 31, 2015 and December 31, 2014, respectively. The remaining principal as of June 30, 2016 is due in monthly payments of \$10,000 to November 15, 2016.
- (b) The Company has entered into several financing agreements for the purchase of equipment. 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. Aggregate monthly payments of principal and interest of approximately \$10,000 are due through 2019.
- (c) In 2013, the Company received \$202,559 as a customer deposit for an order of the Company's generator system. In 2015, the customer cancelled the order and requested a refund of the deposit. As such, the Company and the customer agreed to a refund of \$183,989, which was to be paid down in 4 equal installments of approximately \$45,997 on or before August 2016. As of June 30, 2016 and December 31, 2015, \$45,998 and \$137,992 was due the customer. Subsequent to June 30, 2016, the remaining balance due has been paid.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

(d) On July 30, 2013, the Company entered into Promissory Note agreement with an individual for an unsecured loan in the amount of \$500,000 (the “Note”). The Note accrued interest at an annual rate of 8% per annum, and was due on October 15, 2015, as amended. The Company had the option to convert the principal sum of the Note of \$500,000 into 7% of common shares of the Company, however the conversion offer expired on January 15, 2015. The principal balance outstanding as of December 31, 2014 was \$500,000. On October 1, 2015, the principal balance of the Note, as well as any outstanding accrued interest was paid in full.

Annual future principal payments under the note agreements as of June 30, 2016 are as follows:

| Years ending December 31: | |
|----------------------------------|-------------------|
| Remainder of 2016 | \$ 168,992 |
| 2017 | 117,939 |
| 2018 | 92,624 |
| 2019 | 42,946 |
| 2020 and thereafter | 81,212 |
| Total | <u>\$ 503,713</u> |

NOTE 4 – LINE OF CREDIT

In August 2015, the Company entered into a Loan and Security Agreement with Gibraltar Business Capital to secure a revolving credit facility for an aggregate amount of up to \$2.0 million. The credit facility expires on September 1, 2017, subject to the continuing right of Gibraltar to demand payment at any time and an optional extension of one year. Interest accrues on the principal amount of revolving loans outstanding under the credit facility at a rate equal to the greater of (i) the floating per annum rate of interest as published in *The Wall Street Journal's* “Bonds, Rates and Yields Table” plus 4.75% or (ii) 8.0%. Interest on the credit facility is payable monthly. The credit facility is also subject to a monthly collateral management fee of \$1,500 and an exit fee of up to \$20,000. The credit facility is secured by a continuing first priority security interest in all of our assets (excluding our equipment and its products and proceeds). The line of credit has certain covenants and restrictions which the Company was in compliance as of June 30, 2016. Upon the demand of Gibraltar Business Capital or in the event of a default under the credit facility, Gibraltar Business Capital may accelerate the payment of the principal balance requiring us to pay the entire indebtedness outstanding on that date.

The available borrowing base under the credit facility at any time may not exceed 85% of the net amount of (i) eligible accounts receivable, plus (ii) 50% of the lower of cost or market value of eligible inventory, subject to a \$750,000 cap on advances made against eligible inventory. The terms of the credit facility require us, without notice or demand of any kind from Gibraltar to make immediate payments or take such other actions to eliminate any excess of the aggregate principal amount outstanding over the available borrowing base. As of June 30, 2016, the Company had availability of \$427,407 to borrow under the line of credit.

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NOTE 5 – PAYABLE FOR ACQUIRED TECHNOLOGY

On July 7, 2012, the Company entered into an agreement to purchase intellectual property assets from its Vice President of Engineering, Richard Ulinski. Under this agreement, Mr. Ulinski transferred the exclusive right, title and interest to 27 products and technologies developed for use in the Company's DC power systems during the period of 2004 to 2012 to the Company in exchange for \$600,000 in cash, payable in installments of \$15,000. As of June 30, 2016, December 31, 2015 and December 31, 2014, \$41,215, \$131,215 and \$311,215 were due under this agreement, respectively.

The Company initially recorded as an intangible asset the cost of the acquired technology of \$600,000, however such amount was impaired in 2013 when it was determined by management such technology would not be used in future products and no longer had any recoverable value to the Company.

NOTE 6 – SHAREHOLDERS' EQUITY

Common Stock

The Company is authorized to issue up to a total of 50,000,000 shares of common stock, no par value per share. Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of shareholders. Holders of common stock have cumulative voting rights. Further, holders of common stock have no preemptive, conversion, redemption or subscription rights and there are no sinking fund provisions applicable to the Company's common stock. Upon the liquidation, dissolution or winding-up of the Company, holders of common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding shares of preferred stock. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to receive dividends, if any, as may be declared from time to time by the Company's board of directors, out of the Company's assets which are legally available.

Preferred Stock

The Company's board of directors is authorized to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights and rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any vote or action by the Company's shareholders. Any preferred stock to be issued could rank prior to the Company's common stock with respect to dividend rights and rights on liquidation. The Company's board of directors, without shareholder approval, may issue preferred stock with voting and conversion rights which could adversely affect the voting power of holders of common stock and discourage, delay or prevent a change in control of the Company.

Sale of common shares to investors

In August 2014, the Company entered into a Securities Purchase Agreement with certain investors identified therein providing for the issuance and sale by the Company to the investors, in a private placement, of an aggregate of 1,165,000 shares of the Company's common stock and warrants to purchase an additional 1,165,000 shares of common stock at a price of \$1.00 per share, resulting in aggregate gross proceeds to the Company of \$1,165,000. The warrants to purchase the additional shares expired on May 30, 2015 without having been exercised.

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Additionally, under the terms of the Securities Purchase Agreement, if the Company either (i) failed to cause a Registration Statement on Form S-1 (or any successor form) to be filed with the SEC covering shares of the Company's common stock by March 31, 2015 (first issue date), or (ii) failed to list the Company's common stock on NASDAQ, the OTCBB or any other similar exchange or public trading market by December 31, 2015 (second issue date); the investors will be entitled to receive on either the first issue date or second issue date, as applicable, an additional number of shares of the Company's common stock equal to 33% of the initial shares issued to the investors. As of December 31, 2015 the Company failed to meet either of these requirements, and accordingly, issued an aggregate of 384,450 additional shares of common stock to the investors.

Current members of the Company's board of directors participated in the August 2014 private placement and purchased an aggregate of 1,050,000 shares of the Company's common stock out of the 1,165,000 total shares sold for an aggregate consideration equal to \$1,050,000 in cash. When the Company failed to meet the registration requirements contained in the offering described above on December 31, 2015 and pursuant to the terms of the offering, the Company issued an additional 346,500 shares of common stock to these directors, out of the 384,450 total additional shares issued.

Sale of common shares to related entity

On October 1, 2015, the Company entered into a Securities Purchase Agreement with Smartgen Solutions, Inc. ("Smartgen") for the sale of 1,442,527 shares of the Company's common stock at a price of approximately \$0.35 per share, for a total purchase price of \$500,000. Raj Masina, the Company's Vice President of Operations, owns 40% of Smartgen, and an additional 40% is owned by his brother. The Company, in recognition of the fact that the shares of common stock sold to Smartgen had a lower price per shares than the shares of common stock sold to prior investors in August 2014, recorded a compensation charge of \$581,895, representing the difference between the sales price to Smartgen and the price sold to other investors, on the Company's income statement during the year ended December 31, 2015.

Shares issued for services

In February 2016, the Company issued 50,000 shares of its common stock to an employee in exchange for \$37,500 in wages payables due to the employee

Options

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 5,000,000 shares of common stock as incentives to employees and consultants to the Company with awards limited to a maximum of 1,000,000 shares in a given calendar year. As of June 30, 2016, there were no options issued or outstanding under the 2016 Plan.

POLAR POWER INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 AND FOR
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Warrants

In August 2014, the Company entered into a Securities Purchase Agreement with certain accredited investors identified in a private placement, of an aggregate of 1,165,000 shares of the Company's common stock, and warrants to purchase an additional 1,165,000 shares of the Company's common stock at a price of \$1.00 per share, resulting in aggregate gross proceeds of \$1,165,000. The warrants to purchase the additional shares of common stock expired on May 30, 2015.

The following table summarizes warrant activity:

| | Number of Warrants | Weighted Average Exercise Price |
|--------------------------------|-------------------------------|--|
| Outstanding, December 31, 2013 | — | — |
| Issued | 1,165,000 | \$ 1.00 |
| Exercised | — | — |
| Expired | — | — |
| Outstanding, December 31, 2014 | 1,165,000 | \$ 1.00 |
| Exercised | | |
| Expired | (1,165,000) | \$ 1.00 |
| Outstanding, December 31, 2015 | — | — |
| Outstanding, June 30, 2016 | — | — |

NOTE 7 – DISTRIBUTION AGREEMENT WITH A RELATED ENTITY

On March 1, 2014, the Company entered into a subcontractor installer agreement with Smartgen, a company 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 Polar products in Southern California. The agreement has a term of three years from the date of execution and automatically renews for additional one year periods if not terminated.

During the period ended June 30, 2016, Smartgen performed \$11,932 in field services. During the year ended December 31, 2015, Smartgen performed \$96,590 in field services. Smartgen did not perform any services for the Company during the year ended December 31, 2014.

During the year ended December 31, 2014, Smartgen purchased \$273,087 in goods, parts and services from the Company and \$17,650 in goods, parts and services during the year ended December 31, 2015. During the six months periods ended June 30, 2016 and 2015, Smartgen purchased \$89 and \$0, respectively, in goods, parts and services from the Company.

NOTE 8 – INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31, 2015 and 2014:

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THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

| | Years Ended December 31, | |
|----------------------------------|---------------------------------|-------------------|
| | 2015 | 2014 |
| Current | | |
| Federal | \$ 219,496 | \$ 38,520 |
| State | 69,073 | 15,370 |
| Deferred | | |
| Federal | (10,540) | 193,275 |
| State | (4,460) | 43,173 |
| Provision for income tax expense | <u>\$ 273,569</u> | <u>\$ 290,338</u> |

The reconciliation of the effective income tax rate to the federal statutory rate is as follows:

| | Years Ended December 31, | |
|-----------------------------------|---------------------------------|-------------|
| | 2015 | 2014 |
| Federal income tax rate | 34% | 34% |
| State tax, net of federal benefit | 6% | 6% |
| Permanent differences | 84% | (7)% |
| Change in accrued liabilities | 15% | (5)% |
| Change in valuation allowances | (22)% | (44)% |
| Other | (3)% | 50% |
| Effective income tax rate | <u>114%</u> | <u>34%</u> |

The provision for income taxes consists of the following for the periods ended June 30, 2016 and 2015:

| | Period Ended June 30, | |
|----------------------------------|------------------------------|-------------|
| | 2016 | 2015 |
| Current | | |
| Federal | \$ 502,027 | \$ - |
| State | 159,227 | - |
| Deferred | | |
| Federal | 65,834 | - |
| State | 3,056 | - |
| Provision for income tax expense | <u>\$ 730,144</u> | <u>\$ -</u> |

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The reconciliation of the effective income tax rate to the federal statutory rate is as follows:

| | Period Ended June 30, | |
|-----------------------------------|-----------------------|----------|
| | 2016 | 2015 |
| Federal income tax rate | 34% | - |
| State tax, net of federal benefit | 8% | - |
| Permanent differences | - | - |
| Change in accrued liabilities | 17% | - |
| Change in valuation allowance | (15)% | - |
| Other | - | - |
| Effective income tax rate | <u>44%</u> | <u>-</u> |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at June 30, 2016 and as of December 31, 2015 are as follows:

| | June 30, 2016 | December 31, 2015 |
|---------------------------|-------------------|----------------------|
| Deferred tax assets: | | |
| Inventory reserves | \$ 146,535 | 136,995 |
| Accrued liabilities | 110,013 | 136,723 |
| Other | 37,248 | 4,427 |
| Total deferred tax assets | <u>293,796</u> | <u>278,145</u> |
| Deferred tax liability | | |
| Accumulated depreciation | (157,686) | (73,145) |
| Net deferred tax assets | <u>\$ 136,110</u> | <u>\$ 205,000</u> |

Effective January 1, 2007, the Company adopted FASB guidelines that address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. This guidance also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. At the date of adoption, and as of June 30, 2015 and 2014, the Company did not have a liability for unrecognized tax benefits, and no adjustment was required at adoption.

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The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for tax years after 2010.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of June 30, 2016 and December 31, 2015 and 2014, the Company has no accrued interest or penalties related to uncertain tax positions. Additionally, tax years 2010 through 2015 remain open to examination by the major taxing jurisdictions to which the Company is subject.

NOTE 9 – COMMITMENT AND CONTINGENCIES

Employment Agreements

The Company's Amended and Restated Executive Employment Agreement with Arthur D. Sams, dated as of July 8, 2016, provides for at-will employment as the Company's President and Chief Executive Officer. Mr. Sams' current annual base salary is \$200,000. Mr. Sams is eligible to receive an annual discretionary cash bonus to be paid based upon performance criteria set by the Company's board of directors and is eligible to participate in all of the Company's employee benefit programs including the 2016 Plan.

The Company's Executive Employment Agreement with Rajesh Masina, dated as of July 8, 2016, provides for at-will employment as the Company's Vice President Operations. Mr. Masina's current annual base salary is \$120,000. Mr. Masina is eligible to receive an annual discretionary cash bonus to be paid based upon performance criteria set by the Company's board of directors and is eligible to participate in all of the Company's employee benefit programs including the 2016 Plan.

The Company's Executive Employment Agreement with Luis Zavala, dated as of July 8, 2016, provides for at-will employment as the Company's Vice President Finance. The terms of Mr. Zavala's Executive Employment Agreement are identical to the terms of Mr. Masina's Executive Employment Agreement.

Leases

The Company entered into a non-cancellable operating lease of a manufacturing facility located in Gardena, CA commencing January 1, 2015 and ending on February 28, 2019. The base rent of the facility is \$29,648 per month. Rent expense for the years ended December 31, 2015 and 2014 was \$352,145 and \$99,198, respectively. Rent expense for the periods ended June 30, 2016 and 2015 was \$182,335 and \$174,225, respectively.

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The future minimum annual rental payments required under the non-cancelable operating leases described above as of June 30, 2016 are as follows:

| Years ending December 31 | |
|---------------------------------|---------------------|
| Remainder of 2016 | \$ 183,225 |
| 2017 | 377,443 |
| 2018 | 388,766 |
| 2019 | 66,738 |
| Total | <u>\$ 1,016,172</u> |

Legal Proceedings

From time to time, the Company may be involved in general commercial disputes arising in the ordinary course of our business. The Company is not currently involved in legal proceedings that could reasonably be expected to have material adverse effect on its business, prospects, financial condition or results of operations.

Sales Backlog

As of June 30, 2016, the Company had a backlog of \$8,679,541. The amount of backlog represents revenue that the Company anticipates to recognize 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. The Company's backlog consists of \$8,281,200 in purchases of its DC power systems by telecommunications customers, of which \$8,011,213 is from the Company's single largest telecommunications customer. In addition, the Company's backlog includes \$125,915 in purchases from military contractors, \$228,450 from customers related to marine markets and \$43,975 from other miscellaneous customers. The Company believes the majority of its backlog will be shipped within the next six months. However, there can be no assurance that the Company will be successful in fulfilling such orders and commitments in a timely manner or that the Company will ultimately recognize as revenue the amounts reflected in its backlog.



HYBRID SOLAR ENERGY SYSTEMS

Efficiently combining fuel with solar
for reliable and low cost power

PRIME POWER SYSTEMS

Low maintenance systems for
harsh and remote environments

TEMPORARY POWER AND RENTAL

Rapid deployment, fuel-efficient,
installs on trailer, truck, or ground

BACKUP DC GENERATORS

Small footprint, quiet, lightweight,
72 hr. reserve, available in all fuels

Back-Up DC Generator
Solar Hybrid



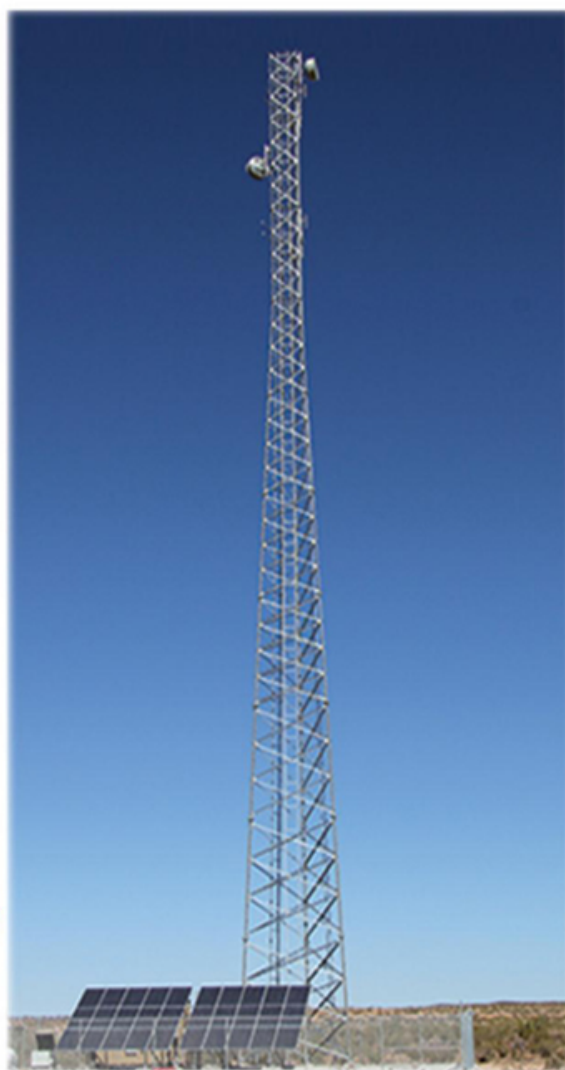
8000 Series DC Alternator
High efficiency, proprietary
technology



Hybrid DC Generator
Extreme weather
Remote monitored



5 kW DC Generator
Residential backup power



SHARES
COMMON STOCK



PROSPECTUS

Joseph Gunnar & Co.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Expenses of the registrant in connection with the issuance and distribution of the securities being registered are estimated as follows:

| | | |
|----------------------------------|----|-------|
| SEC Registration Fee | \$ | 1,846 |
| FINRA Filing Fee | \$ | 3,250 |
| NASDAQ Filing Fee | \$ | * |
| Printing and Engraving Expenses | \$ | * |
| Transfer Agent Fees and Expenses | \$ | * |
| Legal Fees and Expenses | \$ | * |
| Accountants' Fees and Expenses | \$ | * |
| Miscellaneous Costs | \$ | * |
| Total | \$ | * |

*To be provided by amendment.

Item 14. Indemnification of Directors and Officers

On completion of this offering, the registrant's certificate of incorporation will contain provisions that eliminate, to the maximum extent permitted by the General Corporation Law of the State of Delaware, or the DGCL, the personal liability of the registrant's directors and executive officers for monetary damages for breach of their fiduciary duties as directors or officers. The registrant's certificate of incorporation and bylaws will provide that the registrant must indemnify its directors and executive officers and may indemnify its employees and other agents to the fullest extent permitted by the DGCL.

Sections 145(a) and 102(b)(7) of the DGCL empowers a corporation to indemnify any director, officer, employee or agent, or former director, officer, employee or agent, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of such person's service as a director, officer, employee or agent of the corporation, or such person's service, at the corporation's request, as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding; *provided* that such director, officer employee or agent acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation; and, with respect to any criminal action or proceeding, *provided* that such director, officer employee or agent had no reasonable cause to believe his conduct was unlawful.

Section 145(b) of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit; *provided* that such director, officer, employee or agent acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such director, officer, employee or agent shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such director, officer, employee or agent is fairly and reasonably entitled to indemnity for such expenses that the court shall deem proper.

Prior to the completion of this offering, the registrant will enter into indemnification agreements with its directors and executive officers, in addition to the indemnification provided for in its certificate of incorporation and bylaws, and intends to enter into indemnification agreement, with any new directors and executive officers in the future.

The registrant has purchased and currently intends to maintain directors' and officers' liability insurance.

The proposed form of Underwriting Agreement filed as Exhibit 1.1 to this registration statement provides for indemnification of the registrant's directors and officers by the underwriters against certain liabilities.

See also the undertakings set out in response to Item 17 herein.

Item 15. Recent Sales of Unregistered Securities

Since January 1, 2013, the registrant has made sales of the following unregistered securities (the share amounts and per share amounts included in this Item 15 give effect to the registrant's 900-for-1 forward stock split effected on July 1, 2014 and its 2-for-1 forward stock split effected on July 2, 2014) and does not give effect to the registrant's reincorporation in the State of Delaware prior to completion of this offering:

Between July 1, 2014 and September 1, 2014, the registrant sold in a private placement offering an aggregate of 1,165,000 units for \$1,165,000, with each unit consisting of (i) one share of common stock and (ii) a warrant to purchase one share of common stock at an exercise price of \$1.00 per share, subject to adjustment. The units were sold to 8 accredited investors pursuant to a private placement offering at \$1.00 per unit. The private placement offering also provided that in the event that the registrant failed to file a registration statement on Form S-1 with the SEC on or prior to March 31, 2015, or if the registrant failed to list the registrant's common stock on NASDAQ or the OTCBB by December 31, 2015, purchasers of the units would be entitled to receive an additional number of shares of common stock equal to the product of (A) the number of shares of common stock initially purchased by such purchaser, and (B) 0.33. Effective December 31, 2015, pursuant to the terms of the private placement offering, the registrant issued 384,450 additional shares of common stock to such purchasers. Effective May 30, 2015, all warrants issued in the above private placement expired without having been exercised.

On October 1, 2015, the registrant sold 1,442,527 shares of common stock to Smartgen Solutions, Inc. at \$0.3466 per share for an aggregate investment of \$500,000.

On February 1, 2016, the registrant issued 50,000 shares of common stock to Adam Szczepanek at \$0.75 per share in exchange for services rendered to the registrant.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. The registrant believes that the offers, sales and issuances of the above securities were exempt from registration under the Securities Act by virtue of Section 4(a)(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. The registrant believes all recipients had adequate information about the registrant or had adequate access, through their relationships with the registrant, to information about the registrant.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

See the Exhibit Index immediately following the Signature Pages.

(b) Financial Statement Schedules.

All schedules have been omitted because they are either inapplicable or the required information has been given in the financial statements or notes thereto.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby further undertakes that:

- For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
 - For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
-

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Gardena, State of California, on this 8th day of September, 2016.

POLAR POWER, INC.

By: /s/ Arthur D. Sams
Arthur D. Sams,
President and Chief Executive Officer

POWERS OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below severally constitutes and appoints Arthur D. Sams as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the registration statement on Form S-1 of Polar Power, Inc., and any or all amendments thereto (including post-effective amendments), and any new registration statement with respect to the offering contemplated thereby filed pursuant to Rule 462(b) under the Securities Act, and all amendments thereto (including post-effective amendments), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities indicated on September 8, 2016.

| <u>Signature</u> | <u>Title</u> |
|---|---|
| <u>/s/ Arthur D. Sams</u> Arthur D. Sams | Chief Executive Officer, President and Chairman of the Board of Directors (principal executive officer) |
| <u>/s/ Luis Zavala</u> Luis Zavala | Vice President Finance and Acting Chief Financial Officer (principal financial and accounting officer) |
| <u>/s/ Matthew Goldman</u> Matthew Goldman | Director |
| <u>/s/ Keith Albrecht</u> Keith Albrecht | Director |

EXHIBIT INDEX

| Exhibit number | Description |
|----------------|--|
| 1.1* | Form of Underwriting Agreement |
| 2.1* | Form of Agreement and Plan of Merger, dated as of _____, 2016, between the Registrant and Polar Power, Inc., a California corporation |
| 3.1 | Amended and Restated Articles of Incorporation of Polar Power, Inc., a California corporation |
| 3.2 | Amended and Restated Bylaws of Polar Power, Inc., a California corporation |
| 3.3* | Form of Certificate of Incorporation of the Registrant to be effective upon the Registrant's reincorporation in the State of Delaware upon completion of this offering |
| 3.4* | Form of Bylaws of the Registrant to be effective upon the Registrant's reincorporation in the State of Delaware upon completion of this offering |
| 4.1* | Specimen stock certificate of the Registrant |
| 4.2* | Form of representative's warrants to purchase shares of common stock |
| 5.1* | Opinion of Troutman Sanders LLP |
| 10.1# | Polar Power, Inc. 2016 Omnibus Incentive Plan and forms of agreements thereunder |
| 10.2# | Amended and Restated Executive Employment Agreement, dated July 8, 2016, between the Registrant and Arthur D. Sams |
| 10.3# | Executive Employment Agreement, dated July 8, 2016, between the Registrant and Rajesh Masina |
| 10.4# | Executive Employment Agreement, dated July 8, 2016, between the Registrant and Luis Zavala |
| 10.5* | Form of Indemnification Agreement |
| 10.6 | Loan and Security Agreement, dated as of August 14, 2015, between the Registrant and Gibraltar Business Capital, LLC |
| 10.7 | Memorandum of Understanding, dated as of December 30, 2014, between the Registrant and Richard J. Ulinski |
| 10.8 | Lease Agreement, dated November 7, 2014, between the Registrant and Two Bros L.P. |
| 23.1 | Consent of Weinberg & Company, P.A. |
| 23.2* | Consent of Troutman Sanders LLP (contained in Exhibit 5.1) |
| 24.1 | Powers of Attorney (included on the signature page to this Registration Statement) |

* To be filed by amendment.

Indicates a management contract or compensatory plan.

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
POLAR POWER, INC.

The undersigned, Arthur D. Sams, certifies that:

1. He is the President and the Secretary of Polar Power, Inc., a California corporation.
2. The Articles of Incorporation of this corporation are amended and restated to read in their entirety as follows:

ARTICLE I

The name of the Corporation is Polar Power, Inc. (the "Corporation").

ARTICLE II

The purpose of this Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

Section 1. Authorized Shares. The Corporation is authorized to issue two classes of shares designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is 55,000,000, of which 50,000,000 shares shall be Common Stock, no par value per share, and 5,000,000 shares shall be Preferred Stock.

Effective as of 12:00:00 p.m. Pacific Time on July 1, 2014 (the "Forward Split Effective Time"), each one (1) share of Common Stock, no par value per share (the "Prior Common Stock"), issued and outstanding immediately prior to the Forward Split Effective Time shall be and hereby is reclassified and changed into eight hundred and five and fourteen hundredths (805.14) shares of Common Stock, no par value per share. From and after the Forward Stock Split Effective Time, certificates representing shares of Prior Common Stock are hereby canceled and shall represent only the right of holders thereof to receive the shares of Common Stock into which the Prior Common Stock has been reclassified as and changed into pursuant to this paragraph. The Corporation shall, in exchange for certificates representing Prior Common Stock and upon request, provide certificates representing the shares of Common Stock into which such Prior Common Stock has been reclassified as and changed into pursuant to this paragraph to the holders of such Prior Common Stock.

Section 2. Common Stock. Each share of Common Stock issued and outstanding shall have one vote.

Section 3. Preferred Stock. The Corporation's Board of Directors (the "Board of Directors") is authorized to fix the number of shares of any series of Preferred Stock and to determine the designation of any such series. The Board of Directors is also authorized to determine or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series subsequent to the issue of shares of that series.

ARTICLE IV

Section 1. Limitation of Director's Liability. The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California Law.

Section 2. Indemnification of Corporate Agents. The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, through agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to this Corporation and its shareholders.

Section 3. Repeal or Modification. Any repeal or modification of the foregoing provisions of this Article IV shall not adversely affect any right of indemnification or limitation of liability of an agent of this Corporation relating to acts or omissions prior to such repeal or modification.

ARTICLE V

3. The foregoing Amended and Restated Articles of Incorporation has been duly approved by the Board of Directors.

4. The Corporation's shareholders have duly approved the foregoing Amended and Restated Articles of Incorporation of the Corporation by the required vote in accordance with Sections 902 and 903 of the California Corporations Code. The total number of issued and outstanding shares of the Corporation entitled to vote on the foregoing amendment and restatement is 10,000 shares of Common Stock. There are no shares of Preferred Stock outstanding. The number of outstanding voting shares voting in favor of the adoption and approval of these Amended and Restated Articles of Incorporation equaled or exceeded the vote required. The percentage vote required was more than fifty percent (50%).

I further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of my own knowledge.

IN WITNESS WHEREOF, the undersigned has executed this certificate on July 1, 2014.

/s/ Arthur D. Sams

Arthur D. Sams, President and Secretary

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
POLAR POWER, INC.

The undersigned, Arthur D. Sams, certifies that:

1. He is the President and the Secretary of Polar Power, Inc., a California corporation.
2. The Articles of Incorporation of this corporation are amended and restated to read in their entirety as follows:

ARTICLE I

The name of the Corporation is Polar Power, Inc. (the "Corporation").

ARTICLE II

The purpose of this Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

Section 1. Authorized Shares. The Corporation is authorized to issue two classes of shares designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is 55,000,000, of which 50,000,000 shares shall be Common Stock, no par value per share, and 5,000,000 shares shall be Preferred Stock.

Effective as of 5:00:00 p.m. Pacific Time on July 2, 2014 (the "Forward Split Effective Time"), each one (1) share of Common Stock, no par value per share (the "Prior Common Stock"), issued and outstanding immediately prior to the Forward Split Effective Time shall be and hereby is reclassified and changed into two (2) shares of Common Stock, no par value per share. From and after the Forward Stock Split Effective Time, certificates representing shares of Prior Common Stock are hereby canceled and shall represent only the right of holders thereof to receive the shares of Common Stock into which the Prior Common Stock has been reclassified as and changed into pursuant to this paragraph. The Corporation shall, in exchange for certificates representing Prior Common Stock and upon request, provide certificates representing the shares of Common Stock into which such Prior Common Stock has been reclassified as and changed into pursuant to this paragraph to the holders of such Prior Common Stock.

Section 2. Common Stock. Each share of Common Stock issued and outstanding shall have one vote.

Section 3. Preferred Stock. The Corporation's Board of Directors (the "Board of Directors") is authorized to fix the number of shares of any series of Preferred Stock and to determine the designation of any such series. The Board of Directors is also authorized to determine or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series subsequent to the issue of shares of that series.

ARTICLE IV

Section 1. Limitation of Director's Liability. The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California Law.

Section 2. Indemnification of Corporate Agents. The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, through agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to this Corporation and its shareholders.

Section 3. Repeal or Modification. Any repeal or modification of the foregoing provisions of this Article IV shall not adversely affect any right of indemnification or limitation of liability of an agent of this Corporation relating to acts or omissions prior to such repeal or modification.

ARTICLE V

3. The foregoing Amended and Restated Articles of Incorporation has been duly approved by the Board of Directors.

4. The Corporation's shareholders have duly approved the foregoing Amended and Restated Articles of Incorporation of the Corporation by the required vote in accordance with Sections 902 and 903 of the California Corporations Code. The total number of issued and outstanding shares of the Corporation entitled to vote on the foregoing amendment and restatement is 8,051,400 shares of Common Stock. There are no shares of Preferred Stock outstanding. The number of outstanding voting shares voting in favor of the adoption and approval of these Amended and Restated Articles of Incorporation of the Corporation equaled or exceeded the vote required. The percentage vote required was more than fifty percent (50%).

I further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of my own knowledge.

IN WITNESS WHEREOF, the undersigned has executed this certificate on July 1, 2014.

/s/ Arthur D. Sams

Arthur D. Sams, President and Secretary

CERTIFICATE OF CORRECTION
OF
AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
POLAR POWER, INC.

The undersigned, ARTHUR D. SAMS, certifies that:

1. He is the President and the Secretary of POLAR POWER, INC., a California corporation.
2. The name of the corporation is POLAR POWER, INC., and it is a California corporation.
3. The instrument being corrected is entitled "AMENDED AND RESTATED ARTICLES OF INCORPORATION OF POLAR POWER, INC., and said instrument was filed with the Secretary of State of the State of California on July 1, 2014.
4. Article III Section 1 of said Amended and Restated Articles of Incorporation, should read as follows:

"ARTICLE III

Section 1. Authorized Shares. The Corporation is authorized to issue two classes of shares designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is 55,000,000, of which 50,000,000 shares shall be Common Stock, no par value per share, and 5,000,000 shares shall be Preferred Stock.

Effective as of 12:00:00 p.m. Pacific Time on July 1, 2014 (the "Forward Split Effective Time"), each one (1) share of Common Stock, no par value per share (the "Prior Common Stock"), issued and outstanding immediately prior to the Forward Split Effective Time shall be and hereby is reclassified and changed into nine hundred (900) shares of Common Stock, no par value per share. From and after the Forward Stock Split Effective Time, certificates representing shares of Prior Common Stock are hereby canceled and shall represent only the right of holders thereof to receive the shares of Common Stock into which the Prior Common Stock has been reclassified as and changed into pursuant to this paragraph. The Corporation shall, in exchange for certificates representing Prior Common Stock and upon request, provide certificates representing the shares of Common Stock into which such Prior Common Stock has been reclassified as and changed into pursuant to this paragraph to the holders of such Prior Common Stock."

5. That said Article III Section 1, as corrected, conforms to the wording of the amended and restated articles of incorporation that were adopted by the board of directors and shareholders.
-

I further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of my own knowledge.

IN WITNESS WHEREOF, the undersigned has executed this certificate on July 29, 2016.

/s/ Arthur D. Sams

Arthur D. Sams, President and Secretary

**AMENDED AND RESTATED BYLAWS
OF
POLAR POWER, INC.,
a California corporation**

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AMENDED AND RESTATED BYLAWS
Bylaws for the regulation, except as
otherwise provided by statute or its Articles
of Incorporation

of

POLAR POWER, INC.,
a California corporation

ARTICLE I
OFFICES

Section 1. Principal Executive Office. The principal executive offices of Polar Power, Inc. (herein called the "Corporation") shall be located at 22520 Avalon Boulevard, Carson, California 90745. The Board of Directors (herein called the "Board") is granted full power and authority to change said principal executive office from one location to another.

Section 1. Other Offices. Branch or subordinate offices may be established at any time by the Board at any place or places.

ARTICLE II
SHAREHOLDERS

Section 1. Place of Meetings. Meetings of shareholders shall be held either at the principal executive office of the Corporation or at any other place within or without the State of California which may be designated either by the Board or by the written consent of all persons entitled to vote thereat, given either before or after the meeting and filed with the Secretary.

Section 2. Annual Meetings. The annual meetings of the shareholders shall be held on such date and at such time as may be fixed by the Board. At such meetings, Directors shall be elected and any other proper business may be transacted.

Section 3. Special Meetings. Special meetings of the shareholders may be called at any time by the Board, the Chairman of the Board, the President, or by the holders of shares entitled to cast not less than ten percent (10%) of the votes at such meeting. Upon request in writing to the Chairman of the Board, the President, any Vice President or the Secretary by any person (other than the Board) entitled to call a special meeting of shareholders, the officer forthwith shall cause notice to be given to the shareholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the persons entitled to call the meeting may give the notice.

Section 4. Notice of Annual or Special Meeting. Written notice of each annual or special meeting of shareholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat. Such notice shall state the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (ii) in the case of the annual meeting, those matters which the Board, at the time of the mailing of the notice, intends to present for action by the shareholders, but, subject to the provisions of applicable law, any proper matter may be presented at the meeting for such action. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by management for election.

Notice of a shareholders' meeting shall be given either personally or by mail or by other means of written communication, addressed to the shareholder at the address of such shareholder appearing on the books of the Corporation or given by the shareholder to the Corporation for the purpose of notice; or, if no such address appears or is given, at the place where the principal executive office of the Corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mail, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person given the notice by electronic means, to the recipient.

Section 5. Quorum. A majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to have less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 6. Adjourned Meeting and Notice Thereof. Any shareholders' meeting, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but in the absence of a quorum (except as provided in Section 5 of this Article) no other business may be transacted at such meeting.

It shall not be necessary to give any notice of the time and place of the adjourned meeting or of the business to be transacted thereat, other than by announcement at the meeting at which such adjournment is taken; provided, however, when any shareholders' meeting is adjourned for more than forty-five (45) days or, if after adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given as in the case of an original meeting.

Section 7. Voting. The shareholders entitled to notice of any meeting or to vote at any such meeting shall be only persons in whose name shares stand on the stock records of the Corporation on the record date determined in accordance with Section 8 of this Article.

Voting shall in all cases be subject to the provisions of Chapter 7 of the California General Corporation Law, and to the following provisions:

(a) Subject to clause (g), shares held by an administrator, executor, guardian, conservator or custodian may be voted by such holder either in person or by proxy, without a transfer of such shares into the holder's name; and shares standing in the name of a trustee may be voted by the trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by such trustee without a transfer of such shares into the trustee's name.

(b) Shares standing in the name of a receiver may be voted by such receiver; and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into the receiver's name if authority to do so is contained in the order of the court by which such receiver was appointed.

(c) Subject to the provisions of Section 705 of the California General Corporation Law and except where otherwise agreed in writing between the parties, a shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(d) Shares standing in the name of a minor may be voted and the Corporation may treat all rights incident thereto as exercisable by the minor, in person or by proxy, whether or not the Corporation has notice, actual or constructive, of the nonage, unless a guardian of the minor's property has been appointed and written notice of such appointment given to the Corporation.

(e) Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxyholder as the bylaws of such other corporation may prescribe or, in the absence of such provision, as the Board of Directors of such other corporation may determine or, in the absence of such determination, by the chairman of the board, president or any vice president of such other corporation. Shares which are purported to be voted or any proxy purported to be executed in the name of a corporation (whether or not any title of the person signing is indicated) shall be presumed to be voted or the proxy executed in accordance with the provisions of this subdivision, unless the contrary is shown.

(f) Shares of the Corporation owned by any subsidiary shall not be entitled to vote on any matter.

(g) Shares held by the Corporation in a fiduciary capacity, and shares of the issuing corporation held in a fiduciary capacity by any subsidiary, shall not be entitled to vote on any matter, except to the extent that the settlor or beneficial owner possesses and exercises a right to vote or to give the Corporation binding instructions as to how to vote such shares.

(h) If shares stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, husband and wife as community property, tenants by the entirety, voting trustees, persons entitled to vote under a shareholder voting agreement or otherwise, or if two (2) or more persons (including proxyholders) have the same fiduciary relationship respecting the same shares, unless the secretary of the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

- (i) If only one votes, such act binds all;
- (ii) If more than one vote, the act of the majority so voting binds all;
- (iii) If more than one vote, but the vote is evenly split on any particular matter each faction may vote the securities in question proportionately.

If the instrument so filed or the registration of the shares shows that any such tenancy is held in unequal interests, a majority or even split for the purpose of this section shall be a majority or even split in interest.

Subject to the following sentence and to the provisions of Section 708 of the California General Corporation Law, every shareholder entitled to vote at any election of directors may cumulate such shareholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the shareholder's shares are normally entitled, or distribute the shareholder's votes on the same principle among as many candidates as the shareholder thinks fit. No shareholder shall be entitled to cumulate votes for any candidate or candidates pursuant to the preceding sentence unless such candidate or candidates' names have been placed in nomination prior to the voting and the shareholder has given notice at a meeting prior to the voting of the shareholder's intention to cumulate the shareholder's votes. If any one shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination.

Elections need not be by ballot; provided, however, that all elections for directors must be by ballot upon demand made by a shareholder at the meeting and before the voting begins.

In any election of directors, the candidates receiving the highest number of votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares are elected.

Section 8. Record Date. The Board may fix, in advance, a record date for the determination of the shareholders entitled to notice of any meeting to vote or entitled to receive payment of any dividend or other distribution, or any allotment of rights, or to exercise rights in respect of any other lawful action. The record date so fixed shall be not more than sixty (60) days nor less than ten (10) days prior to the date of the meeting nor more than sixty (60) days prior to any other action. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to the exercise of the rights, as the case may be, notwithstanding any transfer of shares on the books of the Corporation after the record date. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting. The Board shall fix a new record date if the meeting is adjourned for more than forty- five (45) days.

If no record date is fixed by the Board, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the next business day next preceding the day on which the meeting is held. The record date for determining shareholders for any purpose other than set forth in this Section 8 or Section 10 of this Article shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

Section 9. Consent of Absentees. The transactions of any meeting of shareholders, however called and noticed, and wherever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of shareholders need be specified in any written waiver of notice, except as provided in Section 601(f) of the California General Corporation Law.

Section 10. Action Without Meeting. Subject to Section 603 of the California General Corporation Law, any action which, under any provision of the California General Corporation Law, may be taken at any annual or special meeting of shareholders, may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Unless a record date for voting purposes be fixed as provided in Section 8 of this Article, the record date for determining shareholders entitled to give consent shall be the day on which the first written consent is given.

Section 11. Proxies. Every person entitled to vote shares has the right to do so either in person or by one (1) or more persons authorized by a written proxy executed by such shareholder and filed with the Secretary. Every proxy duly executed shall continue in full force and effect until revoked by the person executing it prior to the vote pursuant thereto effected by a writing delivered to the Corporation stating that the proxy is revoked or by a subsequent proxy executed by the person executing the prior proxy and presented to the meeting, or by attendance at the meeting and voting in person by the person executing the proxy; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless otherwise provided in the proxy.

Section 12. Inspectors of Election. In advance of any meeting of shareholders, the Board may appoint any persons, other than nominees for office inspectors of election to act at such meeting and any adjournment thereof. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the chairman of any such meeting may, and on the request of any shareholder or shareholder's proxy shall, make such appointment at the meeting. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of one (1) or more shareholders or proxies, the majority of shares present shall determine whether one (1) or three (3) inspectors are to be appointed.

The duties of such inspectors shall be as prescribed by Section 707(b) of the California General Corporation Law and shall include: determining the number of shares outstanding and the voting power of each; the shares represented at the meeting; the existence of a quorum; the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining when the polls shall close; determining the result; and doing such acts as may be proper to conduct the election or vote with fairness to all shareholders. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all.

ARTICLE III
DIRECTORS

Section 1. Powers. Subject to limitations of the Articles of Incorporation, of these Bylaws and of the California General Corporation Law relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board. The Board may delegate the management of the day-to-day operation of the business of the Corporation to a management company or other person provided that the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Board shall have the following powers in addition to the other powers enumerated in these Bylaws:

- (a) To select and remove all the other officers, agents and employees of the Corporation, prescribe the powers and duties for them as may not be inconsistent with applicable law, with the Articles of Incorporation or these Bylaws, fix their compensation and require from them security for faithful service.
- (b) To conduct, manage and control the affairs and business of the Corporation and to make such rules and regulations therefor not inconsistent with applicable law, or with the Articles of Incorporation or these Bylaws, as they may deem best.
- (c) To adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time as in their judgment they may deem best.
- (d) To authorize the issuance of shares of stock of the Corporation from time to time, upon such terms and for such consideration as may be lawful.
- (e) To borrow money and incur indebtedness for the purposes of the Corporation, and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecation or other evidences of debt and securities thereof.

Section 2. Number of Directors. The Board of Directors shall consist of such number of directors, not less than three (3) or more than five (5), as may be determined from time to time by the Board of Directors subject to the provisions of the Articles of Incorporation and these Bylaws. The exact number of directors shall be three (3) until changed by the Board of Directors pursuant to and in accordance with the provisions of these Bylaws. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

Section 3. Election and Term of Office. The directors shall be elected at each annual meeting of the shareholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. Each director shall hold office until the next annual meeting and until a successor has been elected and qualified.

Section 4. Vacancies. Any director may resign effective upon giving written notice to the Chairman of the Board, the President, Secretary or the Board, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Vacancies in the Board, except those existing as a result of a removal of a director, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until the next annual meeting and until such director's successor has been elected and qualified.

A vacancy or vacancies in the Board shall be deemed to exist in the case of the death, resignation or removal of any director, or if the authorized number of directors be increased, or if the shareholders fail, at any annual or special meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

The Board may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. Any such election by written consent other than to fill a vacancy created by removal requires the consent of a majority of the outstanding shares entitled to vote. If the Board accepts the resignation of a director tendered to take effect at a future time, the Board or the shareholders shall have power to elect a successor to take office when the resignation is to become effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of the director's term of office.

Section 5. Place of Meeting. Regular or special meetings of the Board shall be held at any place within or without the State of California which has been designated from time to time by the Board. In the absence of such designation, regular meetings shall be held at the principal executive office of the Corporation.

Section 6. Regular Meetings. Immediately following each annual meeting of shareholders, the Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Call and notice of all such regular meetings of the Board of Directors is hereby dispensed with. Other regular meetings of the Board shall be held without call on such dates and at such times as may be fixed by the Board, and shall be subject to the notice requirements set forth in Section 7 of this Article.

Section 7. Special Meetings. Special meetings of the Board for any purpose or purposes may be called at any time by the Chairman of the Board, the President or the Secretary or by any two (2) directors.

Special meetings of the Board shall be held upon four (4) days' written notice or forty- eight (48) hours' notice given personally or by telephone, telegraph, teletypewriter, telex or other similar means of communication. Any such notice shall be addressed or delivered to each director at such director's address as it is shown upon the records of the Corporation or as may have been given to the Corporation by the director for purposes of notice or, if such address is not shown on such records or is not readily ascertainable, at the place in which the meetings of the directors are regularly held.

Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mails, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient. Oral notice shall be deemed to have been given at the time it is communicated in person or by telephone or wireless, to the recipient or to a person at the office or residence of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

Section 8. Quorum. Unless the authorized number of directors of the Corporation is one (1) (in which case a quorum is one (1) director), one-third (1/3) of the authorized number of directors or two (2) directors, whichever is larger, constitutes a quorum of the Board for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board, unless a greater number be required by law or by the Articles. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 9. Participation in Meetings by Conference Telephone. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

Section 10. Waiver of Notice. The transactions of any meeting of the Board, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding such a meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 11. Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any directors' meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place be fixed at the meeting adjourned. If the meeting is adjourned for more than 24 hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 12. Fees and Compensation. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by the Board.

Section 13. Action Without Meeting. Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such consent or consents shall have the same effect as a unanimous vote of the Board and shall be filed with minutes of the proceedings of the Board.

Section 14. Rights and Inspection. Every director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties of the Corporation and also of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by agent or attorney and includes the right to copy and obtain extracts.

Section 15. Committees. The Board may appoint one (1) or more committees, each consisting of two (2) or more directors, and delegate to such committees any of the authority of the Board except with respect to:

- (a) The approval of any action for which the California General Corporation Law also requires shareholders' approval of the outstanding shares.
- (b) The filling of vacancies on the Board or in any committee;
- (c) The fixing of compensation of the directors for serving on the Board or on any committee;
- (d) The amendment or repeal of Bylaws or the adoption of new Bylaws;
- (e) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;

(f) A distribution to the shareholders of the Corporation except at a rate or in a periodic amount or within a price range determined by the Board; or

(g) The appointment of other committees of the Board or the members thereof.

Any such committee must be appointed by resolution adopted by a majority of the authorized number of directors and may be designated an Executive Committee or by such other name as the Board shall specify. The Board shall have the power to prescribe the manner in which proceedings of any such committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any such committee shall be governed by the provisions of this Article applicable to meetings and actions of the Board. Minutes shall be kept of each meeting of each committee.

ARTICLE IV

OFFICERS

Section 1. Officers. The officers of the Corporation shall be a President, a Secretary and a Chief Financial Officer. The Corporation may also have, at the discretion of the Board, a Chairman of the Board, one (1) or more Vice Presidents, one (1) or more Assistant Secretaries, one (1) or more Assistant Financial Officers and such other officers as may be elected or appointed in accordance with the provisions of Section 3 of this Article. Except for the chairman of the board, no officer of the Corporation shall concurrently be both an officer and a director of the Corporation.

Section 2. Election. The officers of the Corporation, except such officers as may be elected or appointed in accordance with the provisions of Section 3 or Section 5 of this Article, shall be chosen annually by, and shall serve at the pleasure of the Board, and shall hold their respective offices until their resignation, removal or other disqualification from service, or until their respective successors shall be elected.

Section 3. Subordinate Officers. The Board may elect, and may empower the President to appoint such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board may from time to time determine.

Section 4. Removal and Resignation. Any officer may be removed, either with or without cause, by the Board of Directors at any time or, except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board. Any such removal shall be without prejudice to the rights, if any, of the officer under any contract of employment.

Any officer may resign at any time by giving written notice to the Corporation, but without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular election or appointment to such office.

Section 6. Chairman of the Board. The Chairman of the Board, if there shall be such an officer, shall, if present, preside at all meetings of the Board and exercise and perform such other powers and duties as may be from time to time assigned by the Board. If there is no president, the chairman of the board shall in addition be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 7 of this Article V.

Section 7. President. Subject to such powers, if any, as may be given by the Board to the Chairman of the Board, if there be such an officer, the President is the general manager and chief executive officer of the Corporation and has, subject to the control of the Board, general supervision, direction and control of the business and officers of the Corporation. The President shall preside at all meetings of the shareholders and in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board. The President has the general powers and duties of management usually vested in the office of president and general manager of a corporation and such other powers and duties as may be prescribed by the Board.

Section 8. Vice President. In the absence or disability of the President, the Vice Presidents in order of their rank as fixed by the Board or, if not ranked, the Vice President designated by the Board, shall perform all the duties of the President and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board.

Section 9. Secretary. The Secretary shall keep or cause to be kept, at the principal executive office and such other place as the Board may order, a book of minutes of all meetings of shareholders, the Board and its committees, with the time and place of holding, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present at Board and committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof. The Secretary shall keep, or cause to be kept, a copy of the Bylaws of the Corporation at the principal executive offices or business office in accordance with Section 213 of the California General Corporation Law.

The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the Corporation's transfer agent or registrar, if one be appointed, a share register, or a duplicate share register, showing the names of the shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the shareholders of the Board and of any committees thereof required by these Bylaws or by law to be given, shall keep the seal of the Corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

Section 10. Chief Financial Officer. The Chief Financial Officer is the chief financial officer of the Corporation and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Corporation, and shall send or cause to be sent to the shareholders of the Corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board, shall render to the President and directors, whenever they request it, an account of all transactions entered into as Chief Financial Officer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

ARTICLE V
OTHER PROVISIONS

Section 1. Inspection of Corporate Records.

(a) A shareholder or shareholders holding at least five percent (5%) in the aggregate of the outstanding voting shares of the Corporation shall have an absolute right to do either or both of the following:

- (i) Inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours upon five (5) business days' prior written demand upon the Corporation; or
- (ii) Obtain from the transfer agent, if any, for the Corporation, upon five (5) business days' prior written demand and upon the tender of its usual charges for such a list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the shareholders' names and addresses who are entitled to vote for the election of directors and their shareholdings as of the most recent record date for which it has been compiled or as of a date specified by the shareholder subsequent to the date of demand.

(b) The record of shareholders shall also be open to inspection and copying by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the Corporation, for a purpose reasonably related to such holder's interest as a shareholder or holder of a voting trust certificate.

(c) The accounting books and records and minutes of proceedings of the shareholders and the Board and committees of the Board shall be open to inspection upon written demand on the Corporation of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a shareholder or as a holder of such voting trust certificate.

(d) Any inspection and copying under this Article may be made in person or by agent or attorney.

Section 2. Inspection of Bylaws. The Corporation shall keep in its principal executive office the original or a copy of these Bylaws as amended to date, which shall be open to inspection by shareholders at all reasonable times, during office hours. If the principal executive office of the Corporation is located outside the State of California and the Corporation has no principal business office in such state, it shall upon the written notice of any shareholder furnish to such shareholder a copy of these Bylaws as amended to date.

Section 3. Endorsement of Documents; Contracts. Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, share certificate, conveyance or other instrument in writing and any assignment or endorsements thereof executed or entered into between the Corporation and any other person, when signed by the Chairman of the Board, the President or any Vice President and the Secretary, any Assistant Secretary, the Chief Financial Officer or any Assistant Financial Officer of the Corporation shall be valid and binding on the Corporation in the absence of actual knowledge on the part of the other person that the signing officers had no authority to execute the same. Any such instruments may be signed by another person or persons and in such manner as from time to time shall be determined by the Board, and, unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or amount.

Section 4. Certificates of Stock. Every holder of shares of the Corporation shall be entitled to have a certificate signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President and by the Chief Financial Officer or an Assistant Financial Officer or the Secretary or an Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Certificates for shares may be issued prior to full payment under such restrictions and for such purposes as the Board may provide; provided, however, that on any certificate issued to represent any partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated.

Except as provided in this Section, no new certificate for shares shall be issued in lieu of an old one unless the latter is surrendered and cancelled at the same time. The Board may, however, if any certificate for shares is alleged to have been lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, and the Corporation may require that the Corporation be given a bond or other adequate security sufficient to indemnify it against any claim that may be made against it (including expense or liability) on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 5. Representation of Shares of other Corporations. The President or any other officer or officers authorized by the Board or the President are each authorized to vote, represent and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority herein granted may be exercised either by any such officer in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officer.

Section 6. Stock Purchase Plans. The Corporation may adopt and carry out a stock purchase plan or agreement or stock option plan or agreement providing for the issue and sale for such consideration as may be fixed of its unissued shares, or of issued shares acquired or to be acquired, to one (1) or more of the employees or directors of the Corporation or of a subsidiary or to a trustee on their behalf and for the payment for such shares in installments or at one time, and may provide for aiding any such persons in paying for such shares by compensation for services rendered, promissory notes or otherwise.

Any such stock purchase plan or agreement or stock option plan or agreement may include, among other features, the fixing of eligibility for participation therein, the class and price of shares to be issued or sold under the plan or agreement, the number of shares which may be subscribed for, the method of payment therefor, the reservation of title until full payment therefor, the effect of the termination of employment and option or obligation on the part of the Corporation to repurchase the shares upon termination of employment, restrictions upon transfer of the shares, the time limits of and termination of the plan, and any other matters, not in violation of applicable law, as may be included in the plan as approved or authorized by the Board or any committee of the Board.

Section 7. Construction and Definitions. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Provisions of the California Corporations Code and in the California General Corporation Law shall govern the construction of these Bylaws.

ARTICLE VI INDEMNIFICATION

Section 1. Definitions. For the purposes of this Article, “agent” means any person who is or was a director, officer, employee or other agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation. “Proceeding” means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative and “expenses” includes without limitation attorneys’ fees and any expenses of establishing a right to indemnification under Sections 4 or 5(d) of this Article.

Section 2. Indemnification in Actions by Third Parties. The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Corporation to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the Corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the Corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Section 3. Indemnification in Actions by or in the Right of the Corporation. The Corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action, provided that no such person shall be indemnified for acts, omissions or transactions for which California Corporations Code Section 204(a)(10) disallows eliminating or limiting the personal liability of a director. No indemnification shall be made under this Section 3 for any of the following:

- (a) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation in the performance of such person's duty to the Corporation and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine;
- (b) Of amounts paid in settling or otherwise disposing of a pending action without court approval; or
- (c) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

Section 4. Mandatory Indemnification Against Expenses. To the extent that an agent of the Corporation has been successful on the merits in defense of any proceeding referred to in Sections 2 or 3 of this Article or in defense of any claim, issue or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

Section 5. Required Determinations. Except as provided in Section 4 of this Article, any indemnification under this Article shall be made by the Corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Sections 2 or 3 of this Article, by any of the following:

- (a) A majority vote of a quorum consisting of directors who are not parties to such proceeding;
- (b) If a quorum of directors is not obtainable, by independent legal counsel in a written opinion;
- (c) Approval of the shareholders, with the shares owned by the person to be indemnified not being entitled to vote thereon; or
- (d) The court in which such proceeding is or was pending upon application made by the Corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney or other person is opposed by the Corporation.

Section 6. Advance of Expenses. Expenses incurred in defending any proceeding may be advanced by the Corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article.

Section 7. Other Indemnification. The indemnification provided by this section shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent such additional rights to indemnification are authorized in the Articles of this corporation. The rights to indemnity hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this Article shall affect any right to indemnification to which persons other than such directors and officers may be entitled by contract or otherwise.

Section 8. Circumstances Where Indemnification Not Permitted. No indemnification or advance shall be made under this Article, except as provided in Sections 4 or 5(d) of this Article, in any circumstance where it appears:

- (a) That it would be inconsistent with a provision of the Articles, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or
- (b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 9. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any agent of the Corporation against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not the Corporation would have the power to indemnify the agent against such liability under the provisions of this Article.

Section 10. Nonapplicability to Fiduciaries of Employee Benefit Plans. This Article does not apply to a proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent as defined in Section 1 of this Article. The Corporation shall have power to indemnify such a trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

ARTICLE VII
AMENDMENTS

Section 1. Amendment By Shareholders. New bylaws may be adopted or these Bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the Articles of Incorporation of the corporation set forth the number of authorized directors of the corporation, then the authorized number of directors may be changed only by an amendment of the Articles of Incorporation.

Section 2. Amendment By Directors. Subject to the rights of shareholders as provided in Section 1 of this Article VII of these Bylaws, bylaws, other than bylaws or an amendment of a bylaw changing the authorized number of directors (except to fix the authorized number of directors pursuant to a bylaw providing for a variable number of directors), may be adopted, amended or repealed by the Board of Directors.

POLAR POWER, INC.
2016 OMNIBUS INCENTIVE PLAN

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ARTICLE I
DEFINITIONS

1.01 409A Award

“409A Award” means an Award that is intended to be subject to Code Section 409A.

1.02 Affiliate

“Affiliate,” as it relates to any limitations or requirements with respect to incentive stock options, means any “subsidiary” or “parent” corporation (as such terms are defined in Code Section 424) of the Company. Affiliate otherwise means any entity that is part of a controlled group of corporations or is under common control with the Company within the meaning of Code Sections 1563(a), 414(b) or 414(c), except that, in making any such determination, fifty percent (50%) shall be substituted for eighty percent (80%) under such Code Sections and the related regulations.

1.03 Agreement

“Agreement” means a written or electronic agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of an Award granted to such Participant.

1.04 Award

“Award” means an Option, SAR, Restricted Stock Award, Restricted Stock Unit, Incentive Award, Other Stock-Based Award, Dividend Equivalent or Cash Award granted under this Plan.

1.05 Board

“Board” means the Board of Directors of the Company.

1.06 Cash Award

“Cash Award” means an Award stated with reference to a specified dollar amount which, subject to such terms and conditions as may be prescribed by the Committee, entitles the Participant to receive cash from the Company or an Affiliate.

1.07 Cause

“Cause” means “Cause” as such term is defined in any employment or service agreement between the Company or any Affiliate and the Participant except as otherwise determined by the Committee and set forth in the applicable Agreement. If no such employment or service agreement exists or if such employment or service agreement does not contain any such definition, except as otherwise determined by the Committee and set forth in the applicable Agreement, “Cause” means (i) the Participant’s willful and continued failure to comply with the lawful directives of the Board or any supervisory personnel of the Participant; (ii) any criminal act or act of dishonesty or willful misconduct by the Participant that has a material adverse effect on the property, operations, business or reputation of the Company or any Affiliate (willful for purposes of this definition, shall mean done, or omitted to be done, by the Participant in bad faith and without reasonable belief that the Participant’s action or omission was in the best interest of the Company or any Affiliate); (iii) the material breach by the Participant of the terms of any confidentiality, non-competition, non-solicitation or other agreement that the Participant has with the Company or any Affiliate or of any duty the Participant owes the Company or any Affiliate, (iv) acts by the Participant of willful malfeasance or gross negligence in a matter of material importance to the Company or any Affiliate, (v) any act of fraud, embezzlement, theft, misappropriation or misuse by the Participant of the funds or property of the Company or any Affiliate, (vi) any falsification by the Participant of any record or report in connection with the Participant’s duties and obligations to the Company or any Affiliate, (vii) the Participant’s sexual harassment of any other employees of the Company or any Affiliate, (viii) the breach by the Participant of any fiduciary duty against the Company or any Affiliate, (ix) the Participant being indicted for a felony that has a material adverse effect on the property, operations, business or reputation of the Company or any Affiliate or being convicted of any other felony or plea of guilty or nolo contendere to any other felony or (x) any other action that may damage the image of the Company’s or an Affiliate’s business or their or its standing in the industry, including but not limited to the possession, use or sale of illegal drugs, the abuse of alcohol or prescribed medication, or any other act or omission which the Company or an Affiliate considers to be a violation of Federal, state or local law or regulations other than a simple traffic violation.

1.08 Change in Control

“Change in Control” means the occurrence of any of the following events except as otherwise determined by the Committee and set forth in the applicable Agreement:

(a) The accumulation in any number of related or unrelated transactions by any Person of beneficial ownership (as such term is used in Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of the combined voting power of the Company’s voting stock; provided that for purposes of this subsection (a), a Change in Control will not be deemed to have occurred if the accumulation of more than fifty percent (50%) of the voting power of the Company’s voting stock results from any acquisition of voting stock (i) directly from the Company that is approved by the Incumbent Board, (ii) by the Company, (iii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, or (iv) by any Person pursuant to a merger, consolidation, reorganization or other transaction (a “Business Combination”) that would not cause a Change in Control under subsections (b), (c) or (d) below; or

(b) Consummation of a Business Combination, unless, immediately following that Business Combination, (i) all or substantially all of the Persons who were the beneficial owners of the voting stock of the Company immediately prior to that Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the then outstanding shares of common stock and more than fifty percent (50%) of the combined voting power of the then outstanding voting stock entitled to vote generally in the election of directors of the entity resulting from that Business Combination (including, without limitation, an entity that as a result of that Business Combination owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as their ownership, immediately prior to that Business Combination, of the voting stock of the Company, or

(c) A sale or other disposition of all or substantially all of the assets of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsections (b) above or (d) below; or

(d) A complete liquidation or dissolution of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsections (b) and (c) above; or

(e) The acquisition by any Person, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Company (i) through the ownership of securities which provide the holder with such power, excluding voting rights attendant with such securities, or (ii) by contract; provided that a Change in Control will not be deemed to have occurred if such power was acquired (x) directly from the Company in a transaction approved by the Incumbent Board, (y) by an employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate or (z) by any person pursuant to a Business Combination that would not cause a Change in Control under subsections (b), (c) or (d) above; or

(f) During any period of two consecutive years, the Incumbent Board ceases to constitute a majority of the Board.

Notwithstanding the foregoing, a Change in Control shall only be deemed to have occurred with respect to a Participant in connection with the time or form of payment of the Participant's 409A Award (or as otherwise required for the 409A Award to be in compliance with Code Section 409A) if the Change in Control otherwise constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of Code Section 409A (otherwise, with respect to vesting of the 409A Award and any other terms of the 409A Award that do not require a Change in Control to comply with its meaning under Code Section 409A for the 409A Award to be in compliance with Code Section 409A, Change in Control shall have the same meaning as described above).

1.09 Code

"Code" means the Internal Revenue Code of 1986 and any amendments thereto.

1.10 Committee

"Committee" means the Compensation Committee of the Board or such other Committee as the Board may appoint from time to time to administer the Plan, or the Board itself if no Compensation Committee or other appointed Committee exists. If such Compensation Committee or other Committee exists, if and to the extent deemed necessary by the Board, such Committee shall consist of two or more directors, all of whom are (i) "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act, (ii) "outside directors" within the meaning of Code Section 162(m) and (iii) independent directors under the rules of the principal stock exchange on which the Company's securities are then traded.

1.11 Common Stock

“Common Stock” means the common stock of the Company, no par value per share, or such other class or kind of shares or other securities resulting from the application of Article XVI, as applicable.

1.12 Company

“Company” means Polar Power, Inc., a California corporation, and any successor thereto.

1.13 Control Change Date

“Control Change Date” means the date on which a Change in Control occurs. If a Change in Control occurs on account of a series of transactions, the “Control Change Date” is the date of the last of such transactions.

1.14 Corresponding SAR

“Corresponding SAR” means a SAR that is granted in relation to a particular Option and that can be exercised only upon the surrender to the Company, unexercised, of that portion of the Option to which the SAR relates.

1.15 Disability

“Disability” means, for purposes of an incentive stock option, a physical, mental or other impairment within the meaning of Code Section 22(e)(3) and, for all other purposes, any physical or mental condition that would qualify the Participant for a disability under any long-term disability plan maintained by the Company or any Affiliate that is applicable to such Participant, except as otherwise determined by the Committee and set forth in the applicable Agreement. Notwithstanding the foregoing, however, to the extent necessary for any 409A Award to be in compliance with Code Section 409A, Disability, with respect to the time or form of payment of a Participant’s 409A Award (or as otherwise required for the 409A Award to be in compliance with Code Section 409A), means the Participant is Disabled within the meaning of Code Section 409A.

1.16 Dividend Equivalent

“Dividend Equivalent” means the right, granted under the Plan, to receive cash, shares of Common Stock, other Awards or other property equal in value to all or a specified portion of dividends paid with respect to a specified number of shares of Common Stock.

1.17 Exchange Act

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

1.18 Fair Market Value

“Fair Market Value” of a share of Common Stock means, on any given date, the fair market value of a share of Common Stock as the Committee, in its discretion, shall determine; provided, however, that the Committee shall determine Fair Market Value without regard to any restriction other than a restriction which, by its terms, will never lapse and, if the shares of Common Stock are traded on any national stock exchange or quotation system, the Fair Market Value of a share of Common Stock shall be the closing price of a share of Common Stock as reported on such stock exchange or quotation system on such date, or if the shares of Common Stock are not traded on such stock exchange or quotation system on such date, then on the next preceding day that the shares of Common Stock were traded on such stock exchange or quotation system, all as reported by such source as the Committee shall select. The Fair Market Value that the Committee determines shall be final, binding and conclusive on the Company, any Affiliate and each Participant. Fair Market Value relating to the exercise price, Initial Value, or purchase price of any Non-409A Award that is an Option, SAR or Other Stock-Based Award in the nature of purchase rights shall conform to the requirements for exempt stock rights under Code Section 409A.

1.19 Full Value Award

“Full Value Award” means an Award other than an Option, SAR or Other Stock-Based Award in the nature of purchase rights.

1.20 Incentive Award

“Incentive Award” means an Award stated with reference to a specified dollar amount or number of shares of Common Stock which, subject to such terms and conditions as may be prescribed by the Committee, entitles the Participant to receive shares of Common Stock, cash or a combination thereof from the Company or an Affiliate.

1.21 Incumbent Board

“Incumbent Board” means a Board of Directors at least a majority of whom consist of individuals who either are (a) members of the Company's Board at the beginning of any period of two consecutive years or (b) members who become members of the Company's Board subsequent to such time whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds (2/3) of the directors then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which that person is named as a nominee for director, without objection to that nomination), but excluding, for that purpose, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14a-11 of the Exchange Act) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors.

1.22 Initial Value

“Initial Value” means, with respect to a Corresponding SAR, the Option price per share of the related Option and, with respect to a SAR granted independently of an Option, the amount determined by the Committee on the date of grant which shall not be less than the Fair Market Value of one share of Common Stock on the date of grant, subject to Sections 14.06 and 16.03 with respect to substitute Awards

1.23 Named Executive Officer

“Named Executive Officer” means a Participant who, as of the last day of a taxable year, is the Chief Executive Officer of the Company (or is acting in such capacity) or one of the three highest compensated officers of the Company (other than the Chief Executive Officer or the Chief Financial Officer) or is otherwise one of the group of “covered employees,” as defined in the regulations promulgated under Code Section 162(m).

1.24 Non-409A Award

“Non-409A Award” means an Award that is not intended to be subject to Code Section 409A.

1.25 Option

“Option” means a stock option that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the price set forth in an Agreement.

1.26 Other Stock-Based Award

“Other Stock-Based Award” means an Award granted to the Participant under Article XII of the Plan.

1.27 Participant

“Participant” means an employee of the Company or an Affiliate, a member of the Board or Board of Directors of an Affiliate (whether or not an employee), a Person who provides services to the Company or an Affiliate and any entity which is a wholly-owned alter ego of such employee, member of the Board or Board of Directors of an Affiliate or Person who provides services and who satisfies the requirements of Article V and is selected by the Committee to receive an Award.

1.28 Plan

“Plan” means this Polar Power, Inc. 2016 Omnibus Incentive Plan, in its current form and as hereafter amended.

1.29 Person

“Person” means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or any other entity of any kind.

1.30 Restricted Stock Award

“Restricted Stock Award” means shares of Common Stock granted to a Participant under Article IX.

1.31 Restricted Stock Unit

“Restricted Stock Unit” means an Award, stated with respect to a specified number of shares of Common Stock, that entitles the Participant to receive one share of Common Stock (or, as otherwise determined by the Committee and set forth in the applicable Agreement, the equivalent Fair Market Value of one share of Common Stock in cash) with respect to each Restricted Stock Unit that becomes payable under the terms and conditions of the Plan and the applicable Agreement.

1.32 Retirement

“Retirement” means the termination of Participant’s employment or service with the Company and its Affiliates on or after (i) attaining age sixty-five (65) or (ii) attaining age fifty-five (55) and accumulating ten (10) years of service, except as otherwise determined by the Committee and set forth in the applicable Agreement. For this purpose, years of service shall be determined in accordance with the Company’s written policies as determined by the Committee.

1.33 SAR

“SAR” means a stock appreciation right that in accordance with the terms of an Agreement entitles the holder to receive cash or a number of shares of Common Stock, as determined by the Committee and set forth in the applicable Agreement, based on the increase in the Fair Market Value of the shares underlying the stock appreciation right during a stated period specified by the Committee over the Initial Value. References to “SARs” include both Corresponding SARs and SARs granted independently of Options, unless the context requires otherwise.

1.34 Ten Percent Shareholder

“Ten Percent Shareholder” means any individual who (considering the stock attribution rules described in Code Section 424(d)) owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

1.35 Termination Date

“Termination Date” means the day on which a Participant’s employment or service with the Company and its Affiliates terminates or is terminated.

ARTICLE II **PURPOSES**

The Plan is intended to assist the Company and its Affiliates in recruiting and retaining individuals with ability and initiative by enabling such Persons to participate in the future success of the Company and its Affiliates by aligning their interests with those of the Company and its stockholders.

ARTICLE III **TYPES OF AWARDS**

The Plan is intended to permit the grant of Options qualifying under Code Section 422 (“**incentive stock options**”) and Options not so qualifying, SARs, Restricted Stock Awards, Restricted Stock Units, Incentive Awards, Other Stock-Based Awards, Dividend Equivalents and Cash Awards in accordance with the Plan and procedures that may be established by the Committee. No Option that is intended to be an incentive stock option shall be invalid for failure to qualify as an incentive stock option. The proceeds received by the Company from the sale of shares of Common Stock pursuant to this Plan may be used for general corporate purposes.

ARTICLE IV **ADMINISTRATION**

4.01 General Administration

The Plan shall be administered by the Committee. The Committee shall have authority to grant Awards upon such terms (not inconsistent with the provisions of this Plan) as the Committee may consider appropriate. Such terms may include conditions (in addition to those contained in this Plan) on the grant, exercisability, transferability, settlement and forfeitability of all or any part of an Award, among other terms. Notwithstanding any such conditions, the Committee may, in its discretion, accelerate the time at which any Award may be exercised, become transferable or nonforfeitable or be earned and settled including, without limitation, (i) in the event of the Participant’s death, Disability, Retirement or involuntary termination of employment or service (including a voluntary termination of employment or service for good reason) or (ii) in connection with a Change in Control. In addition, the Committee shall have complete authority to interpret all provisions of this Plan including, without limitation, the discretion to interpret any terms used in the Plan that are not defined herein; to prescribe the form of Agreements; to adopt, amend and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee in connection with the administration of this Plan shall be final and conclusive. The members of the Committee shall not be liable for any act done in good faith with respect to this Plan or any Agreement or Award. Unless otherwise provided by the Bylaws of the Company, by resolution of the Board or applicable law, a majority of the members of the Committee shall constitute a quorum, and acts of the majority of the members present at any meeting at which a quorum is present, and any acts approved in writing by all members of the Committee without a meeting, shall be the acts of the Committee.

4.02 Delegation of Authority

The Committee may act through subcommittees, in which case the subcommittee shall be subject to and have the authority hereunder applicable to the Committee, and the acts of the subcommittee shall be deemed to be the acts of the Committee hereunder. Additionally, to the extent applicable law so permits, the Committee, in its discretion, may delegate to one or more officers of the Company all or part of the Committee's authority and duties with respect to Awards to be granted to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act and who are not members of the Board or the Board of Directors of an Affiliate. The Committee may revoke or amend the terms of any delegation at any time but such action shall not invalidate any prior actions of the Committee's delegate or delegates that were consistent with the terms of the Plan and the Committee's prior delegation. Notwithstanding the foregoing, however, if and to the extent deemed necessary by the Board, (a) all Awards granted to any individual who is subject to the reporting and other provisions of Section 16 of the Exchange Act shall be made by a Committee comprised solely of two or more directors, all of whom are "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act, to the extent necessary to exempt the Award from the short-swing profit rules of Section 16(b) of the Exchange Act and (b) all Awards granted to an individual who is a Named Executive Officer shall be made by a Committee comprised solely of two or more directors, all of whom are "outside directors" within the meaning of Code Section 162(m), to the extent necessary to preserve any deduction under Code Section 162(m). However, (a) any Awards granted to any individual who is subject to the reporting and other provisions of Section 16 of the Exchange Act shall not fail to be valid if made other than by a committee comprised solely of two or more directors, all of whom are "non-employee directors" within the meaning of Rule 16(b)-3 under the Exchange Act, and (b) any Awards granted to an individual who is a Named Executive Officer shall not fail to be valid if made other than by a committee comprised solely of two or more directors, all of whom are "outside directors" within the meaning of Code Section 162(m). An Award granted to an individual who is a member of the Committee may be approved by the Committee in accordance with the applicable Committee charters then in effect and other applicable law except that the Committee member must abstain from any action with respect to the Committee member's own Awards.

4.03 Indemnification of Committee

The Company shall bear all expenses of administering this Plan. The Company shall indemnify and hold harmless each Person who is or shall have been a member of the Committee acting as administrator of the Plan, or any delegate of such, against and from any cost, liability, loss or expense that may be imposed upon or reasonably incurred by such Person in connection with or resulting from any action, claim, suit or proceeding to which such Person may be a party or in which such Person may be involved by reason of any action taken or not taken under the Plan and against and from any and all amounts paid by such Person in settlement thereof, with the Company's approval, or paid by such Person in satisfaction of any judgment in any such action, suit or proceeding against such Person, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. Notwithstanding the foregoing, the Company shall not indemnify and hold harmless any such Person if applicable law or the Company's Certificate of Incorporation or Bylaws prohibit such indemnification. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such Persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law or otherwise, or under any other power that the Company may have to indemnify such Person or hold him or her harmless. The provisions of the foregoing indemnity shall survive indefinitely the term of this Plan.

ARTICLE V **ELIGIBILITY**

Any employee of the Company or an Affiliate (including an entity that becomes an Affiliate after the adoption of this Plan), a member of the Board or the Board of Directors of an Affiliate (including an entity that becomes an Affiliate after the adoption of the Plan) (whether or not such Board or Board of Directors member is an employee), any Person who provides services to the Company or an Affiliate (including an entity that becomes an Affiliate after the adoption of the Plan) and any entity which is a wholly-owned alter ego of such employee, member of the Board or Board of Directors of an Affiliate or other Person who provides services is eligible to participate in this Plan if the Committee, in its sole discretion, determines that such Person or entity has contributed significantly or can be expected to contribute significantly to the profits or growth of the Company or any Affiliate or if it is otherwise in the best interest of the Company or any Affiliate for such Person or entity to participate in this Plan. With respect to any Board member who is (i) designated or nominated to serve as a Board member by a stockholder of the Company and (ii) an employee of such stockholder of the Company, then, at the irrevocable election of the employing stockholder, the Person or entity who shall be eligible to participate in this Plan on behalf of the service of the respective Board member shall be the employing stockholder (or one of its Affiliates). To the extent such election is made, the respective Board member shall have no rights hereunder as a Participant with respect to such Board member's participation in this Plan. An Award may be granted to a Person or entity who has been offered employment or service by the Company or an Affiliate and who would otherwise qualify as eligible to receive the Award to the extent that Person or entity commences employment or service with the Company or an Affiliate, provided that such Person or entity may not receive any payment or exercise any right relating to the Award, and the grant of the Award will be contingent, until such Person or entity has commenced employment or service with the Company or an Affiliate.

ARTICLE VI
COMMON STOCK SUBJECT TO PLAN

6.01 Common Stock Issued

Upon the issuance of shares of Common Stock pursuant to an Award, the Company may deliver to the Participant (or the Participant's broker if the Participant so directs) shares of Common Stock from its authorized but unissued Common Stock, treasury shares or reacquired shares, whether reacquired on the open market or otherwise.

6.02 Aggregate Limit

The maximum aggregate number (the "**Maximum Aggregate Number**") of shares of Common Stock which may be subject to Awards under this Plan is 5,000,000 shares of Common Stock.

The Maximum Aggregate Number of shares of Common Stock that may be subject to Awards under the Plan may be subject to Options. To the extent shares of Common Stock not issued under an Option must be counted against this limit as a condition to satisfying the rules applicable to incentive stock options, such rule shall apply to the limit on Options granted under the Plan.

The Maximum Aggregate Number of shares of Common Stock that may be subject to Awards under the Plan and the maximum number of shares of Common Stock that may be subject to Options under the Plan shall, in each instance, be subject to adjustment as provided in Article XVI, provided, however, that (i) substitute Awards granted under Section 16.03 shall not reduce the Maximum Aggregate Number of shares of Common Stock that may be subject to Awards under the Plan (to the extent permitted by applicable stock exchange rules) and (ii) available shares of stock under a stockholder-approved plan of an acquired company (as appropriately adjusted to reflect the transaction) also may be used for Awards under the Plan and shall not reduce the Maximum Aggregate Number of shares of Common Stock that may be subject to Awards under the Plan (subject to applicable stock exchange requirements).

6.03 Individual Limit

The maximum number of shares of Common Stock that may be covered by Options, SARs or Other Stock-Based Awards in the nature of purchase rights granted to any one Participant during any calendar year shall be 500,000 shares of Common Stock; provided, however, that (i) if the Options, SARs or Other Stock-Based Awards in the nature of purchase rights are denominated in shares of Common Stock but an equivalent amount of cash is delivered in lieu of delivery of shares of Common Stock, the foregoing limit shall be applied based on the methodology used by the Committee to convert the number of shares of Common Stock into cash and (ii) any adjustment in the number of shares of Common Stock or amount of cash delivered to reflect actual or deemed investment experience shall be disregarded. For purposes of the foregoing limit, an Option and its corresponding SAR shall be treated as a single Award. For Full Value Awards that are intended to constitute “qualified performance-based compensation” within the meaning of Code Section 162(m), no more than 500,000 shares of Common Stock may be subject to any such Full Value Awards granted to any one Participant during any calendar year (regardless of whether settlement of the Award is to occur prior to, at the time of, or after the time of vesting); provided, however, that (i) if the Full Value Award is denominated in shares of Common Stock but an equivalent amount of cash is delivered in lieu of delivery of shares of Common Stock, the foregoing limit shall be applied based on the methodology used by the Committee to convert the number of shares of Common Stock into cash and (ii) any adjustment in the number of shares of Common Stock or amount of the cash delivered to reflect actual or deemed investment experience shall be disregarded. For any Awards that are intended to constitute “qualified performance-based compensation” within the meaning of Code Section 162(m) and are stated with reference to a specified dollar limit, the maximum amount that may be earned and become payable to any one Participant with respect to any twelve (12)-month performance period shall equal \$2,000,000 (pro rated up or down for performance periods that are greater or lesser than twelve (12) months); provided, however, that (i) if the Award is denominated in cash but an equivalent amount of shares of Common Stock are delivered in lieu of delivery of cash, the foregoing limit shall be applied to the cash based on the methodology used by the Committee to convert the cash into shares of Common Stock and (ii) any adjustment in the number of shares of Common Stock or the amount of cash delivered to reflect actual or deemed investment experience shall be disregarded. For any Cash Awards that are intended to constitute annual incentive awards, the maximum amount that may be earned and become payable to any one Participant with respect to any twelve (12)-month period shall equal \$5,000,000; provided, however, that (i) if the Cash Award is denominated in cash but an equivalent amount of shares of Common Stock are delivered in lieu of delivery of cash, the foregoing limit shall be applied to the cash based on the methodology used by the Committee to convert the cash into shares of Common Stock and (ii) any adjustment in the number of shares of Common Stock or the amount of cash delivered to reflect actual or deemed investment experience shall be disregarded. If an Award that a Participant holds is cancelled or subject to a repricing within the meaning of the regulations under Code Section 162(m) (after shareholder approval as required herein), the cancelled Award shall continue to be counted against the maximum number of shares of Common Stock for which Awards may be granted to the Participant in any calendar year as required under Code Section 162(m). The maximum number of shares that may be granted in any consecutive rolling thirty-six (36)-month period to any Participant shall be subject to adjustment as provided in Article XVI. In addition to the limits set forth herein, (i) the maximum number of shares of Common Stock that may be covered by Awards stated with reference to a specific number of shares of Common Stock and granted to any one Participant in connection with the Participant’s service as a member of the Board during any twelve (12)-month period shall be 500,000 shares of Common Stock and (ii) for Awards stated with reference to a specific dollar amount, the maximum amount that may be earned and become payable to any one Participant in connection with the Participant’s service as a member of the Board for any consecutive twelve (12)-month period shall equal \$2,000,000 (prorated up or down for periods that are greater or lesser than twelve (12) months), in each case applied as described above for the other individual limitations.

6.04 Share Counting

Except as set forth below, a share of Common Stock subject to any Award under this Plan shall reduce the Maximum Aggregate Number of shares of Common Stock available for Awards under this Plan, and the maximum number of shares of Common Stock available for Options under this Plan, by one. Except as otherwise provided herein, (i) any shares of Common Stock subject to an Award granted under this Plan which terminates by expiration, forfeiture, cancellation or otherwise, which is settled in cash in lieu of Common Stock or which is exchanged, with the Committee's permission, for Awards granted under this Plan not involving shares of Common Stock, (ii) shares of Common Stock not issued or delivered as a result of the net exercise or settlement of an outstanding Award granted under this Plan, (iii) shares of Common Stock tendered to pay the exercise or purchase price or withholding taxes relating to an outstanding Award granted under this Plan, (iv) shares of Common Stock repurchased on the open market with the proceeds of the exercise or purchase price of an Award granted under this Plan, and (v) shares of Common Stock under a stock-settled SAR that are not actually issued in connection with settlement of the stock-settled SAR, shall all again be available for Awards under the Plan.

ARTICLE VII OPTIONS

7.01 Grant

Subject to the eligibility provisions of Article V, the Committee will designate each individual or entity to whom an Option is to be granted and will specify the number of shares of Common Stock covered by such grant and whether the Option is an incentive stock option or a nonqualified stock option. Notwithstanding any other provision of the Plan or any Agreement, the Committee may only grant an incentive stock option to an individual who is an employee of the Company or an Affiliate. An Option may be granted with or without a Corresponding SAR.

7.02 Option Price

The price per share of Common Stock purchased on the exercise of an Option shall be determined by the Committee on the date of grant, but shall not be less than the Fair Market Value of a share of Common Stock on the date the Option is granted, subject to Sections 14.06 and 16.03 with respect to substitute Awards. However, if at the time of grant of an Option that is intended to be an incentive stock option, the Participant is a Ten Percent Shareholder, the price per share of Common Stock purchased on the exercise of such Option shall not be less than one hundred ten percent (110%) of the Fair Market Value of a share of Common Stock on the date the Option is granted.

7.03 Maximum Term of Option

The maximum time period in which an Option may be exercised shall be determined by the Committee on the date of grant, except that no Option shall be exercisable after the expiration of ten (10) years from the date such Option was granted.

7.04 Exercise

Subject to the provisions of this Plan and the applicable Agreement, an Option may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine; provided, however, that incentive stock options (granted under the Plan and all plans of the Company and its Affiliates) may not be first exercisable in a calendar year for shares of Common Stock having a Fair Market Value (determined as of the date the Option is granted) exceeding the limit set forth under Code Section 422(d) (currently \$100,000). If the limitation is exceeded, the Options that cause the limitation to be exceeded shall be treated as nonqualified stock options. An Option granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Agreement with respect to the remaining shares subject to the Option. The exercise of an Option shall result in the termination of the Corresponding SAR to the extent of the number of shares with respect to which the Option is exercised.

7.05 Payment

Subject to rules established by the Committee and unless otherwise provided in an Agreement, payment of all or part of the Option price shall be made in cash or cash equivalent acceptable to the Committee. If the Agreement so provides, the Committee, in its discretion and provided applicable law so permits, may allow a Participant to pay all or part of the Option price (a) by surrendering (actually or by attestation) shares of Common Stock to the Company that the Participant already owns; (b) by a cashless exercise through a broker; (c) by means of a "net exercise" procedure by the surrender of shares of Common Stock to which the Participant is otherwise entitled under the Option; (d) by such other medium of payment as the Committee, in its discretion, shall authorize; or (e) by any combination of the aforementioned methods of payment. If shares of Common Stock are used to pay all or part of the Option price, the sum of the cash and cash equivalent and the Fair Market Value (determined as of the day preceding the date of exercise) of the shares surrendered must not be less than the Option price of the shares for which the Option is being exercised.

7.06 Stockholder Rights

No Participant shall have any rights as a stockholder with respect to shares subject to his or her Option until the date of exercise of such Option and the issuance of the shares of Common Stock.

7.07 Disposition of Shares

A Participant shall notify the Company of any sale or other disposition of shares of Common Stock acquired pursuant to an Option that was designated an incentive stock option if such sale or disposition occurs (a) within two (2) years of the grant of an Option or (b) within one (1) year of the issuance of shares of Common Stock to the Participant (subject to any changes in such time periods as set forth in Code Section 422(a)). Such notice shall be in writing and directed to the Secretary of the Company.

7.08 No Liability of Company

The Company shall not be liable to any Participant or any other Person if the Internal Revenue Service or any court or other authority having jurisdiction over such matter determines for any reason that an Option intended to be an incentive stock option and granted hereunder does not qualify as an incentive stock option.

ARTICLE VIII
SARS

8.01 Grant

Subject to the eligibility provisions of Article V, the Committee will designate each individual or entity to whom SARs are to be granted and will specify the number of shares of Common Stock covered by such grant. In addition, no Participant may be granted Corresponding SARs (under this Plan and all other incentive stock option plans of the Company and its Affiliates) that are related to incentive stock options which are first exercisable in any calendar year for shares of Common Stock having an aggregate Fair Market Value (determined as of the date the related Option is granted) that exceeds \$100,000.

8.02 Maximum Term of SAR

The maximum term of a SAR shall be determined by the Committee on the date of grant, except that no SAR shall have a term of more than ten (10) years from the date such SAR was granted. No Corresponding SAR shall be exercisable or continue in existence after the expiration of the Option to which the Corresponding SAR relates.

8.03 Exercise

Subject to the provisions of this Plan and the applicable Agreement, a SAR may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine; provided, however, that a SAR may be exercised only when the Fair Market Value of the Common Stock that is subject to the exercise exceeds the Initial Value of the SAR and a Corresponding SAR may be exercised only to the extent that the related Option is exercisable. A SAR granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the SAR could be exercised. A partial exercise of a SAR shall not affect the right to exercise the SAR from time to time in accordance with this Plan and the applicable Agreement with respect to the remaining shares subject to the SAR. The exercise of a Corresponding SAR shall result in the termination of the related Option to the extent of the number of shares with respect to which the SAR is exercised.

8.04 Settlement

The amount payable to the Participant by the Company as a result of the exercise of a SAR shall be settled in cash, by the issuance of shares of Common Stock or by a combination thereof, as the Committee, in its sole discretion, determines and sets forth in the applicable Agreement. No fractional share will be deliverable upon the exercise of a SAR but a cash payment will be made in lieu thereof.

8.05 Stockholder Rights

No Participant shall, as a result of receiving a SAR, have any rights as a stockholder of the Company or any Affiliate until the date that the SAR is exercised and then only to the extent that the SAR is settled by the issuance of Common Stock.

ARTICLE IX RESTRICTED STOCK AWARDS

9.01 Award

Subject to the eligibility provisions of Article V, the Committee will designate each individual or entity to whom a Restricted Stock Award is to be granted, and will specify the number of shares of Common Stock covered by such grant and the price, if any, to be paid for each share of Common Stock covered by the grant.

9.02 Payment

Unless the Agreement provides otherwise, if the Participant must pay for a Restricted Stock Award, payment of the Award shall be made in cash or cash equivalent acceptable to the Committee. If the Agreement so provides, the Committee, in its discretion and provided applicable law so permits, may allow a Participant to pay all or part of the purchase price (i) by surrendering (actually or by attestation) shares of Common Stock to the Company the Participant already owns and, if necessary to avoid adverse accounting consequences, has held for at least six months, (ii) by means of a "net exercise procedure" by the surrender of shares of Common Stock to which the Participant is otherwise entitled under the Restricted Stock Award, (iii) by such other medium of payment as the Committee in its discretion shall authorize or (iv) by any combination of the foregoing methods of payment. If Common Stock is used to pay all or part of the purchase price, the sum of cash and cash equivalent and other payments and the Fair Market Value (determined as of the day preceding the date of purchase) of the Common Stock surrendered must not be less than the purchase price of the Restricted Stock Award. A Participant's rights in a Restricted Stock Award may be subject to repurchase upon specified events as determined by the Committee and set forth in the Agreement.

9.03 Vesting

The Committee, on the date of grant of the Restricted Stock Award, shall prescribe that the Restricted Stock Award will become nonforfeitable and transferable subject to such conditions as are set forth in the Agreement. Notwithstanding any provision herein to the contrary, the Committee, in its sole discretion, may grant Restricted Stock Awards that are nonforfeitable and transferable immediately upon grant, including without limitation Restricted Stock Awards granted in payment of earned performance awards or other incentive compensation under the Plan or any other plans or compensatory arrangements of the Company or any Affiliate. A Restricted Stock Award can only become nonforfeitable and transferable during the Participant's lifetime in the hands of the Participant.

9.04 Maximum Restriction Period

To the extent the Participant's rights in a Restricted Stock Award are forfeitable and nontransferable for a period of time, the Committee on the date of grant shall determine the maximum period over which the rights may become nonforfeitable and transferable, except that such period shall not exceed ten (10) years from the date of grant.

9.05 Stockholder Rights

Prior to their forfeiture (in accordance with the applicable Agreement and while the shares of Common Stock granted pursuant to the Restricted Stock Award may be forfeited and are nontransferable), a Participant will have all rights of a stockholder with respect to a Restricted Stock Award, including the right to receive dividends and vote the shares; provided, however, that during such period (a) a Participant may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of shares granted pursuant to a Restricted Stock Award, (b) the Company shall retain custody of any certificates evidencing shares granted pursuant to a Restricted Stock Award and (c) the Participant will deliver to the Company a stock power, endorsed in blank, with respect to each Restricted Stock Award. In lieu of retaining custody of the certificates evidencing shares granted pursuant to a Restricted Stock Award, the shares of Common Stock granted pursuant to the Restricted Stock Award may, in the Committee's discretion, be held in escrow by the Company or recorded as outstanding by notation on the stock records of the Company until the Participant's interest in such shares of Common Stock vest. Notwithstanding the preceding sentences, but subject to Section 14.07 below, if and to the extent deemed necessary by the Committee, dividends payable with respect to Restricted Stock Awards may accumulate (without interest) and become payable in cash or in shares of Common Stock to the Participant at the time, and only to the extent that, the portion of the Restricted Stock Award to which the dividends relate has become transferable and nonforfeitable. The limitations set forth in the preceding sentences shall not apply after the shares granted under the Restricted Stock Award are transferable and are no longer forfeitable.

ARTICLE X RESTRICTED STOCK UNITS

10.01 Grant

Subject to the eligibility provisions of Article V, the Committee will designate each individual or entity to whom a grant of Restricted Stock Units is to be made and will specify the number of shares covered by such grant.

10.02 Earning the Award

The Committee, on the date of grant of the Restricted Stock Units, shall prescribe that the Restricted Stock Units will be earned and become payable subject to such conditions as are set forth in the Agreement. Notwithstanding any provision herein to the contrary, the Committee, in its sole discretion, may grant Restricted Stock Units in payment of earned performance awards or other incentive Compensation under the Plan or any other plans or Compensatory arrangements of the Company or any Affiliate. If and to the extent deemed necessary by the Committee, Restricted Stock Units granted to Named Executive Officers shall become payable upon the satisfaction of objectively determinable performance conditions based on the criteria described in Article XV and shall be subject to the other requirements set forth in Article XV so as to enable such Restricted Stock Units to qualify as “qualified performance-based compensation” under the regulations promulgated under Code Section 162(m). Notwithstanding any provision herein to the contrary, the Committee, in its sole discretion, may grant Restricted Stock Units that are earned and payable immediately upon grant.

10.03 Maximum Restricted Stock Unit Award Period

The Committee, on the date of grant, shall determine the maximum period over which Restricted Stock Units may be earned, except that such period shall not exceed ten (10) years from the date of grant.

10.04 Payment

The amount payable to the Participant by the Company when an Award of Restricted Stock Units is earned shall be settled by the issuance of one share of Common Stock (or, as otherwise determined by the Committee and set forth in the applicable Agreement, the equivalent Fair Market Value of one share of Common Stock in cash) for each Restricted Stock Unit that is earned. A fractional share of Common Stock shall not be deliverable when an Award of Restricted Stock Units is earned, but a cash payment will be made in lieu thereof.

10.05 Stockholder Rights

No Participant shall, as a result of receiving a grant of Restricted Stock Units, have any rights as a stockholder until and then only to the extent that the Restricted Stock Units are earned and settled in shares of Common Stock, nor shall any participant receive Dividend Equivalents solely as a result of receiving a grant of Restricted Stock Units. However, notwithstanding the foregoing, the Committee, in its sole discretion, may grant Dividend Equivalents in the Agreement in connection with a grant of Restricted Stock Units. By way of example and not limitation, such Dividend Equivalents may provide that, for so long as the Participant holds any Restricted Stock Units, if the Company pays any cash dividends on its Common Stock, then (a) the Company may pay the Participant in cash for each outstanding Restricted Stock Unit covered by the Agreement as of the record date of such dividend, less any required withholdings, the per share amount of such dividend or (b) the number of outstanding Restricted Stock Units covered by the Agreement may be increased by the number of Restricted Stock Units, rounded down to the nearest whole number, equal to (i) the product of the number of the Participant’s outstanding Restricted Stock Units as of the record date for such dividend multiplied by the per share amount of the dividend divided by (ii) the Fair Market Value of a share of Common Stock on the payment date of such dividend. In the event additional Restricted Stock Units are awarded, such Restricted Stock Units shall be subject to the same terms and conditions set forth in the Plan and the Agreement as the outstanding Restricted Stock Units with respect to which they were granted. Notwithstanding the preceding sentences, but subject to Section 14.07 below, if and to the extent deemed necessary to the Committee, Dividend Equivalents payable with respect to Restricted Stock Units may accumulate (without interest) and become payable to the Participant at the time, and only to the extent that, the portion of the Restricted Stock Units to which the Dividend Equivalents relate has become earned and payable. The limitations set forth in the preceding sentences shall not apply after the Restricted Stock Units become earned and payable and shares are issued thereunder.

ARTICLE XI
INCENTIVE AWARDS

11.01 Grant

Subject to the eligibility provisions of Article V, the Committee will designate each individual or entity to whom Incentive Awards are to be granted. All Incentive Awards shall be determined exclusively by the Committee under the procedures established by the Committee.

11.02 Earning the Award

Subject to the Plan, the Committee, on the date of grant of an Incentive Award, shall specify in the applicable Agreement the terms and conditions which govern the grant, including, without limitation, whether the Participant to be entitled to payment must be employed or providing services to the Company or an Affiliate at the time the Incentive Award is to be paid. If and to the extent deemed necessary by the Committee, Incentive Awards granted to Named Executive Officers shall be earned and become payable upon the satisfaction of objectively determinable performance conditions based on the criteria described in Article XV and shall be subject to the other requirements set forth in Article XV so as to enable the Incentive Awards to qualify as "qualified performance-based compensation" under the regulations promulgated under Code Section 162(m).

11.03 Maximum Incentive Award Period

The Committee, at the time an Incentive Award is made, shall determine the maximum period over which the Incentive Award may be earned, except that such period shall not exceed ten (10) years from the date of grant.

11.04 Payment

The amount payable to the Participant by the Company when an Incentive Award is earned may be settled in cash, by the issuance of shares of Common Stock or by a combination thereof, as the Committee, in its sole discretion, determines and sets forth in the applicable Agreement. A fractional share of Common Stock shall not be deliverable when an Incentive Award is earned, but a cash payment will be made in lieu thereof.

11.05 Stockholder Rights

No Participant shall, as a result of receiving an Incentive Award, have any rights as a stockholder of the Company or any Affiliate on account of such Incentive Award, unless and then only to the extent that the Incentive Award is earned and settled in shares of Common Stock.

ARTICLE XII **OTHER STOCK-BASED AWARDS**

12.01 Other Stock-Based Awards

The Committee is authorized, subject to limitations under applicable law, to grant to a Participant such other Awards that may be denominated or payable in, valued in whole or in part by reference to or otherwise based on shares of Common Stock, including, without limitation, convertible or exchangeable securities, and other rights convertible or exchangeable into shares of Common Stock or the cash value of shares of Common Stock. The Committee shall determine the terms and conditions of any such Other Stock-Based Awards. Unless the Committee or the Agreement provides otherwise, Other Stock-Based Awards shall be vested, exercisable or earned and payable upon the date of grant. Common Stock delivered pursuant to an Other Stock-Based Award in the nature of purchase rights (“**Purchase Right Award**”) shall be purchased for such consideration not less than the Fair Market Value of the shares of Common Stock as of the date the Other Stock-Based Award is granted (subject to Sections 14.06 and 16.03 with respect to substitute Awards), and may be paid for at such times, by such methods, and in such forms, including, without limitation, cash, shares of Common Stock, other Awards, notes or other property, as the Committee shall determine. The maximum time period in which an Other Stock-Based Award in the nature of purchase rights may be exercised shall be determined by the Committee on the date of grant, except that no Other Stock-Based Award in the nature of purchase rights shall be exercisable after the expiration of ten (10) years from the date such Other Stock-Based Award was granted.

12.02 Bonus Stock and Awards in Lieu of Other Obligations

The Committee also is authorized (i) to grant to a Participant shares of Common Stock as a bonus, (ii) to grant shares of Common Stock or other Awards in lieu of other obligations of the Company or any Affiliate to pay cash or to deliver other property under this Plan or under any other plans or compensatory arrangements of the Company or any Affiliate, (iii) to use available shares of Common Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or an Affiliate, and (iv) subject to Section 19.13 below, to grant as alternatives to or replacements of Awards granted or outstanding under the Plan or any other plan or arrangement of the Company or any Affiliate, subject to such terms as shall be determined by the Committee and the overall limitation on the number of shares of Common Stock that may be issued under the Plan. Notwithstanding any other provision hereof, shares of Common Stock or other securities delivered to a Participant pursuant to a purchase right granted under this Plan shall be purchased for consideration, the Fair Market Value of which shall not be less than the Fair Market Value of such shares of Common Stock or other securities as of the date such purchase right is granted.

ARTICLE XIII
DIVIDEND EQUIVALENTS AND CASH AWARDS

13.01 Dividend Equivalents

The Committee is authorized to grant Dividend Equivalents to a Participant which may be awarded on a free-standing basis or in connection with another Award. Subject to Section 14.07 below, the Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional shares of Common Stock, other Awards or other investment vehicles, subject to restrictions on transferability, risk of forfeiture and such other terms as the Committee may specify and set forth in the applicable Agreement. Notwithstanding the foregoing, no Dividend Equivalents may be awarded in connection with an Option, SAR or Other Stock-Based Award in the nature of purchase rights.

13.02 Cash Awards

The Committee is authorized to grant to a Participant Cash Awards. The Committee shall determine the terms and conditions of any such Cash Awards. Cash Awards may be granted as an element of or a supplement to any other Award under the Plan or as a stand-alone Cash Award. The Committee, on the date of grant of Cash Awards, may prescribe that the Cash Awards will be earned and become payable subject to such conditions as are set forth in the Agreement. By way of example and not of limitation, the Committee may prescribe that Cash Awards will be earned and become payable upon (a) the satisfaction of objectively determinable performance conditions based on the criteria described in Article XV, (b) the Participant's completion of a specified period of employment or service with the Company or an Affiliate, (c) the Participant's death, Disability or Retirement or (d) satisfaction of a combination of any of the foregoing factors. If and to the extent deemed necessary by the Committee, Cash Awards granted to Named Executive Officers shall become payable upon the satisfaction of objectively determinable performance conditions based on the criteria described in Article XV and shall be subject to the other requirements set forth in Article XV so as to enable such Cash Awards to qualify as "qualified performance-based compensation" under the regulations promulgated under Code Section 162(m). Notwithstanding any provision herein to the contrary, the Committee, in its sole discretion, may grant Cash Awards in payment of earned performance awards and other incentive compensation payable under the Plan or any other plans or compensatory arrangements of the Company or any Affiliate. Unless the Committee or the Agreement provides otherwise, Cash Awards shall be vested and payable upon the date of grant.

ARTICLE XIV
TERMS APPLICABLE TO ALL AWARDS

14.01 Written Agreement

Each Award shall be evidenced by a written or electronic Agreement (including any amendment or supplement thereto) between the Company and the Participant specifying the terms and conditions of the Award granted to such Participant. Each Agreement should specify whether the Award is intended to be a Non-409A Award or a 409A Award.

14.02 Nontransferability

Except as provided in Section 14.03 below, each Award granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution or pursuant to the terms of a valid qualified domestic relations order. In the event of any transfer of an Option or Corresponding SAR (by the Participant or his transferee), the Option and Corresponding SAR that relates to such Option must be transferred to the same Person or Persons or entity or entities. Except as provided in Section 14.03 below, during the lifetime of the Participant to whom the Option or SAR is granted, the Option or SAR may be exercised only by the Participant. No right or interest of a Participant in any Award shall be liable for, or subject to, any lien, obligation, or liability of such Participant or his transferee.

14.03 Transferable Awards

Section 14.02 to the contrary notwithstanding, if the Agreement so provides, an Award that is not an incentive stock option or a Corresponding SAR that relates to an incentive stock option may be transferred by a Participant to immediate family members or trusts or other entities on behalf of the Participant and/or immediate family members or for charitable donations. Any such transfer will be permitted only if (a) the Participant does not receive any consideration for the transfer and (b) the Committee expressly approves the transfer. The holder of the Award transferred pursuant to this Section shall be bound by the same terms and conditions that governed the Award during the period that it was held by the Participant; provided, however, that such transferee may not transfer the Award except by will or the laws of descent and distribution. Unless transferred as provided in Section 9.05, a Restricted Stock Award may not be transferred prior to becoming non-forfeitable and transferable.

14.04 Participant Status

If the terms of any Award provide that it may be exercised or paid only during employment or continued service or within a specified period of time after termination of employment or continued service, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability or other reasons shall not be deemed interruptions of continuous employment or service. For purposes of the Plan, employment and continued service shall be deemed to exist between the Participant and the Company and/or an Affiliate if, at the time of the determination, the Participant is a director, officer, employee, consultant or advisor of the Company or an Affiliate. A Participant on military leave, sick leave or other bona fide leave of absence shall continue to be considered an employee for purposes of the Plan during such leave if the period of leave does not exceed three (3) months, or, if longer, so long as the individual's right to re-employment with the Company or any of its Affiliates is guaranteed either by statute or by contract. If the period of leave exceeds three (3) months, and the individual's right to re-employment is not guaranteed by statute or by contract, the employment shall be deemed to be terminated on the first day after the end of such three (3) month period. Except as may otherwise be expressly provided in an Agreement, Awards granted to a director, officer, employee, consultant or advisor shall not be affected by any change in the status of the Participant so long as the Participant continues to be a director, officer, employee, consultant or advisor to the Company or any of its Affiliates (regardless of having changed from one to the other or having been transferred from one entity to another). The Participant's employment or continued service shall not be considered interrupted in the event the Committee, in its discretion, and as specified at or prior to such occurrence, determines there is no interruption in the case of a spin-off, sale or disposition of the Participant's employer from the Company or an Affiliate, except that if the Committee does not otherwise specify such at or such prior to such occurrence, the Participant will be deemed to have a termination of employment or continuous service to the extent the Affiliate that employs the Participant is no longer the Company or an entity that qualifies as an Affiliate. The foregoing provisions apply to a 409A Award only to the extent Code Section 409A does not otherwise treat the Participant as continuing in service or employment or as having a separation from service at an earlier time.

14.05 Change in Control

Notwithstanding any provision of any Agreement, in the event of a Change in Control, the Committee in its discretion may (i) declare that some or all outstanding Options, SARs and Other Stock-Based Awards in the nature of purchase rights previously granted under the Plan, whether or not then exercisable, shall terminate on the Control Change Date without any payment to the holder of the Options, SARs and Other Stock-Based Awards in the nature of purchase rights, provided the Committee gives prior written notice to the holders of such termination and gives such holders the right to exercise their outstanding Options, SARs and Other Stock-Based Awards in the nature of purchase rights for at least seven (7) days before such date to the extent then exercisable (or to the extent such Options, SARs or Other Stock-Based Awards in the nature of purchase rights would have become exercisable as of the Control Change Date), (ii) terminate on the Control Change Date outstanding Restricted Stock Awards, Restricted Stock Units, Incentive Awards, Other Stock-Based Awards not in the nature of purchase rights and Dividend Equivalents previously granted under the Plan that are not then nonforfeitable and transferable or earned and payable (and that will not become nonforfeitable and transferable or earned and payable as of the Control Change Date) without any payment to the holder of the Restricted Stock Award, Restricted Stock Units, Incentive Awards, Other Stock-Based Awards not in the nature of purchase rights and Dividend Equivalents, other than the return, if any, of the purchase price of any such Awards, (iii) terminate on the Control Change Date some or all outstanding Options, SARs and Other Stock-Based Awards in the nature of purchase rights previously granted under the Plan, whether or not then exercisable, in consideration of payment to the holder of the Options, SARs and Other Stock-Based Awards in the nature of purchase rights, with respect to each share of Common Stock for which the Options, SARs and Other Stock-Based Awards in the nature of purchase rights are then exercisable (or that will become exercisable as of the Control Change Date), of the excess, if any, of the Fair Market Value on such date of the Common Stock subject to such portion of the Options, SARs and Other Stock-Based Awards in the nature of purchase rights over the purchase price or Initial Value, as applicable (provided that any portion of such Options, SARs and Other Stock-Based Awards in the nature of purchase rights that are not then exercisable and will not become exercisable on the Control Change Date, and Options, SARs and Other Stock-Based Awards in the nature of purchase rights with respect to which the Fair Market Value of the Common Stock subject to the Options, SARs and Other Stock-Based Awards in the nature of purchase rights does not exceed the purchase price or Initial Value, as applicable, shall be cancelled without any payment therefor), (iv) terminate on the Control Change Date outstanding Restricted Stock Awards, Restricted Stock Units, Incentive Awards, Other Stock-Based Awards not in the nature of purchase rights and Dividend Equivalents previously granted under the Plan that will become nonforfeitable and transferable or earned and payable as of the Control Change Date (or that previously became nonforfeitable and transferable or earned and payable but have not yet been settled as of the Control Change Date) in exchange for a payment equal to the excess of the Fair Market Value of the shares of Common Stock subject to such Awards, or the amount of cash payable under the Awards, over any unpaid purchase price, if any, for such Awards (provided that any portion of such Awards that are not then nonforfeitable and transferable or earned and payable as of the Control Change Date (and that will not become nonforfeitable and transferable or earned and payable as of the Control Change Date) shall be cancelled without any payment therefor), or (v) take such other actions as the Committee determines to be reasonable under the circumstances to permit the Participant to realize the value of the outstanding Awards (which Fair Market Value for purposes of Awards that are not then exercisable, nonforfeitable and transferable or earned and payable as of the Control Change Date (and that will not become exercisable, nonforfeitable and transferable or earned and payable as of the Control Change Date) or with respect to which the Fair Market Value of the Common Stock subject to the Awards does not exceed the purchase price or Initial Value, as applicable, shall be deemed to be zero). The payments described above may be made in any manner the Committee determines, including in cash, stock or other property. The Committee may take the actions described above with respect to Awards that are not then exercisable, nonforfeitable and transferable or earned and payable or with respect to which the Fair Market Value of the Common Stock subject to the Awards does not exceed the purchase price or Initial Value, as applicable, whether or not the Participant will receive any payments therefor. The Committee in its discretion may take any of the actions described in this Section 14.05 contingent on consummation of the Change in Control and with respect to some or all outstanding Awards, whether or not then exercisable, nonforfeitable and transferable or earned and payable or on an Award-by-Award basis, which actions need not be uniform with respect to all outstanding Awards or Participants. However, outstanding Awards shall not be terminated to the extent that written provision is made for their continuance, assumption or substitution by the Company or a successor employer or its parent or subsidiary in connection with the Change in Control except as otherwise provided in the applicable Agreement.

14.06 Stand-Alone, Additional, Tandem and Substitute Awards

Subject to Section 19.13 below, Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution or exchange for, any other Award or any Award granted under another plan of the Company or any Affiliate or any entity acquired by the Company or any Affiliate or any other right of a Participant to receive payment from the Company or any Affiliate; provided, however, that a 409A Award may not be granted in tandem with a Non-409A Award. Awards granted in addition to or in tandem with another Award or Awards may be granted either at the same time as or at a different time from the grant of such other Award or Awards. Subject to applicable law and the restrictions on 409A Awards and repricings in Section 19.13 below, the Committee may determine that, in granting a new Award, the in-the-money value or Fair Market Value of any surrendered Award or Awards or the value of any other right to payment surrendered by the Participant may be applied, or otherwise taken into account with respect, to any other new Award or Awards.

14.07 Form and Timing of Payment; Deferrals

Subject to the terms of the Plan and any applicable Agreement, payments to be made by the Company or an Affiliate upon the exercise of an Option, SAR or Other Stock-Based Award in the nature of purchase rights or settlement of any other Award may be made in such form as the Committee may determine and set forth in the applicable Agreement, including, without limitation, cash, shares of Common Stock, other Awards or other property and may be made in a single payment or transfer, in installments or on a deferred basis. The settlement of an Award may be accelerated, and cash paid in lieu of shares of Common Stock in connection with such settlement, in the discretion of the Committee or upon the occurrence of one or more specified events set forth in the applicable Agreement (and to the extent permitted by the Plan and Code Section 409A). Subject to the Plan, installment or deferred payments may be required by the Committee or permitted at the election of the Participant on the terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installments or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in shares of Common Stock. In the case of any 409A Award that is vested and no longer subject to a substantial risk of forfeiture (within the meaning of Code Section 83 and Code Section 409A), such Award may be distributed to the Participant, upon application of the Participant to the Committee, if the Participant has an unforeseeable emergency within the meaning of Code Section 409A, if determined by the Committee and set forth in the applicable Agreement. Notwithstanding any other provision of the Plan, however, no dividends payable with respect to an Award or Dividend Equivalents may be paid in connection with any Awards or Dividend Equivalents that are to become nonforfeitable and transferable or earned and payable based upon performance conditions unless and until the performance conditions are satisfied, and, if determined by the Committee and set forth in the applicable Agreement, any such dividends and Dividend Equivalents will accumulate (without interest) and become payable to the Participant at the time, and only to the extent that, the applicable Awards or Dividend Equivalents have become nonforfeitable and transferable or earned and payable upon satisfaction of the relevant performance conditions.

14.08 Time and Method of Exercise

The Committee shall determine and set forth in the Agreement the time or times at which Awards granted under the Plan may be exercised or settled in whole or in part and shall set forth in the Agreement the rules regarding the exercise, settlement and/or termination of Awards upon the Participant's death, Disability, termination of employment or ceasing to be a director. Unless the Agreement provides otherwise, an Award may be exercised by delivering notice to the Company's principal office, to the attention of its Secretary (or the Secretary's designee) no less than one (1) business day in advance of the effective date of the proposed exercise. Such notice shall be accompanied by the applicable Agreement, shall specify the number of shares of Common Stock with respect to which the Award is being exercised and the effective date of the proposed exercise and shall be signed by the Participant or other person then having the right to exercise the Award. Such notice may be withdrawn at any time prior to the close of business on the business day immediately preceding the effective date of the proposed exercise. Unless the Committee otherwise permits through the applicable Agreement or otherwise, no partial exercise of an Award shall be for an aggregate exercise or purchase price or a base value of less than One Thousand Dollars (\$1,000). Notwithstanding any other provision of the Plan, however, if an Award is to become exercisable, nonforfeitable and transferable or earned and payable on the completion of a specified period of employment or service with the Company or any Affiliate, without the achievement of any performance conditions being required, and the Award is not being granted in lieu of any other cash compensation the Participant is to receive that would be payable over a shorter period of time, then unless the applicable Agreement provides otherwise, the Award shall become exercisable, non-forfeitable and transferable or earned and payable with respect to twenty-five percent (25%) of the underlying shares of Common Stock (or any amounts payable thereunder for Awards denoted in dollars) on each of the first, second, third and fourth anniversaries of the date of grant (subject to acceleration of vesting, to the extent permitted by the Plan and the Committee, in the event of a Change in Control or the Participant's death, Disability, Retirement or involuntary termination of employment or service (including a voluntary termination of employment or service for good reason). Notwithstanding any provision of the Plan providing for the maximum term of an Award, in the event any Award would expire prior to exercise, vesting or settlement because trading in shares of Common Stock is prohibited by law or by any insider trading policy of the Company, the term of the Award shall automatically be extended until thirty (30) days after the expiration of any such prohibitions to permit the Participant to realize the value of the Award, provided such extension with respect to the applicable Award (i) is permitted by law, (ii) does not result in a violation of Section 409A with respect to the Award, (iii) permits any Award that is intended to constitute "qualified performance-based compensation" within the meaning of Code Section 162(m) to continue to so qualify and (iv) does not otherwise adversely impact the tax consequences of the Award (such as for incentive stock options and related Awards). An Agreement may provide that the Award will be automatically, and without any action by the Participant, deemed exercised, by means of a "net exercise" procedure, immediately prior to the expiration of the Award if the then Fair Market Value of the underlying shares of Common Stock at that time exceeds the exercise or purchase price or base value of the Award, in order to permit the Participant to realize the value of the Award. With respect to an Option and its Corresponding SAR, the Agreement may provide which Award will be deemed exercised. If the Agreement does not so provide, the Option shall be deemed exercised and the Corresponding SAR shall expire unexercised.

14.09 Non U. S. Participants

The Committee may grant Awards to Participants located outside of the United States of America. Notwithstanding any other provision of the Plan (other than the limitations of Section 6.02 and Section 19.13) the terms of such Awards shall be as the Committee, in its sole discretion, determines as appropriate and permitted under the law that applies to any Award granted to Participants located outside of the United States of America.

ARTICLE XV QUALIFIED PERFORMANCE-BASED COMPENSATION

15.01 Performance Conditions

In accordance with the Plan, the Committee may prescribe that Awards will become exercisable, nonforfeitable and transferable, and earned and payable, based on objectively determinable performance conditions. Objectively determinable performance conditions are performance conditions (i) that are established in writing (a) at the time of grant or (b) no later than the earlier of (x) 90 days after the beginning of the period of service to which they relate and (y) before the lapse of 25% of the period of service to which they relate; (ii) that are uncertain of achievement at the time they are established and (iii) the achievement of which is determinable by a third party with knowledge of the relevant facts. The performance conditions may be stated with respect to (a) revenue, (b) earnings before interest, taxes, depreciation and amortization (“**EBITDA**”), (c) cash earnings (earnings before amortization of intangibles), (d) operating income, (e) pre-or after-tax income, (f) earnings per share, (g) net cash flow, (h) net cash flow per share, (i) net earnings, (j) return on equity, (k) return on total capital, (l) return on sales, (m) return on net assets employed, (n) return on assets or net assets, (o) share price performance, (p) total shareholder return, (q) improvement in or attainment of expense levels, (r) improvement in or attainment of working capital levels, (s) net sales, (t) revenue growth or product revenue growth, (u) operating income (before or after taxes), (v) pre-or after-tax income (before or after allocation of corporate overhead and bonus), (w) earnings per share; (x) return on equity, (y) appreciation in and/or maintenance of the price of the shares of Common, (z) market share, (aa) gross profits, (bb) comparisons with various stock market indices; (cc) reductions in cost, (dd) cash flow or cash flow per share (before or after dividends), (ee) return on capital (including return on total capital or return on invested capital), (ff) cash flow return on investments; (gg) improvement in or attainment of expense levels or working capital levels, (hh) shareholder equity. Any performance goals that are financial metrics may be determined in accordance with United States Generally Accepted Accounting Principles (“**GAAP**”) or may be adjusted when established to include or exclude any items otherwise includable or excludable under GAAP. The business criteria above, may be related to a specific customer or group of customers or products or geographic region. The form of the performance conditions may be measured on a Company, Affiliate, product, division, business unit, service line, segment or geographic basis, individually, alternatively or in any combination, subset or component thereof. Performance goals may include one or more of the foregoing business criteria, either individually, alternatively or any combination, subset or component. Performance goals may reflect absolute performance or a relative comparison of the performance to the performance of a peer group or index or other external measure of the selected business criteria. Profits, earnings and revenues used for any performance condition measurement may exclude any extraordinary or non-recurring items. The performance conditions may, but need not, be based upon an increase or positive result under the aforementioned business criteria and could include, for example and not by way of limitation, maintaining the status quo or limiting the economic losses (measured, in each case, by reference to the specific business criteria). The performance conditions may not include solely the mere continued employment of the Participant. However, the Award may become exercisable, nonforfeitable and transferable or earned and payable contingent on the Participant’s continued employment or service, and/or employment or service at the time the Award becomes exercisable, nonforfeitable and transferable or earned and payable, in addition to the performance conditions described above. The Committee shall have the sole discretion to select one or more periods of time over which the attainment of one or more of the foregoing performance conditions will be measured for the purpose of determining a Participant’s right to, and the settlement of, an Award that will become exercisable, nonforfeitable and transferable or earned and payable based on performance conditions.

15.02 Establishing the Amount of the Award

The amount of the Award that will become exercisable, nonforfeitable and transferable or earned and payable if the performance conditions are obtained (or an objective formula for, or method of, computing such amount) also must be established at the time set forth in Section 15.01 above. Notwithstanding the preceding sentence, the Committee may, in its sole discretion, reduce the amount of the Award that will become exercisable, nonforfeitable and transferable or earned and payable, as applicable, if the Committee determines that such reduction is appropriate under the facts and circumstances. In no event shall the Committee have the discretion to increase the amount of the Award that will become exercisable, nonforfeitable and transferable or earned and payable.

15.03 Earning the Award

If the Committee, on the date of grant, prescribes that an Award shall become exercisable, nonforfeitable and transferable or earned and payable only upon the attainment of any of the above enumerated performance conditions, the Award shall become exercisable, nonforfeitable and transferable or earned and payable only to the extent that the Committee certifies in writing that such conditions have been achieved. An Award will not satisfy the requirements of this Article XV to constitute “qualified performance-based compensation” if the facts and circumstances indicate the Award will become exercisable, nonforfeitable and transferable or earned and payable regardless of whether the performance conditions are attained. However, an Award does not fail to meet the requirements of this Article XV merely because the Award would become exercisable, nonforfeitable and transferable or earned and payable upon the Participant’s death or Disability or upon a Change in Control, although an Award that actually becomes exercisable, nonforfeitable and transferable or earned and payable on account of those events prior to the attainment of the performance conditions would not constitute “qualified performance-based compensation” under Code Section 162(m). In determining if the performance conditions have been achieved, the Committee may adjust the performance targets in the event of any unbudgeted acquisition, divestiture or other unexpected fundamental change in the business of the Company, an Affiliate or business unit or in any product that is material taken as a whole as appropriate to fairly and equitably determine if the Award is to become exercisable, nonforfeitable and transferable or earned and payable only pursuant to the conditions set forth in the Award. Additionally, in determining if such performance conditions have been achieved, the Committee also may adjust the performance targets in the event of any (a) unanticipated asset write-downs or impairment charges, (b) litigation or claim judgments or settlements thereof, (c) changes in tax laws, accounting principles or other laws or provisions affecting reported results, (d) costs and accruals for reorganization or restructuring programs, or extraordinary, unusual, infrequently occurring or non-recurring, (e) acquisitions or dispositions or (f) foreign exchange gains or losses. To the extent any such adjustments would affect Awards, the intent is that they shall be in a form that allows the Award to continue to meet the requirements of Code Section 162(m) for deductibility and, to the extent required under Code Section 162(m) for “qualified performance-based compensation,” set forth in the applicable Agreement.

15.04 Performance Awards

The purpose of this Article XV is to permit the grant of Awards that constitute “qualified performance-based compensation” within the meaning of Code Section 162(m). The Committee may specify that the Award is intended to constitute “qualified performance-based compensation” by conditioning the right of the Participant to exercise the Award or have it settled, and the timing thereof, upon achievement or satisfaction of any of the enumerated performance criteria and conditions set forth in this Article XV. Notwithstanding the foregoing, the Committee may grant an Award that is subject to the achievement or satisfaction of performance conditions that are not specifically set forth herein to the extent the Committee does not intend for such Award to constitute “qualified performance-based compensation” within the meaning of Code Section 162(m).

ARTICLE XVI ADJUSTMENT UPON CHANGE IN COMMON STOCK

16.01 General Adjustments

The maximum number of shares of Common Stock that may be issued pursuant to Awards, the terms of outstanding Awards and the per individual limitations on the number of shares of Common Stock that may be issued pursuant to Awards shall be adjusted as the Committee shall determine to be equitably required in the event (a) there occurs a reorganization, recapitalization, stock split, spin-off, split-off, stock dividend, issuance of stock rights, combination of shares, merger, consolidation or distribution (stock or cash) to stockholders other than an ordinary cash dividend; (b) the Company engages in a transaction Code Section 424 describes; or (c) there occurs any other transaction or event which, in the judgment of the Board, necessitates such action. In that respect, the Committee shall make such adjustments as are necessary in the number or kind of shares of Common Stock or securities which are subject to the Award, the exercise price or Initial Value of the Award and such other adjustments as are appropriate in the discretion of the Committee. Such adjustments may provide for the elimination of fractional shares that might otherwise be subject to Awards without any payment therefor. Notwithstanding the foregoing, the conversion of one or more outstanding shares of preferred stock or convertible debentures that the Company may issue from time to time into Common Stock shall not in and of itself require any adjustment under this Article XVI. In addition, the Committee may make such other adjustments to the terms of any Awards to the extent equitable and necessary to prevent an enlargement or dilution of the Participant’s rights thereunder as a result of any such event or similar transaction. Any determination made under this Article XVI by the Committee shall be final and conclusive.

16.02 No Adjustments

The issuance by the Company of stock of any class, or securities convertible into stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of stock or obligations of the Company convertible into such stock or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the maximum number of shares that may be issued pursuant to Awards, the per individual limitations on the number of shares that may be issued pursuant to Awards or the terms of outstanding Awards.

16.03 Substitute Awards

The Committee may grant Awards in substitution for Options, SARs, restricted stock, Restricted Stock Units, Incentive Awards or similar Awards held by an individual who becomes an employee of the Company or an Affiliate in connection with a transaction described in the first paragraph of Section 16.01. Notwithstanding any provision of the Plan (other than the limitation of Section 6.02), the terms of such substituted Awards shall be as the Committee, in its discretion, determines is appropriate.

16.04 Limitation on Adjustments

Notwithstanding the foregoing, no adjustment hereunder shall be authorized or made if and to the extent the existence of such authority or action (a) would cause Awards under the Plan that are intended to qualify as “qualified performance-based compensation” under Code Section 162(m) to otherwise fail to qualify as “qualified performance-based compensation,” (b) would cause the Committee to be deemed to have the authority to change the targets, within the meaning of Code Section 162(m), under performance goals or relating to Awards granted to Named Executive Officers and intended to qualify as “qualified performance-based compensation” under Code Section 162(m), (c) would cause a Non-409A Award to be subject to Code Section 409A, (d) would violate Code Section 409A for a 409A Award, (e) would cause a modification of an incentive stock option under Code Section 424 and loss of treatment as an incentive stock option or (f) would adversely affect any exemption under Rule 16b-3 of the Exchange Act, unless the Committee determines that such adjustment is necessary and specifically acknowledges that the adjustment will be made notwithstanding any such result.

ARTICLE XVII
COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

17.01 Compliance

No Option or SAR shall be exercisable, no Restricted Stock Award, Restricted Stock Unit, Incentive Award, Other Stock-Based Award, Dividend Equivalents or Cash Awards shall be granted or settled, no shares of Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), any listing agreement to which the Company is a party and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company shall have the right to rely on an opinion of its counsel as to such compliance. Any stock certificate evidencing shares of Common Stock issued pursuant to an Award may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations and to reflect any other restrictions applicable to such shares as the Committee otherwise deems appropriate. No Option or SAR shall be exercisable, no Restricted Stock Award, Restricted Stock Unit, Incentive Award, Other Stock-Based Award, Dividend Equivalents or Cash Awards shall be granted or settled, no shares of Common Stock shall be issued, no certificate for shares of Common Stock shall be delivered and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

17.02 Postponement of Exercise or Payment

The Committee may postpone any grant, exercise, vesting or payment of an Award for such time as the Committee in its sole discretion may deem necessary in order to permit the Company (i) to effect, amend or maintain any necessary registration of the Plan or the shares of Common Stock issuable pursuant to the Award under the securities laws; (ii) to take any action in order to (A) list such shares of Common Stock or other shares of stock of the Company on a stock exchange if shares of Common Stock or other shares of stock of the Company are not then listed on such exchange or (B) comply with restrictions or regulations incident to the maintenance of a public market for its shares of Common Stock or other shares of stock of the Company, including any rules or regulations of any stock exchange on which the shares of Common Stock or other shares of stock of the Company are listed; (iii) to determine that such shares of Common Stock in the Plan are exempt from such registration or that no action of the kind referred to in (ii)(B) above needs to be taken; (iv) to comply with any other applicable law, including without limitation, securities laws; (v) to comply with any legal or contractual requirements during any such time the Company or any Affiliate is prohibited from doing any of such acts under applicable law, including without limitation, during the course of an investigation of the Company or any Affiliate, or under any contract, loan agreement or covenant or other agreement to which the Company or any Affiliate is a party or (vi) to otherwise comply with any prohibition on such acts or payments during any applicable blackout period; and the Company shall not be obligated by virtue of any terms and conditions of any Agreement or any provision of the Plan to recognize the grant, exercise, vesting or payment of an Award or to grant, sell or issue shares of Common Stock or make any such payments in violation of the securities laws or the laws of any government having jurisdiction thereof or any of the provisions hereof. Any such postponement shall not extend the term of the Award and neither the Company nor its directors and officers nor the Committee shall have any obligation or liability to any Participant or to any other person with respect to shares of Common Stock or payments as to which the Award shall lapse because of such postponement.

Additionally, the Committee may postpone any grant, exercise vesting or payment of an Award if the Company reasonably believes the Company's or any applicable Affiliate's deduction with respect to such Award would be limited or eliminated by application of Code Section 162(m) to the extent permitted by Code Section 409A; provided, however, that such delay will last only until the earliest date at which the Company reasonably anticipates that the deduction with respect to the Award will not be limited or eliminated by the application of Code Section 162(m) or the calendar year in which the Participant separates from service.

17.03 Forfeiture or Reimbursement

A Participant shall be required to forfeit any and all rights under Awards or to reimburse the Company for any payment under any Award (with interest as necessary to avoid imputed interest or original issue discount under the Code or as otherwise required by applicable law) to the extent applicable law or any applicable claw-back or recoupment policy of the Company or any of its Affiliates requires such forfeiture or reimbursement.

ARTICLE XVIII LIMITATION ON BENEFITS

Despite any other provisions of this Plan to the contrary, if the receipt of any payments or benefits under this Plan would subject a Participant to tax under Code Section 4999, the Committee may determine whether some amount of payments or benefits would meet the definition of a "Reduced Amount." If the Committee determines that there is a Reduced Amount, the total payments or benefits to the Participant under all Awards must be reduced to such Reduced Amount, but not below zero. It is the intention of the Company and the Participant to reduce the payments under this Plan only if the aggregate Net After Tax Receipts to the Participant would thereby be increased. If the Committee determines that the benefits and payments must be reduced to the Reduced Amount, the Company must promptly notify the Participant of that determination, with a copy of the detailed calculations by the Committee. All determinations of the Committee under this Article XVIII are final, conclusive and binding upon the Company and the Participant. As result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Committee under this Article XVIII, however, it is possible that amounts will have been paid under the Plan to or for the benefit of a Participant which should not have been so paid ("**Overpayment**") or that additional amounts which will not have been paid under the Plan to or for the benefit of a Participant could have been so paid ("**Underpayment**"), in each case consistent with the calculation of the Reduced Amount. If the Committee, based either upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Participant, which the Committee believes has a high probability of success, or controlling precedent or other substantial authority, determines that an Overpayment has been made, any such Overpayment must be treated for all purposes as a loan, to the extent permitted by applicable law, which the Participant must repay to the Company together with interest at the applicable federal rate under Code Section 7872(f)(2); provided, however, that no such loan may be deemed to have been made and no amount shall be payable by the Participant to the Company if and to the extent such deemed loan and payment would not either reduce the amount on which the Participant is subject to tax under Code Sections 1, 3101 or 4999 or generate a refund of such taxes. If the Committee, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, the Committee must promptly notify the Company of the amount of the Underpayment, which then shall be paid promptly to the Participant but no later than the end of the Participant's taxable year next following the Participant's taxable year in which the determination is made that the Underpayment has occurred. For purposes of this Section, (a) "**Net After Tax Receipt**" means the Present Value of a payment under this Plan net of all taxes imposed on Participant with respect thereto under Code Sections 1, 3101 and 4999, determined by applying the highest marginal rate under Code Section 1 which applies to the Participant's taxable income for the applicable taxable year; (b) "**Present Value**" means the value determined in accordance with Code Section 280G(d)(4); and (c) "**Reduced Amount**" means the smallest aggregate amount of all payments and benefits under this Plan which (i) is less than the sum of all payments and benefits under this Plan and (ii) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if the aggregate payments and benefits under this Plan were any other amount less than the sum of all payments and benefits to be made under this Plan.

ARTICLE XIX
GENERAL PROVISIONS

19.01 Effect on Employment and Service

Neither the adoption of this Plan, its operation nor any documents describing or referring to this Plan (or any part thereof), shall confer upon any individual or entity any right to continue in the employ or service of the Company or an Affiliate or in any way affect any right and power of the Company or an Affiliate to terminate the employment or service of any individual or entity at any time with or without assigning a reason therefor.

19.02 Unfunded Plan

This Plan, insofar as it provides for Awards, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by Awards under this Plan. Any liability of the Company to any Person with respect to any Award under this Plan shall be based solely upon any contractual obligations that may be created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

19.03 Rules of Construction

Headings are given to the articles and sections of this Plan solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

19.04 Tax Withholding and Reporting

Unless an Agreement provides otherwise, each Participant shall be responsible for satisfying in cash or cash equivalent any income and employment (including, without limitation, Social Security and Medicare) tax withholding obligations, if applicable, attributable to participation in the Plan and the grant, exercise, vesting or payment of Awards granted hereunder (including the making of a Code Section 83(b) election with respect to an Award). In accordance with procedures that the Committee establishes, the Committee, to the extent applicable law permits and only to the extent using shares of Common Stock to pay applicable withholdings would not cause adverse accounting consequences, may allow a Participant to pay any such applicable amounts (a) by surrendering (actually or by attestation) shares of Common Stock that the Participant already owns; (b) by a cashless exercise, or surrender of shares of Common Stock already owned, through a broker; (c) by means of a "net exercise" procedure by the surrender of shares of Common Stock to which the Participant is otherwise entitled under the Award; (d) by such other medium of payment as the Committee, in its discretion, shall authorize; or (e) by any combination of the aforementioned methods of payment. The Company shall comply with all such reporting and other requirements relating to the administration of this Plan and the grant, exercise, vesting or payment of any Award hereunder as applicable law requires.

19.05 Code Section 83(b) Election

The Committee must approve in advance whether a Participant may make an election under Code Section 83(b) with respect to any Award (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under similar laws may be made. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten (10) days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provisions.

19.06 Reservation of Shares

The Company, during the term of this Plan, shall at all time reserve and keep available such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Plan. Additionally, the Company, during the term of this Plan, shall use its best efforts to seek to obtain from appropriate regulatory agencies any requisite authorizations needed in order to issue and to sell such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Plan. However, the inability of the Company to obtain from any such regulatory agency the requisite authorizations the Company's counsel deems to be necessary for the lawful issuance and sale of any shares of Common Stock hereunder, or the inability of the Company to confirm to its satisfaction that any issuance and sale of any shares of Common Stock hereunder will meet applicable legal requirements, shall relieve the Company of any liability in respect to the failure to issue or to sell such shares of Common Stock as to which such requisite authority shall not have been obtained.

19.07 Governing Law

This Plan and all Awards granted hereunder shall be governed by the laws of the State of California, except to the extent federal law applies; provided, however, that in the event the Company reincorporates in a state other than California, this Plan and the Awards granted hereunder shall be governed by the laws of such state of reincorporation.

19.08 Other Actions

Nothing in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including, by way of illustration and not by way of limitation, the right to grant Options, SARs, Restricted Stock Awards, Restricted Stock Units, Incentive Awards, Other Stock-Based Awards or Dividend Equivalents for proper corporate purposes otherwise than under the Plan to any employee or to any other Person, firm, corporation, association or other entity, or to grant Options, SARs, Restricted Stock Awards, or Restricted Stock Units, Incentive Awards, Other Stock-Based Awards or Dividend Equivalents to, or assume such Awards of any Person in connection with, the acquisition, purchase, lease, merger, consolidation, reorganization or otherwise, of all or any part of the business and assets of any Person, firm, corporation, association or other entity.

19.09 Repurchase of Common Stock

Subject to Section 19.13 below, the Company or its designee may have the option and right to purchase any Award or any shares of Common Stock issued pursuant to any Award in accordance with the terms and conditions set forth in the applicable Agreement. However, shares of Common Stock repurchased pursuant to an Agreement will still be deemed issued pursuant to the Plan and will not be available for issuance pursuant to future Awards under the Plan (not counting for this purpose any shares of Common Stock repurchased in connection with the lapse or forfeiture of any Restricted Stock Award).

19.10 Other Conditions

The Committee, in its discretion, may require the Participant on or before the date of grant, exercise, payment or settlement of an Award to enter into (i) a confidentiality, non-solicitation, non-competition, non-disparagement or other similar agreement with the Company or any Affiliate, which may become effective on the date of termination of employment or service of the Participant with the Company or any Affiliate or any other date the Committee may specify and shall contain such terms and conditions as the Committee shall otherwise specify, (ii) an agreement to cancel any other employment agreement, service agreement, fringe benefit or compensation arrangement in effect between the Company or any Affiliate and such Participant and/or (iii) a shareholders' agreement with respect to shares of Common Stock to be issued pursuant to the Award. If the Participant should fail to enter into any such agreement at the Committee's request, then no Award shall be granted, exercised, paid or settled and the number of shares of Common Stock that would have been subject to such Award, if any, shall be added to the remaining shares of Common Stock available under the Plan. In the event the Participant should enter into any such confidentiality, non-solicitation, non-competition, non-disparagement or other similar agreement with the Company or any Affiliate, as a condition to the grant, exercise, payment or settlement of the Award, and the Participant subsequently breach or violate any provision of such agreement, then the Participant shall forfeit any and all further rights under such Award and the Clawback Requirement shall be triggered.

19.11 Forfeiture Provisions

Notwithstanding any other provisions of the Plan or any Agreement, all rights to any Award that a Participant has will be immediately discontinued and forfeited, and the Company shall not have any further obligation hereunder to the Participant with respect to any Award and the Award will not be exercisable (whether or not previously exercisable) or become vested or payable on and after the time the Participant is discharged from employment or service with the Company or any Affiliate for Cause.

19.12 Legends; Payment of Expenses

The Company may endorse such legend or legends upon the certificates for shares of Common Stock issued upon the grant or exercise of an Award and may issue such "stop transfer" instructions to its transfer agent in respect of such shares as it determines, in its sole discretion, to be necessary or appropriate to (i) prevent a violation of, or to perfect an exemption from, the registration requirements under the Exchange Act, applicable state securities laws or other requirements, (b) implement the provisions of the Plan or any Agreement between the Company and the Participant with respect to such shares of Common Stock, (c) permit the Company to determine the occurrence of a "disqualifying disposition" as described in Code Section 421(b) of the shares of Common Stock transferred upon the exercise of an incentive stock option granted under the Plan or (d) as may be appropriate to continue an Award's exemption or compliance with Code Section 409A. The Company shall pay all issuance taxes with respect to the issuance of shares of Common Stock upon the grant or exercise of the Award, as well as all fees and expenses incurred by the Company in connection with such issuance.

19.13 Repricing of Awards

Notwithstanding any other provisions of this Plan, except for adjustments pursuant to Article XVI or to the extent approved by the Company's stockholders and consistent with the rules of any stock exchange on which the Company's securities are traded, this Plan does not permit (a) any decrease in the exercise or purchase price or base value of any outstanding Awards, (b) the issuance of any replacement Options, SARs or Other Stock-Based Awards in the nature of purchase rights which shall be deemed to occur if a Participant agrees to forfeit an existing Option, SAR or Other Stock-Based Award in the nature of purchase rights in exchange for a new Option, SAR or Other Stock-Based Award in the nature of purchase rights with a lower exercise or purchase price or base value, (c) the Company to repurchase underwater or out-of-the-money Options, SARs or Other Stock-Based Awards in the nature of purchase rights, which shall be deemed to be those Options, SARs or Other Stock-Based Awards in the nature of purchase rights with exercise or purchase prices or base values in excess of the current Fair Market Value of the shares of Common Stock underlying the Option, SAR or Other Stock-Based Award in the nature of purchase rights, (d) the issuance of any replacement or substitute Awards or the payment of cash in exchange for, or in substitution of, underwater or out-of-the-money Options, SARs or Other Stock-Based Awards in the nature of purchase rights, (e) the Company to repurchase any Award if the Award has not become exercisable, vested or payable prior to the repurchase or (f) any other action that is treated as a repricing under generally accepted accounting principles.

19.14 Right of Setoff

The Company or an Affiliate may, to the extent permitted by applicable law, deduct from and setoff against any amounts the Company or Affiliate may owe the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits or other compensation owed to the Participant, such amounts as may be owed by the Participant to the Company or Affiliate, including but not limited to any amounts owed under the Plan, although the Participant shall remain liable for any part of the Participant's obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff hereunder.

19.15 Fractional Shares

No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereof shall be forfeited or otherwise eliminated.

19.16 Compensation Recoupment Policy

Notwithstanding any other provision of this Plan or any Agreement to the contrary, any Award received by the Participant and/or shares of Common Stock issued and/or cash paid hereunder, and/or any amount received with respect to any sale of any such shares of Common Stock, shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of the Company's Compensation Recoupment Policy, as it may be amended from time to time. By acceptance of the Award, the Participant agrees and consents to the Company's application, implementation and enforcement of (a) the Compensation Recoupment Policy or any similar policy established by the Company or any Affiliate that may apply to the Participant and (b) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, and expressly agrees that the Company may take such actions as are necessary to effectuate the Compensation Recoupment Policy, any similar policy (as applicable to the Participant) or applicable law without further consent or action being required by the Participant. To the extent that the terms of this Plan or any Agreement and the Compensation Recoupment Policy or any similar policy conflict, then the terms of such policy shall prevail.

**ARTICLE XX
CLAIMS PROCEDURES**

20.01 Initial Claim

If a Participant has exercised an Option or SAR or if shares of Restricted Stock have become vested or Restricted Stock Units, Incentive Awards, Other Stock-Based Awards or Dividend Equivalents have become payable, and the Participant has not received the benefits to which the Participant believes he or she is entitled under such Award, then the Participant must submit a written claim for such benefits to the Committee within ninety (90) days of the date the Participant tried to exercise the Option or SAR, the date the Participant contends the Restricted Stock vested or the date the Participant contends the Restricted Stock Units, Incentive Awards, or Other Stock-Based Awards of Dividend Equivalents became payable or the claim will be forever barred.

20.02 Appeal of Claim

If a claim of a Participant is wholly or partially denied, the Participant or his duly authorized representative may appeal the denial of the claim to the Committee. Such appeal must be made at any time within thirty (30) days after the Participant receives written notice from the Company of the denial of the claim. In connection therewith, the Participant or his duly authorized representative may request a review of the denied claim, may review pertinent documents and may submit issues and comments in writing. Upon receipt of an appeal, the Committee shall make a decision with respect to the appeal and, not later than sixty (60) days after receipt of such request for review, shall furnish the Participant with the decision on review in writing, including the specific reasons for the decision written in a manner calculated to be understood by the Participant, as well as specific references to the pertinent provisions of the Plan upon which the decision is based.

20.03 Time to File Suit

The Committee has the discretionary and final authority under the Plan to determine the validity of a claim. Accordingly, any decision the Committee makes on a Participant's appeal will be administratively final. If a Participant disagrees with the Committee's final decision, the Participant may sue, but only after the claim on appeal has been denied. Any lawsuit must be filed within ninety (90) days of receipt of the Committee's final written denial of the Participant's claim or the claim will be forever barred.

ARTICLE XXI **AMENDMENT**

21.01 Amendment of Plan

The Board may amend or terminate this Plan at any time; provided, however, that no amendment to the Plan may materially adversely impair the rights of a Participant with respect to outstanding Awards without the Participant's consent. In addition, an amendment will be contingent on approval of the Company's stockholders, to the extent required by law or any tax or regulatory requirement applicable to the Plan or by the rules of any stock exchange on which the Company's securities are traded or if the amendment would (i) increase the benefits accruing to Participants under the Plan, including without limitation, any amendment to the Plan or any Agreement to permit a repricing of any outstanding Awards under Section 19.13, (ii) increase the aggregate number of shares of Common Stock that may be issued under the Plan, (iii) modify the requirements as to eligibility for participation in the Plan, or (iv) change the performance conditions set forth in Article XV of the Plan for Awards that intended to constitute "qualified performance-based compensation" within the meaning of Code Section 162(m). Additionally, to the extent the Board deems necessary to continue to comply with the performance-based exception to the deduction limits of Code Section 162(m), the Board will resubmit the material terms of the performance conditions set forth in Article XV to the Company's stockholders for approval no later than the first stockholder meeting that occurs in the fifth (5th) year following the year in which the stockholders previously approved the performance objectives. Notwithstanding any other provision of the Plan, any termination of the Plan shall comply with the requirements of Code Section 409A with regard to any 409A Awards.

21.02 Amendment of Awards

The Committee may amend any outstanding Awards to the extent it deems appropriate; provided, however, that no amendment to an outstanding Award may adversely impair the rights of a Participant without the Participant's consent.

**ARTICLE XXII
SECTION 409A PROVISION**

22.01 Intent of Awards

It is intended that Awards that are granted under the Plan shall be exempt from treatment as "deferred compensation" subject to Code Section 409A unless otherwise specified by the Committee. Towards that end, all Awards under the Plan are intended to contain such terms as will qualify the Awards for an exemption from Code Section 409A unless otherwise specified by the Committee. The terms of the Plan and all Awards granted hereunder shall be construed consistent with the foregoing intent. Notwithstanding any other provision hereof, the Committee may amend any outstanding Award without Participant's consent if, as determined by the Committee, in its sole discretion, such amendment is required either to (a) confirm exemption under Code Section 409A, (b) comply with Code Section 409A or (c) prevent the Participant from being subject to any tax or penalty under Code Section 409A. Notwithstanding the foregoing, however, neither the Company nor any of its Affiliates nor the Committee shall be liable to a Participant or any other Person if an Award that is subject to Code Section 409A or the Participant or any other Person is otherwise subject to any additional tax, interest or penalty under Code Section 409A. Each Participant is solely responsible for the payment of any tax liability (including any taxes, penalties and interest that may arise under Code Section 409A) that may result from an Award.

22.02 409A Awards

The Committee may grant Awards under the Plan that are intended to be 409A Awards that comply with Code Section 409A. The terms of such 409A Award, including any authority by the Company and the rights of the Participant with respect to such 409A Award, will be subject to such rules and limitations and shall be interpreted in a manner as to comply with Code Section 409A.

22.03 Election Requirements

If a Participant is permitted to elect to defer an Award or any payment under an Award, such election shall be made in accordance with the requirements of Code Section 409A. Each initial deferral election (an “**Initial Deferral Election**”) must be received by the Committee prior to the following dates or will have no effect whatsoever:

- (a) Except as otherwise provided below, the September 30 immediately preceding the year in which the compensation is earned;
- (b) With respect to any annual or long-term incentive pay which qualifies as “performance-based compensation” within the meaning of Code Section 409A, by the date six (6) months prior to the end of the performance measurement period applicable to such incentive pay provided such additional requirements set forth in Code Section 409A are met;
- (c) With respect to “fiscal year compensation” as defined under Code Section 409A, by the last day of the Company’s fiscal year immediately preceding the year in which the fiscal year compensation is earned; or
- (d) With respect to mid-year Awards or other legally binding rights to a payment of compensation in a subsequent year that is subject to a forfeiture condition requiring the Participant’s continued service for a period of at least twelve (12) months, on or before the thirtieth (30th) day following the grant of such Award, provided that the election is made at least twelve (12) months in advance of the earliest date at which the forfeiture condition could lapse.

The Committee may, in its sole discretion, permit Participants to submit additional deferral elections in order to delay, but not to accelerate, a payment, or to change the form of payment of an amount of deferred compensation (a “**Subsequent Deferral Election**”), if, and only if, the following conditions are satisfied: (a) the Subsequent Deferral Election must not take effect until twelve (12) months after the date on which it is made, (b) in the case of a payment other than a payment attributable to the Participant’s death, disability or an unforeseeable emergency (all within the meaning of Code Section 409A) the Subsequent Deferral Election further defers the payment for a period of not less than five (5) years from the date such payment would otherwise have been made and (c) the Subsequent Deferral Election is received by the Committee at least twelve (12) months prior to the date the payment would otherwise have been made. In addition, Participants may be further permitted to revise the form of payment they have elected, or the number of installments elected, provided that such revisions comply with the requirements of a Subsequent Deferral Election.

22.04 Time of Payment

The time and form of payment of a 409A Award shall be as set forth in an applicable Agreement. A 409A Award may only be paid in connection with a separation from service, a fixed time, death, disability, Change in Control or an unforeseeable emergency within the meaning of Code Section 409A. The time of distribution of the 409A Award must be fixed by reference to the specified payment event. Notwithstanding the foregoing, if the time of distribution of the 409A Award is not set forth in the applicable Agreement, then the time of distribution of the 409A Award shall be within two and one-half months of the end of the later of the calendar year or the fiscal year of the Company or Affiliate that employs the Participant in which the 409A Award becomes vested and no longer subject to a substantial risk of forfeiture within the meaning of Code Section 409A. For purposes of Code Section 409A, each installment payment will be treated as the entitlement to a single payment.

22.05 Acceleration or Deferral

The Company shall have no authority to accelerate or delay or change the form of any distributions relating to 409A Awards except as permitted under Code Section 409A.

22.06 Distribution Requirements

Any distribution of a 409A Award triggered by a Participant's termination of employment shall be made only at the time that the Participant has had a separation from service within the meaning of Code Section 409A. A separation from service shall occur where it is reasonably anticipated that no further services will be performed after that date or that the level of bona fide services the Participant will perform after that date (whether as an employee or independent contractor of the Company or an Affiliate) will permanently decrease to less than fifty percent (50%) of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period. A Participant shall be considered to have continued employment and to not have a separation from service while on a leave of absence if the leave does not exceed six (6) consecutive months (twenty-nine (29) months for a disability leave of absence) or, if longer, so long as the Participant retains a right to reemployment with the Company or Affiliate under an applicable statute or by contract. For this purpose, a "disability leave of absence" is an absence due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months, where such impairment causes the Participant to be unable to perform the duties of Participant's position of employment or a substantially similar position of employment. Continued services solely as a director of the Company or an Affiliate shall not prevent a separation from service from occurring by an employee as permitted by Code Section 409A.

22.07 Key Employee Rule

Notwithstanding any other provision of the Plan, any distribution of a 409A Award that would be made upon a separation from service within six (6) months following the separation from service of a "specified employee" as defined under Code Section 409A and as determined under procedures adopted by the Board or its delegate shall instead occur on the first day of the seventh month following the separation from service (or upon the Participant's death, if earlier) to the extent required by Code Section 409A. In the case of installments, this delay shall not affect the timing of any installment otherwise payable after the requisite delay period.

22.08 Distributions Upon Vesting

In the case of any Award providing for a distribution upon the lapse of a substantial risk of forfeiture, if the timing of such distribution is not otherwise specified in the Plan or the applicable Agreement, the distribution shall be made not later than two and one-half (2½) months after the calendar year in which the risk of forfeiture lapsed.

22.09 Scope and Application of this Provision

For purposes of this Article XXII, references to a term or event (including any authority or right of the Company or a Participant) being “permitted” under Code Section 409A means that the term or event will not cause the Participant to be deemed to be in constructive receipt of compensation relating to the 409A Award prior to the distribution of cash, shares of Common Stock or other property or to be liable for payment of interest or a tax penalty under Code Section 409A.

**ARTICLE XXIII
EFFECTIVE DATE OF PLAN**

The Plan is effective on the date of its adoption by the Board, contingent on the approval of the Plan by the Company’s stockholders within twelve (12) months after such date. Awards, other than Restricted Stock or outright grants of shares on Common Stock, may be granted under this Plan on and after the effective date, provided that no Award shall become exercisable, vested, earned or payable unless the Company’s stockholders approve the Plan within twelve (12) months after the Board’s adoption of the Plan. Restricted Stock and outright grants of shares of Common Stock may only be granted after the Company’s stockholders approve the Plan.

**ARTICLE XXIV
DURATION OF PLAN**

No Award may be granted under this Plan on and after ten (10) years following the effective date of the Plan. Awards granted before that date shall remain valid in accordance with their terms.

POLAR POWER, INC.
2016 OMNIBUS INCENTIVE PLAN

Incentive Stock Option Agreement

No. of shares subject to
Incentive Stock Option: _____

THIS INCENTIVE STOCK OPTION AGREEMENT (this “**Agreement**”) dated as of the ___ day of _____, between Polar Power, Inc., a Delaware corporation (the “**Company**”), and _____ (the “**Participant**”), is made pursuant and subject to the provisions of the Company’s 2016 Omnibus Incentive Plan (the “**Plan**”), a copy of which is attached hereto. All terms used herein that are defined in the Plan have the same meaning given them in the Plan.

1 . Grant of Option. Pursuant to the Plan, the Company, on _____, ____ (the “**Date of Grant**”), granted to the Participant, subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth herein, the right and option to purchase from the Company all or any part of an aggregate of _____ shares of the Common Stock of the Company, at the price of \$_____ per share (which is not less than the Fair Market Value of a share of Common Stock on the Date of Grant). In the case of a Ten Percent Shareholder, the price per share shall not be less than 110 percent of the Fair Market Value of a share of Common Stock of the Company on the Date of Grant. This Option is intended to be treated as an “Incentive Stock Option” under Code Section 422, but only to the extent the aggregate Fair Market Value (determined as of the Date of Grant) of the shares for which the Option (and all other options of the Participant that are intended to be Incentive Stock Options whether granted under the Plan or any other plan of the Company or any of its Affiliates) becomes exercisable for the first time in any calendar year does not exceed One Hundred Thousand Dollars (\$100,000). The Company makes no representation (other than the above expression of intent) or warranty whatsoever to the Participant as to the tax consequences of the grant or exercise of the Option or the disposition of the shares acquired hereunder. In the event that the Option awarded under this Agreement does not qualify for special tax treatment as an Incentive Stock Option, the Option may be exercisable as a Nonqualified Stock Option. The Company shall not be liable to the Participant if the Option or any portion thereof does not qualify as an Incentive Stock Option.

2. Terms and Conditions. This Option is subject to the following terms and conditions:

(a) Expiration Date. This Option shall expire at 11:59 p.m. on _____, _____ (the “**Expiration Date**”) or such earlier time as set forth in Sections 3, 4, 5 or 6 of this Agreement. In no event shall the Expiration Date be later than 10 years from the Date of Grant.

(b) Vesting of Option.

(i) In General. Except as otherwise provided below, this Option shall become exercisable with respect to _____ percent (____%) of the shares of Common Stock subject to the Option (rounded to the nearest whole share) on each of the _____, _____ and _____ anniversaries of the Date of Grant and with respect to the remaining shares of Common Stock subject to the Option on the _____ anniversary of the Date of Grant, provided the Participant has been continuously employed by the Company or an Affiliate from the Date of Grant until such time. Once this Option has become exercisable, it shall continue to be exercisable until the earlier of the termination of the Participant’s rights hereunder pursuant to Sections 3, 4, 5 or 6 of this Agreement or the Expiration Date. A partial exercise of this Option shall not affect the Participant’s right to exercise this Option with respect to the remaining shares of Common Stock, subject to the conditions of the Plan and this Agreement.

(i i) Change in Control. Notwithstanding the foregoing, in the event a Change in Control occurs and no provision is made for the continuance, assumption or substitution of the Option by the Company or its successor in connection with a Change in Control, then, the Option shall become exercisable in full, to the extent not exercisable previously, on the earlier of the Control Change Date or the date the Option is to be terminated in connection with the Change in Control, provided the Participant has remained continuously employed by the Company or any Affiliate from the Date of Grant until such time.

(iii) Death or Disability. Notwithstanding the foregoing, this Option also shall become exercisable in full, to the extent not then previously exercisable, in the event the Participant's employment with the Company and its Affiliates is terminated as a result of the Participant's death or Disability. The Committee, in its sole discretion, shall determine whether the Participant has a Disability for purposes of this Agreement.

(iv) Termination without Cause. Notwithstanding the foregoing, this Option also shall become exercisable in full, to the extent not then previously exercisable, in the event the Participant's employment with the Company and its Affiliates is terminated by the Company or any Affiliate involuntarily and without Cause.

(c) Method of Exercise and Payment for Shares. This Option shall be exercised by delivering written notice of exercise, along with the Option price for the portion of the Option being exercised and all applicable tax withholdings, to the attention of the Company's Secretary at the Company's address specified in Section 10 below. The exercise date shall be the date of delivery. The Participant shall pay the Option price and all applicable tax withholdings in cash or cash equivalent acceptable to the Committee. However, the Committee in its discretion may, but is not required to, allow the Participant to pay the Option price and tax withholdings (i) by surrendering shares of Common Stock the Participant already owns, (ii) by a cashless exercise through a broker, (iii) by means of a "net settlement" procedure, (iv) by such other medium of payment as the Committee shall authorize or (v) by any combination of the allowable methods of payment set forth herein.

(d) Transferability. Except as provided herein, this Option is nontransferable and, during the Participant's lifetime, only the Participant may exercise this Option. Notwithstanding the foregoing, this Option may be transferred by will or the laws of descent and distribution.

3 . Exercise in the Event of Death or Disability. This Option shall be exercisable for all or part of the number of shares of Common Stock that the Participant is entitled to purchase pursuant to Section 2(b) as of the date the Participant ceases to be employed by the Company and its Affiliates as a result of the Participant's death or Disability prior to the Expiration Date and the termination of the Participant's rights under Sections 4 or 5 of this Agreement. In that event, this Option may be exercised by the Participant, the Participant's estate, or the person or persons to whom the Participant's rights under this Option shall pass by will or the laws of descent and distribution, for the remainder of the period preceding the Expiration Date or within twelve (12) months after the date the Participant ceases to be employed by the Company and its Affiliates as a result of the Participant's death or Disability, whichever period is shorter.

4. Exercise After Retirement. This Option shall be exercisable for all or part of the number of shares of Common Stock that the Participant is entitled to purchase pursuant to Section 2(b) as of the date the Participant ceases to be employed by the Company and its Affiliates as a result of the Participant's Retirement prior to the Expiration Date and the termination of the Participant's rights under Sections 3, 5 or 6 of this Agreement. In that event, the Participant may exercise this Option for the remainder of the period preceding the Expiration Date or until the date that is twelve (12) months after the date the Participant ceases to be employed by the Company and its Affiliates due to Retirement, whichever period is shorter.

5 . Exercise After Termination of Employment. This Option shall be exercisable for all or part of the number of shares of Common Stock that the Participant is entitled to purchase pursuant to Section 2(b) as of the date the Participant ceases to be employed by the Company and its Affiliates, if the Participant ceases to be employed by the Company and its Affiliates other than as a result of the Participant's death, Disability or Retirement and other than as the result of the termination of employment by the Company or an Affiliate for Cause prior to the Expiration Date and the termination of the Participant's rights under Sections 3 or 5 of this Agreement. In that event, the Participant may exercise this Option for the remainder of the period preceding the Expiration Date or until the date that is ninety (90) days after the date Participant ceases to be employed by the Company and its Affiliates, whichever period is shorter.

6. Termination of Employment for Cause. Notwithstanding any other provision of this Agreement, all rights hereunder will be immediately discontinued and forfeited, and the Company shall not have any further obligation hereunder to the Participant, and the Option will not be exercisable for any number of shares of Common Stock (even if the Option previously became exercisable), on and after the time the Participant is discharged from employment with the Company and its Affiliates by the Company or an Affiliate for Cause.

7 . Agreement to Terms of the Plan and Agreement. The Participant has received a copy of the Plan, has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions.

8 . Tax Consequences. The Participant acknowledges (i) that there may be adverse tax consequences upon acquisition or disposition of the shares of Common Stock received upon exercise of this Option and (ii) that Participant should consult a tax adviser prior to such acquisition or disposition. The Participant is solely responsible for determining the tax consequences of the Option and for satisfying the Participant's tax obligations with respect to the Option (including, but not limited to, any income or excise tax as resulting from the application of Code Section 409A), and the Company shall not be liable if this Award is subject to Code Section 409A. If the Participant disposes of the Option shares within two years of the grant of the Option or within one year after the Option shares are transferred to the Participant, whichever is later ("Disqualifying Disposition"), the Participant shall notify the Company of the Disqualifying Disposition. If, due to the Disqualifying Disposition, gain attributable to the exercise of the Option becomes includible in the Participant's gross income for Federal income tax purposes with respect to the Option, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state and local taxes of any kind required by law to be withheld or paid with respect to that amount. If permitted by the Company, tax withholding or payment obligations may be settled with Common Stock of the company, including Common Stock that is part of the Option that gives rise to the withholding requirement. The obligations of the Company under the Plan and pursuant to this Agreement shall be conditioned upon that payment or arrangements with the Company and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant from the Company or any Affiliate.

14. Binding Effect. Subject to the limitations stated above and in the Plan, this Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of the Participant and the successors of the Company.

15. Conflicts. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

16. Counterparts. This Agreement may be executed in a number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one in the same instrument.

17. Miscellaneous. The parties agree to execute such further instruments and take such further actions as may be necessary to carry out the intent of the Plan and this Agreement. This Agreement and the Plan shall constitute the entire agreement of the parties with respect to the subject matter hereof.

18. Section 409A. Notwithstanding any of the provisions of this Agreement, it is intended that the Option be exempt from Section 409A of the Code. Notwithstanding the preceding, neither the Company nor any Affiliate shall be liable to the Participant or any other person if the Internal Revenue Service or any court or other authority have any jurisdiction over such matter determines for any reason that the Option is subject to taxes, penalties or interest as a result of failing to be exempt from, or comply with, Section 409A of the Code.

19. Governing Law. This Agreement shall be governed by the laws of the State of Delaware, except to the extent federal law applies.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by a duly authorized officer, and the Participant has affixed his signature hereto.

COMPANY:

POLAR POWER, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

[Participant's Name]

POLAR POWER, INC.
2016 OMNIBUS INCENTIVE PLAN

Nonqualified Stock Option Agreement

No. of shares subject to
Nonqualified Stock Option: _____

THIS NONQUALIFIED STOCK OPTION AGREEMENT (this “**Agreement**”) dated as of the ___ day of _____, _____, between Polar Power, Inc., a Delaware corporation (the “**Company**”), and _____ (the “**Participant**”), is made pursuant and subject to the provisions of the Company’s 2016 Omnibus Incentive Plan (the “**Plan**”), a copy of which is attached hereto. All terms used herein that are defined in the Plan have the same meaning given them in the Plan.

1. Grant of Option. Pursuant to the Plan, the Company, on _____, _____ (the “**Date of Grant**”), granted to the Participant, subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth herein, the right and option to purchase from the Company all or any part of an aggregate of _____ shares of the Common Stock of the Company, at the price of \$ _____ per share (which is not less than the Fair Market Value of a share of Common Stock on the Date of Grant). This Option is intended to be treated as a nonqualified stock option, which is not subject to Code Section 422. This Option is exercisable as hereinafter provided.

2. Terms and Conditions. This Option is subject to the following terms and conditions:

(a) Expiration Date. This Option shall expire at 11:59 p.m. on _____, _____ (the “**Expiration Date**”) or such earlier time as set forth in Sections 3, 4, 5 or 6 of this Agreement. In no event shall the Expiration Date be later than 10 years from the Date of Grant.

(b) Vesting of Option.

(i) In General. Except as otherwise provided below, this Option shall become exercisable with respect to _____ percent (____%) of the shares of Common Stock subject to the Option (rounded to the nearest whole share) on each of the _____, _____ and _____ anniversaries of the Date of Grant and with respect to the remaining shares of Common Stock subject to the Option on the _____ anniversary of the Date of Grant, provided the Participant has been continuously employed by, or providing services to, the Company or an Affiliate from the Date of Grant until such time. Once this Option has become exercisable, it shall continue to be exercisable until the earlier of the termination of the Participant’s rights hereunder pursuant to Sections 3, 4, 5 or 6 of this Agreement or the Expiration Date. A partial exercise of this Option shall not affect the Participant’s right to exercise this Option with respect to the remaining shares of Common Stock, subject to the conditions of the Plan and this Agreement.

(i i) Change in Control. Notwithstanding the foregoing, in the event a Change in Control occurs and no provision is made for the continuance, assumption or substitution of the Option by the Company or its successor in connection with a Change in Control, then, the Option shall become exercisable in full, to the extent not exercisable previously, on the earlier of the Control Change Date or the date the Option is to be terminated in connection with the Change in Control, provided the Participant has remained continuously employed by, or providing service to, the Company or any Affiliate from the Date of Grant until such time.

(iii) Death or Disability. Notwithstanding the foregoing, this Option also shall become exercisable in full, to the extent not then previously exercisable, in the event the Participant's employment or service with the Company and its Affiliates is terminated as a result of the Participant's death or Disability. The Committee, in its sole discretion, shall determine whether the Participant has a Disability for purposes of this Agreement.

(iv) Termination without Cause. Notwithstanding the foregoing, this Option also shall become exercisable in full, to the extent not then previously exercisable, in the event the Participant's employment or service with the Company and its Affiliates is terminated by the Company or any Affiliate involuntarily and without Cause.

(c) Method of Exercise and Payment for Shares. This Option shall be exercised by delivering written notice of exercise, along with the Option price for the portion of the Option being exercised and all applicable tax withholdings, to the attention of the Company's Secretary at the Company's address specified in Section 10 below. The exercise date shall be the date of delivery. The Participant shall pay the Option price and all applicable tax withholdings in cash or cash equivalent acceptable to the Committee. However, the Committee in its discretion may, but is not required to, allow the Participant to pay the Option price and tax withholdings (i) by surrendering shares of Common Stock the Participant already owns, (ii) by a cashless exercise through a broker, (iii) by means of a "net settlement" procedure, (iv) by such other medium of payment as the Committee shall authorize or (v) by any combination of the allowable methods of payment set forth herein.

(d) Transferability. Except as provided herein, this Option is nontransferable and, during the Participant's lifetime, only the Participant may exercise this Option. Notwithstanding the foregoing, this Option may be transferred by will or the laws of descent and distribution, and during the Participant's lifetime, may be transferred by the Participant to immediate family members or trusts or other entities on behalf of the Participant and/or immediate family members or for charitable donations. Any such transfer will be permitted only if (i) the Participant does not receive any consideration for the transfer and (ii) the Committee expressly approves the transfer. Any transferee to whom this Option is transferred shall be bound by the same terms and conditions that governed this Option during the time it was held by the Participant (which terms and conditions shall still be read from the perspective of the Participant); provided, however, that the transferee may not transfer this Option except by will or the laws of descent and distribution. Any such transfer shall be evidenced by an appropriate written document that the Participant executes and the Participant shall deliver a copy thereof to the Committee on or prior to the effective date of the transfer. No right or interest of the Participant or any transferee in this Option shall be liable for, or subject to, any lien, obligation or liability of the Participant or any transferee.

3 . Exercise in the Event of Death or Disability. This Option shall be exercisable for all or part of the number of shares of Common Stock that the Participant is entitled to purchase pursuant to Section 2(b) as of the date the Participant ceases to be employed by or provide services to the Company and its Affiliates as a result of the Participant's death or Disability prior to the Expiration Date and the termination of the Participant's rights under Sections 4, 5 or 6 of this Agreement. In that event, this Option may be exercised by the Participant, the Participant's estate, or the person or persons to whom the Participant's rights under this Option shall pass by will or the laws of descent and distribution, for the remainder of the period preceding the Expiration Date or within twelve (12) months after the date the Participant ceases to be employed by or provide services to the Company and its Affiliates as a result of the Participant's death or Disability, whichever period is shorter.

4. Exercise After Retirement. This Option shall be exercisable for all or part of the number of shares of Common Stock that the Participant is entitled to purchase pursuant to Section 2(b) as of the date the Participant ceases to be employed by, or provide services to, the Company and its Affiliates as a result of the Participant's Retirement prior to the Expiration Date and the termination of the Participant's rights under Sections 3, 5 or 6 of this Agreement. In that event, the Participant may exercise this Option for the remainder of the period preceding the Expiration Date or until the date that is twelve (12) months after the date the Participant ceases to be employed by, or provide services to, the Company and its Affiliates due to Retirement, whichever period is shorter.

5 . Exercise After Termination of Employment or Service. This Option shall be exercisable for all or part of the number of shares of Common Stock that the Participant is entitled to purchase pursuant to Section 2(b) as of the date the Participant ceases to be employed by, or provide services to, the Company and its Affiliates, if the Participant ceases to be employed by, or provide services to, the Company and its Affiliates other than as a result of the Participant's death, Disability or Retirement and other than as the result of termination of service or employment by the Company or any Affiliate for Cause prior to the Expiration Date and the termination of the Participant's rights under Sections 3, 4 or 6 of this Agreement. In that event, the Participant may exercise this Option for the remainder of the period preceding the Expiration Date or until the date that is ninety (90) days after the date Participant ceases to be employed by, or provide services to, the Company and its Affiliates, whichever period is shorter.

6 . Termination of Employment or Service for Cause. Notwithstanding any other provision of this Agreement, all rights hereunder will be immediately discontinued and forfeited, and the Company shall not have any further obligation hereunder to the Participant, and the Option will not be exercisable for any number of shares of Common Stock (even if the Option previously became exercisable), on and after the time the Participant is discharged from employment or service with the Company and its Affiliates by the Company or an Affiliate for Cause.

14. Binding Effect. Subject to the limitations stated above and in the Plan, this Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of the Participant and the successors of the Company.

15. Conflicts. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

16. Counterparts. This Agreement may be executed in a number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one in the same instrument.

17. Miscellaneous. The parties agree to execute such further instruments and take such further actions as may be necessary to carry out the intent of the Plan and this Agreement. This Agreement and the Plan shall constitute the entire agreement of the parties with respect to the subject matter hereof.

18. Section 409A. Notwithstanding any of the provisions of this Agreement, it is intended that the Option be exempt from Section 409A of the Code. Notwithstanding the preceding, neither the Company nor any Affiliate shall be liable to the Participant or any other person if the Internal Revenue Service or any court or other authority have any jurisdiction over such matter determines for any reason that the Option is subject to taxes, penalties or interest as a result of failing to be exempt from, or comply with, Section 409A of the Code.

19. Governing Law. This Agreement shall be governed by the laws of the State of Delaware, except to the extent federal law applies.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by a duly authorized officer, and the Participant has affixed his signature hereto.

COMPANY:

POLAR POWER, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

[Participant's Name]

POLAR POWER, INC.
2016 OMNIBUS INCENTIVE PLAN

Restricted Stock Agreement

No. of shares subject to
Restricted Stock Agreement: _____

THIS RESTRICTED STOCK AGREEMENT (this "**Agreement**") dated as of the ___ day of ____, ____, between Polar Power, Inc., a Delaware corporation (the "**Company**"), and _____ (the "**Participant**"), is made pursuant and subject to the provisions of the Company's 2016 Omnibus Incentive Plan (the "**Plan**"), a copy of which is attached hereto. All terms used herein that are defined in the Plan have the same meaning given them in the Plan.

1 . Grant of Shares. Pursuant to the Plan, the Company, on _____, ____ (the "**Date of Grant**"), granted to the Participant, subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth herein, _____ shares of the Common Stock of the Company (the "**Shares**"). The Shares shall be nontransferable and forfeitable until the time they vest and become nonforfeitable as described herein. The Shares will vest and become nonforfeitable as hereinafter provided.

2. Terms and Conditions. The Shares are subject to the following terms and conditions:

(a) Vesting of Shares.

(i) In General. Except as otherwise provided below, _____ percent (___%) of the Shares (rounded down to the nearest whole number of Shares) will become vested and nonforfeitable on each of the ____, ____ and ____ anniversaries of the Date of Grant and the remaining Shares will become vested and nonforfeitable on the ____ anniversary of the Date of Grant, provided the Participant has been continuously employed by, or providing services to, the Company or an Affiliate from the Date of Grant until such time.

(ii) Change in Control. Notwithstanding the foregoing, in the event a Change in Control occurs and no provision is made for the continuance, assumption or substitution of the Shares by the Company or its successor in connection with a Change in Control, then, the Shares shall fully vest and become nonforfeitable as of the Change in Control provided the Participant has been continuously employed by, or providing services to, the Company or any Affiliate from the Date of Grant until such time.

(iii) Death or Disability. Notwithstanding the foregoing, the Shares shall fully vest and become nonforfeitable, to the extent not then previously vested, in the event the Participant's employment or service with the Company and its Affiliates is terminated as a result of the Participant's death or Disability. The Committee, in its sole discretion, shall determine whether the Participant has a Disability for purposes of this Agreement.

(iv) Termination without Cause. Notwithstanding the foregoing, the Shares also shall fully vest and become nonforfeitable, to the extent not then previously vested, in the event the Participant's employment or service with the Company and its Affiliates is terminated by the Company and its Affiliates involuntarily and without Cause.

(b) Transferability. Except as provided herein, the Shares are nontransferable while such Shares remain forfeitable, other than by will or the laws of descent and distribution, and during the Participant's lifetime, may be transferred by the Participant to immediate family members or trusts or other entities on behalf of the Participant and/or immediate family members or for charitable donations. Any such transfer will be permitted only if (i) the Participant does not receive any consideration for the transfer and (ii) the Committee expressly approves the transfer. Any transferee to whom the Shares are transferred shall be bound by the same terms and conditions that governed the Shares during the time it was held by the Participant (which terms and conditions shall still be read from the perspective of the Participant); provided, however, that the transferee may not transfer the Shares except by will or the laws of descent and distribution. Any such transfer shall be evidenced by an appropriate written document that the Participant executes and the Participant shall deliver a copy thereof to the Committee on or prior to the effective date of the transfer. No right or interest of the Participant or any transferee in the Shares shall be liable for, or subject to, any lien, obligation or liability of the Participant or any transferee.

3. Forfeiture of the Shares.

(a) The Shares will become vested and nonforfeitable, if at all, no later than _____. The Shares that are not vested and nonforfeitable by such time will be forfeited automatically at the close of business on that date or, if earlier, at the time the Shares may no longer become vested and nonforfeitable under any circumstances.

(b) Shares that are not vested and nonforfeitable pursuant to Section 2(a) as of the date of termination of the Participant's employment by, or service with, the Company and its Affiliates will be forfeited automatically at the close of business on that date (or, if earlier, in connection with the termination of the Participant's employment by, or service with, the Company and its Affiliates for Cause).

(c) In no event may the Shares become vested and nonforfeitable, in whole or in part, after forfeiture pursuant to Sections 3(a) or (b) above.

4 . Agreement to Terms of the Plan and Agreement. The Participant has received a copy of the Plan, has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions.

5 . Withholding of Taxes. The Company's obligation to deliver the Shares upon vesting is subject to the Participant's satisfaction of any applicable federal, state and local income and employment tax and withholding requirements in a manner and form satisfactory to the Company. The Company, to the extent applicable law permits, may allow the Participant to pay such withholding amounts (i) by surrendering (actually or by attestation) shares of Common Stock that the Participant already owns (but only for the minimum required withholding), (ii) by a cashless exercise through a broker, (iii) by means of a "net exercise" procedure or (iv) by such other medium of payment as the Company in its discretion shall authorize.

11. No Right to Continued Employment or Service. Neither the Plan, the granting of the Shares nor any other action taken pursuant to the Plan or this Agreement constitutes or is evidence of any agreement or understanding, expressed or implied, that the Company or any Affiliate shall retain the Participant as an employee or other service provider for any period of time or at any particular rate of compensation.

12. Binding Effect. Subject to the limitations stated above and in the Plan, this Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of the Participant and the successors of the Company.

13. Conflicts. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

14. Counterparts. This Agreement may be executed in a number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one in the same instrument.

15. Miscellaneous. The parties agree to execute such further instruments and take such further actions as may be necessary to carry out the intent of the Plan and this Agreement. This Agreement and the Plan shall constitute the entire agreement of the parties with respect to the subject matter hereof.

16. Section 409A. Notwithstanding any of the provisions of this Agreement, it is intended that this Agreement be exempt from Section 409A of the Code. Notwithstanding the preceding, neither the Company nor any Affiliate shall be liable to the Participant or any other person if the Internal Revenue Service or any court or other authority have any jurisdiction over such matter determines for any reason that this Agreement is subject to taxes, penalties or interest as a result of failing to be exempt from, or comply with, Section 409A of the Code.

17. Governing Law. This Agreement shall be governed by the laws of the State of Delaware, except to the extent federal law applies.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by a duly authorized officer, and the Participant has affixed his signature hereto.

COMPANY:

POLAR POWER, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

[Participant's Name]

AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (“**Agreement**”), dated effective as of July 8, 2016, is made by and between Arthur D. Sams (“**Executive**”) and Polar Power, Inc., a California corporation (the “**Company**”) (collectively, the “**Parties**”).

RECITALS:

WHEREAS, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services;

WHEREAS, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

WHEREAS, the Parties entered into an Employment Agreement on or about October 1, 2013, setting forth certain terms of Executive’s employment with the Company (the “**Original Employment Agreement**”) and now seek to supersede and replace the Original Employment Agreement with this Agreement;

WHEREAS, once this Agreement is executed by the Parties, the Parties agree that the Original Employment Agreement shall have no further force or effect;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

1. EMPLOYMENT BY THE COMPANY.

1.1 Position. Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of President and Chief Executive Officer and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies.

1.2 Duties and Location. Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “**Board**”). Executive shall report to the Board. Executive’s primary office location shall be a location mutually acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.

1.3 Policies and Procedures. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

2. COMPENSATION.

2.1 Salary. For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$200,000.00, paid bi-weekly (the "**Base Salary**"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule. Executive's Base Salary shall be reviewed annually and may be increased as approved by the Compensation Committee of the Board in its sole discretion.

2.2 Annual Bonus. Executive will be eligible for an annual discretionary bonus (the "**Annual Bonus**"). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Compensation Committee of the Board in its sole discretion based upon its consideration of both the Company's performance and Executive's performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

2.3 Standard Company Benefits. Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; provided, however, that Executive shall not be entitled to accrued vacation pay.

2.4 Vacation. Executive shall be entitled to five (5) weeks paid vacation each year.

2.5 Expenses; Car Allowance. The Company shall pay or reimburse Executive for business expenses reasonably incurred by Executive in connection with the performance of Executive's duties in accordance with the policies of the Company as may be in effect from time to time, including presentation of receipt or other backup or supporting documentation. Executive shall also be provided a monthly car allowance in the amount of \$750.00.

2.6 Equity-Based Awards. Executive shall be eligible for grants of restricted stock, stock options, stock appreciation rights, restricted stock units, incentive awards, other stock-based awards and dividend equivalents (collectively, "**Equity-Based Awards**") from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Compensation Committee of the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. All Equity-Based Awards shall be governed in all respects by the terms of the applicable agreements executed in connection with any grant and the plan documents governing such Equity-Based Awards.

2.7 Withholding. Notwithstanding anything else herein to the contrary, the Company may withhold from any amounts otherwise due or payable under or pursuant to this Agreement or otherwise such U.S. federal, state and local income, employment or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

3. CONFIDENTIAL INFORMATION OBLIGATIONS.

3.1 Confidential Information.

(a) During the term of this Agreement, the Company will provide to Executive certain confidential and proprietary information owned by the Company as more fully described below. Executive acknowledges that he occupies or will occupy a position of trust and confidence with the Company, and that the Company would be irreparably damaged if Executive were to breach the covenants set forth in this Section 3.1(a). Accordingly, Executive agrees that he will not, without the prior written consent of the Company, at any time during the term of this Agreement or any time thereafter, except as may be required by competent legal authority or as required by the Company to be disclosed in the course of performing Executive's duties under this Agreement for the Company, use or disclose to any person, firm or other legal entity, any confidential records, secrets or information obtained by Executive during his employment hereunder related to the Company or any parent, subsidiary or affiliated person or entity (collectively, "**Confidential Information**"). Confidential Information shall include, without limitation, information about the Company's Inventions (as defined in Section 3.2(a)), customer lists and product pricing, data, know-how, formulae, processes, ideas, past, current and planned product development, market studies, computer software and programs, database and network technologies, strategic planning and risk management. Executive acknowledges and agrees that all Confidential Information of the Company and/or its affiliates will be received in confidence and as a fiduciary of the Company. Executive will exercise utmost diligence to protect and guard the Confidential Information.

(b) Executive agrees that he will not, without the express written consent of the Board, take with him upon the termination of this Agreement, any document or paper, or any photocopy or reproduction or duplication thereof, relating to any Confidential Information.

(c) Executive agrees that he will, upon the termination of his employment, return all the Company's property including but not limited to vehicles leased or owned by the Company, mobile telephone, fuel card, personal computer, all documents, working papers, information whether stored on computer disc or otherwise, and all other records relating to the Company and its business. Executive agrees that he will confirm in writing that he has complied with this clause, if requested to do so by the Company, within seven (7) days of receipt of such a request.

(d) Executive agrees that, while Executive is employed with the Company, he will not, either directly or indirectly, have an interest in any business (whether as manager, operator, licensor, licensee, partner, 5% or greater equity holder, employee, consultant, director, advisor or otherwise) competitive with the Company or any of its business activities or solicit individuals or other entities that are customers or competitors of the Company. Executive further agrees that, for a period of twenty-four (24) months after the date of termination of this Agreement (the “**Restricted Period**”), Executive shall not use the Company’s trade secrets, either directly or indirectly, to compete in any way with the business of the Company and will not solicit individuals or other entities that are customers or competitors of the Company during the six-month period immediately prior to the date of termination of this Agreement, to terminate or change their contracts or business relations with the Company. Executive also agrees that, for the Restricted Period, he will not, either directly or indirectly, solicit any employee of the Company to terminate such employee’s employment with the Company.

(e) For purposes of this Section 3.1, “**the Company**” shall include any of its parents, subsidiaries or any other entity in which it holds a 50% or greater equity interest.

3.2 Inventions.

(a) Any and all inventions, product, discoveries, improvements, processes, formulae, manufacturing methods or techniques, designs or styles, software applications or programs (collectively, “**Inventions**”) made, developed or created by Executive, alone or in conjunction with others, during regular hours of work or otherwise, during the term of Executive’s employment with the Company and for a period of two (2) years thereafter that may be directly or indirectly related to the business of, or tests being carried out by, the Company, or any of its parents, subsidiaries, shall be promptly disclosed by Executive to the Company and shall be the Company’s exclusive property. The following provisions of the California Labor Code shall supplement this Section 3.2(a):

SECTION 2870 OF THE CALIFORNIA LABOR CODE

Application of Provisions Providing that Employee Shall Assign or Offer to Assign Rights in Inventions to the Company.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either:

- (1) Relate at the time of conception or reduction to practice of the invention to employer’s business, or actual or demonstrably anticipated research or development of employer; or
- (2) Result from any work performed by the employee for employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

(b) Executive will, upon the Company's request and without additional compensation, execute any documents necessary or advisable in the opinion of the Company's legal counsel to direct the issuance of patents to the Company with respect to Inventions that are to be the Company's exclusive property under this Section 3.2 or to vest in the Company title to the Inventions; the expense of securing any patent, however, shall be borne by the Company.

(c) Executive will hold for the Company's sole benefit any Invention that is to be the Company's exclusive property under this Section 3.2 for which no patent is issued.

3.3 Third Party Agreements and Information. Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

4. OUTSIDE ACTIVITIES DURING EMPLOYMENT.

4.1 Non-Company Business. Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

4.2 No Adverse Interests. Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

5. TERMINATION OF EMPLOYMENT.

5.1 At-Will Relationship. Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

5.2 Termination without Cause; Resignation for Good Reason. If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers to the Company a general release in favor of, and in a form satisfactory to, the Company (the "**Separation Date Release**"), and does not revoke the Separation Date Release during any applicable revocation period prescribed by law and the Separation Date Release becomes effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive a single cash payment equal to (A) 200% of Executive's then-current Base Salary (i.e., twenty-four (24) months of severance), plus (B) 200% of the average amount of Executive's Annual Bonus paid during the two (2) calendar years immediately preceding the date of termination, less all applicable federal, state and local withholdings and payable on the date the Separation Date Release becomes effective.

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of eighteen (18) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.3 Termination for Cause; Resignation Without Good Reason. If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

5.4 Termination Due to Death or Disability.

(a) **Death.** This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) **Disability.** If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release and allows such release to become effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits; provided, however, that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) **Cash Severance.** The Company shall pay Executive a single cash payment equal to 100% of Executive's then-current Base Salary (i.e., twelve (12) months of severance), less all applicable federal, state and local withholdings and payable on the date the Separation Date Release becomes effective.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.5 Termination due to Change in Control. If, at any time, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), and Executive executes and delivers the Separation Date Release and allows such release to become effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive a single cash payment equal to (A) 200% of Executive's then-current Base Salary (i.e., 24 months of severance), plus (B) 200% of the average amount of Executive's Annual Bonus paid during the two calendar years immediately preceding the date of termination, less all applicable federal, state and local withholdings, and payable on the date the Separation Date Release becomes effective.

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of eighteen (18) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.6 Deferred Compensation. If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the “**Revised Payment Schedule**.”) However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.6 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.6; provided, however, that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

5.7 Limitation on Payments. In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then Executive’s benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting “parachute payments” is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (provided, however, that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive’s stock awards unless the Executive elects in writing a different order for cancellation. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.7 shall be made in writing by the Company’s independent public accountants (the “**Accountants**”), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.7, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.7. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.7.

5.8 No Mitigation. Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

5.9 Definitions.

(a) For purposes of this Agreement, “Cause” shall mean any one or more of the following:

(i) Executive’s indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive’s participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive’s refusal to comply with any lawful directive of the Company;

(iv) Executive’s material breach of Executive’s fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

Provided, however, that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

(b) For purposes of this Agreement, Executive shall have “Good Reason” for Executive’s resignation if: (w) any of the following occurs without Executive’s consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive's authority, duties or responsibility; provided, however, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive's authority, duties or responsibility;

(ii) a material reduction by the Company in Executive's annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive's place of work, or the Company's principal executive offices if Executive's principal office is at such offices, to a location that increases Executive's daily one-way commute by more than fifty (50) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, "**Change in Control**" shall be deemed to have occurred if, in a single transaction or series of related transactions: (i) any person (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 ("**Exchange Act**")), or persons acting as a group, other than a trustee or fiduciary holding securities under an employment benefit program, is or becomes a "beneficial owner" (as defined in Rule 13-3 under the Exchange Act), directly or indirectly of securities of the Company representing a majority (e.g., 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company's assets are sold.

6. ARBITRATION.

To ensure the timely and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive's employment, or the termination of Executive's employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Orange County, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS' arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

7. GENERAL PROVISIONS.

7.1 Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

7.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

7.3 Waiver. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

7.4 Complete Agreement. This Agreement constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. This Agreement supersedes and replaces the Original Employment Agreement in its entirety and the Original Employment Agreement shall have no further force or effect. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.

7.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

7.6 Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

7.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

7.8 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement.

POLAR POWER, INC.

By: /s/ Keith Albrecht
Keith Albrecht, Director and Chair of the Audit Committee

Understood and Agreed:

Executive

By: /s/ Arthur D. Sams
Arthur D. Sams

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (“**Agreement**”), dated effective as of July 8, 2016, is made by and between Rajesh Masina (“**Executive**”) and Polar Power, Inc., a California corporation (the “**Company**”) (collectively, the “**Parties**”).

RECITALS:

WHEREAS, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services; and

WHEREAS, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

1. EMPLOYMENT BY THE COMPANY.

1.1 Position. Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of Vice President Operation and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies.

1.2 Duties and Location. Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “**Board**”). Executive shall report to the President and Chief Executive Officer of the Company. Executive’s primary office location shall be a location mutually acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.

1.3 Policies and Procedures. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company’s general employment policies or practices, this Agreement shall control.

2. COMPENSATION.

2.1 Salary. For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$120,000.00, paid bi-weekly (the “**Base Salary**”), subject to standard payroll deductions and withholdings and payable in accordance with the Company’s regular payroll schedule. Executive’s Base Salary shall be reviewed annually and may be increased as approved by the Compensation Committee of the Board in its sole discretion.

2.2 Annual Bonus. Executive will be eligible for an annual discretionary bonus (the “**Annual Bonus**”). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Compensation Committee of the Board in its sole discretion based upon its consideration of both the Company’s performance and Executive’s performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive’s employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

2.3 Standard Company Benefits. Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; provided, however, that Executive shall not be entitled to accrued vacation pay.

2.4 Vacation. Executive shall be entitled to four (4) weeks paid vacation each year.

2.5 Expenses. The Company shall pay or reimburse Executive for business expenses reasonably incurred by Executive in connection with the performance of Executive’s duties in accordance with the policies of the Company as may be in effect from time to time, including presentation of receipt or other backup or supporting documentation.

2.6 Equity-Based Awards. Executive shall be eligible for grants of restricted stock, stock options, stock appreciation rights, restricted stock units, incentive awards, other stock-based awards and dividend equivalents (collectively, “**Equity-Based Awards**”) from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Compensation Committee of the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. All Equity-Based Awards shall be governed in all respects by the terms of the applicable agreements executed in connection with any grant and the plan documents governing such Equity-Based Awards.

2.7 Withholding. Notwithstanding anything else herein to the contrary, the Company may withhold from any amounts otherwise due or payable under or pursuant to this Agreement or otherwise such U.S. federal, state and local income, employment or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

3. CONFIDENTIAL INFORMATION OBLIGATIONS.

3.1 Confidential Information.

(a) During the term of this Agreement, the Company will provide to Executive certain confidential and proprietary information owned by the Company as more fully described below. Executive acknowledges that he occupies or will occupy a position of trust and confidence with the Company, and that the Company would be irreparably damaged if Executive were to breach the covenants set forth in this Section 3.1(a). Accordingly, Executive agrees that he will not, without the prior written consent of the Company, at any time during the term of this Agreement or any time thereafter, except as may be required by competent legal authority or as required by the Company to be disclosed in the course of performing Executive's duties under this Agreement for the Company, use or disclose to any person, firm or other legal entity, any confidential records, secrets or information obtained by Executive during his employment hereunder related to the Company or any parent, subsidiary or affiliated person or entity (collectively, "**Confidential Information**"). Confidential Information shall include, without limitation, information about the Company's Inventions (as defined in Section 3.2(a)), customer lists and product pricing, data, know-how, formulae, processes, ideas, past, current and planned product development, market studies, computer software and programs, database and network technologies, strategic planning and risk management. Executive acknowledges and agrees that all Confidential Information of the Company and/or its affiliates will be received in confidence and as a fiduciary of the Company. Executive will exercise utmost diligence to protect and guard the Confidential Information.

(b) Executive agrees that he will not, without the express written consent of the Board, take with him upon the termination of this Agreement, any document or paper, or any photocopy or reproduction or duplication thereof, relating to any Confidential Information.

(c) Executive agrees that he will, upon the termination of his employment, return all the Company's property including but not limited to vehicles leased or owned by the Company, mobile telephone, fuel card, personal computer, all documents, working papers, information whether stored on computer disc or otherwise, and all other records relating to the Company and its business. Executive agrees that he will confirm in writing that he has complied with this clause, if requested to do so by the Company, within seven (7) days of receipt of such a request.

(d) Executive agrees that, while Executive is employed with the Company, he will not, either directly or indirectly, have an interest in any business (whether as manager, operator, licensor, licensee, partner, 5% or greater equity holder, employee, consultant, director, advisor or otherwise) competitive with the Company or any of its business activities or solicit individuals or other entities that are customers or competitors of the Company. Executive further agrees that, for a period of twenty-four (24) months after the date of termination of this Agreement (the "**Restricted Period**"), Executive shall not use the Company's trade secrets, either directly or indirectly, to compete in any way with the business of the Company and will not solicit individuals or other entities that are customers or competitors of the Company during the six-month period immediately prior to the date of termination of this Agreement, to terminate or change their contracts or business relations with the Company. Executive also agrees that, for the Restricted Period, he will not, either directly or indirectly, solicit any employee of the Company to terminate such employee's employment with the Company.

(e) For purposes of this Section 3.1, “**the Company**” shall include any of its parents, subsidiaries or any other entity in which it holds a 50% or greater equity interest.

3.2 Inventions.

(a) Any and all inventions, product, discoveries, improvements, processes, formulae, manufacturing methods or techniques, designs or styles, software applications or programs (collectively, “**Inventions**”) made, developed or created by Executive, alone or in conjunction with others, during regular hours of work or otherwise, during the term of Executive’s employment with the Company and for a period of two (2) years thereafter that may be directly or indirectly related to the business of, or tests being carried out by, the Company, or any of its parents, subsidiaries, shall be promptly disclosed by Executive to the Company and shall be the Company’s exclusive property. The following provisions of the California Labor Code shall supplement this Section 3.2(a):

SECTION 2870 OF THE CALIFORNIA LABOR CODE

Application of Provisions Providing that Employee Shall Assign or Offer to Assign Rights in Inventions to the Company.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to employer’s business, or actual or demonstrably anticipated research or development of employer; or

(2) Result from any work performed by the employee for employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

(b) Executive will, upon the Company’s request and without additional compensation, execute any documents necessary or advisable in the opinion of the Company’s legal counsel to direct the issuance of patents to the Company with respect to Inventions that are to be the Company’s exclusive property under this Section 3.2 or to vest in the Company title to the Inventions; the expense of securing any patent, however, shall be borne by the Company.

(c) Executive will hold for the Company's sole benefit any Invention that is to be the Company's exclusive property under this Section 3.2 for which no patent is issued.

3.3 Third Party Agreements and Information. Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

4. OUTSIDE ACTIVITIES DURING EMPLOYMENT.

4.1 Non-Company Business. Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

4.2 No Adverse Interests. Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

5. TERMINATION OF EMPLOYMENT.

5.1 At-Will Relationship. Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

5.2 Termination without Cause; Resignation for Good Reason. If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers to the Company a general release in favor of, and in a form satisfactory to, the Company (the "**Separation Date Release**"), and does not revoke the Separation Date Release during any applicable revocation period prescribed by law and the Separation Date Release becomes effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive a single cash payment equal to 50% of Executive's then-current Base Salary (i.e., six (6) months of severance), less all applicable federal, state and local withholdings and payable on the date the Separation Date Release becomes effective.

(b) Continued Health Insurance Coverage. To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of six (6) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.3 Termination for Cause; Resignation Without Good Reason. If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

5.4 Termination Due to Death or Disability.

(a) Death. This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) Disability. If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release and allows such release to become effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits; provided, however, that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) Cash Severance. The Company shall pay Executive a single cash payment equal to 50% of Executive's then-current Base Salary (i.e., six (6) months of severance), less all applicable federal, state and local withholdings and payable on the date the Separation Date Release becomes effective.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of six (6) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.5 Termination due to Change in Control. If, at any time, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), and Executive executes and delivers the Separation Date Release and allows such release to become effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive a single cash payment equal to 50% of Executive's then-current Base Salary (i.e., six months of severance), less all applicable federal, state and local withholdings, and payable on the date the Separation Date Release becomes effective.

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of six (6) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.6 Deferred Compensation. If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the "**Revised Payment Schedule.**") However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.6 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.6; provided, however, that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

5.7 Limitation on Payments. In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then Executive’s benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting “parachute payments” is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (provided, however, that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive’s stock awards unless the Executive elects in writing a different order for cancellation. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.7 shall be made in writing by the Company’s independent public accountants (the “**Accountants**”), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.7, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.7. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.7.

5.8 No Mitigation. Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

5.9 Definitions.

- (a) For purposes of this Agreement, “**Cause**” shall mean any one or more of the following:
 - (i) Executive’s indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive's participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive's refusal to comply with any lawful directive of the Company;

(iv) Executive's material breach of Executive's fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

Provided, however, that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

(b) For purposes of this Agreement, Executive shall have "**Good Reason**" for Executive's resignation if: (w) any of the following occurs without Executive's consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive's authority, duties or responsibility; provided, however, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive's authority, duties or responsibility;

(ii) a material reduction by the Company in Executive's annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive's place of work, or the Company's principal executive offices if Executive's principal office is at such offices, to a location that increases Executive's daily one-way commute by more than fifty (50) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, “**Change in Control**” shall be deemed to have occurred if, in a single transaction or series of related transactions: (i) any person (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (“**Exchange Act**”), or persons acting as a group, other than a trustee or fiduciary holding securities under an employment benefit program, is or becomes a “beneficial owner” (as defined in Rule 13-3 under the Exchange Act), directly or indirectly of securities of the Company representing a majority (e.g., 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company’s assets are sold.

6. **ARBITRATION.**

To ensure the timely and economical resolution of disputes that may arise in connection with Executive’s employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive’s employment, or the termination of Executive’s employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Orange County, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator’s essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS’ arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

7. **GENERAL PROVISIONS.**

7.1 Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

7.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

7.3 Waiver. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

7.4 Complete Agreement. This Agreement constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. This Agreement supersedes and replaces the Original Employment Agreement in its entirety and the Original Employment Agreement shall have no further force or effect. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.

7.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

7.6 Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

7.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

7.8 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement.

POLAR POWER, INC.

By: /s/ Arthur D. Sams
Arthur D. Sams, President and CEO

Understood and Agreed:

Executive

By: /s/ Rajesh Masina
Rajesh Masina

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (“**Agreement**”), dated effective as of July 8, 2016, is made by and between Luis Zavala (“**Executive**”) and Polar Power, Inc., a California corporation (the “**Company**”) (collectively, the “**Parties**”).

RECITALS:

WHEREAS, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services; and

WHEREAS, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

1. EMPLOYMENT BY THE COMPANY.

1.1 Position. Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of Vice President Finance and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies.

1.2 Duties and Location. Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “**Board**”). Executive shall report to the President and Chief Executive Officer of the Company. Executive’s primary office location shall be a location mutually acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.

1.3 Policies and Procedures. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company’s general employment policies or practices, this Agreement shall control.

2. COMPENSATION.

2.1 Salary. For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$120,000.00, paid bi-weekly (the “**Base Salary**”), subject to standard payroll deductions and withholdings and payable in accordance with the Company’s regular payroll schedule. Executive’s Base Salary shall be reviewed annually and may be increased as approved by the Compensation Committee of the Board in its sole discretion.

2.2 Annual Bonus. Executive will be eligible for an annual discretionary bonus (the “**Annual Bonus**”). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Compensation Committee of the Board in its sole discretion based upon its consideration of both the Company’s performance and Executive’s performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive’s employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

2.3 Standard Company Benefits. Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; provided, however, that Executive shall not be entitled to accrued vacation pay.

2.4 Vacation. Executive shall be entitled to four (4) weeks paid vacation each year.

2.5 Expenses. The Company shall pay or reimburse Executive for business expenses reasonably incurred by Executive in connection with the performance of Executive’s duties in accordance with the policies of the Company as may be in effect from time to time, including presentation of receipt or other backup or supporting documentation.

2.6 Equity-Based Awards. Executive shall be eligible for grants of restricted stock, stock options, stock appreciation rights, restricted stock units, incentive awards, other stock-based awards and dividend equivalents (collectively, “**Equity-Based Awards**”) from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Compensation Committee of the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. All Equity-Based Awards shall be governed in all respects by the terms of the applicable agreements executed in connection with any grant and the plan documents governing such Equity-Based Awards.

2.7 Withholding. Notwithstanding anything else herein to the contrary, the Company may withhold from any amounts otherwise due or payable under or pursuant to this Agreement or otherwise such U.S. federal, state and local income, employment or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

3. CONFIDENTIAL INFORMATION OBLIGATIONS.

3.1 Confidential Information.

(a) During the term of this Agreement, the Company will provide to Executive certain confidential and proprietary information owned by the Company as more fully described below. Executive acknowledges that he occupies or will occupy a position of trust and confidence with the Company, and that the Company would be irreparably damaged if Executive were to breach the covenants set forth in this Section 3.1(a). Accordingly, Executive agrees that he will not, without the prior written consent of the Company, at any time during the term of this Agreement or any time thereafter, except as may be required by competent legal authority or as required by the Company to be disclosed in the course of performing Executive's duties under this Agreement for the Company, use or disclose to any person, firm or other legal entity, any confidential records, secrets or information obtained by Executive during his employment hereunder related to the Company or any parent, subsidiary or affiliated person or entity (collectively, "**Confidential Information**"). Confidential Information shall include, without limitation, information about the Company's Inventions (as defined in Section 3.2(a)), customer lists and product pricing, data, know-how, formulae, processes, ideas, past, current and planned product development, market studies, computer software and programs, database and network technologies, strategic planning and risk management. Executive acknowledges and agrees that all Confidential Information of the Company and/or its affiliates will be received in confidence and as a fiduciary of the Company. Executive will exercise utmost diligence to protect and guard the Confidential Information.

(b) Executive agrees that he will not, without the express written consent of the Board, take with him upon the termination of this Agreement, any document or paper, or any photocopy or reproduction or duplication thereof, relating to any Confidential Information.

(c) Executive agrees that he will, upon the termination of his employment, return all the Company's property including but not limited to vehicles leased or owned by the Company, mobile telephone, fuel card, personal computer, all documents, working papers, information whether stored on computer disc or otherwise, and all other records relating to the Company and its business. Executive agrees that he will confirm in writing that he has complied with this clause, if requested to do so by the Company, within seven (7) days of receipt of such a request.

(d) Executive agrees that, while Executive is employed with the Company, he will not, either directly or indirectly, have an interest in any business (whether as manager, operator, licensor, licensee, partner, 5% or greater equity holder, employee, consultant, director, advisor or otherwise) competitive with the Company or any of its business activities or solicit individuals or other entities that are customers or competitors of the Company. Executive further agrees that, for a period of twenty-four (24) months after the date of termination of this Agreement (the "**Restricted Period**"), Executive shall not use the Company's trade secrets, either directly or indirectly, to compete in any way with the business of the Company and will not solicit individuals or other entities that are customers or competitors of the Company during the six-month period immediately prior to the date of termination of this Agreement, to terminate or change their contracts or business relations with the Company. Executive also agrees that, for the Restricted Period, he will not, either directly or indirectly, solicit any employee of the Company to terminate such employee's employment with the Company.

(e) For purposes of this Section 3.1, “the Company” shall include any of its parents, subsidiaries or any other entity in which it holds a 50% or greater equity interest.

3.2 Inventions.

(a) Any and all inventions, product, discoveries, improvements, processes, formulae, manufacturing methods or techniques, designs or styles, software applications or programs (collectively, “**Inventions**”) made, developed or created by Executive, alone or in conjunction with others, during regular hours of work or otherwise, during the term of Executive’s employment with the Company and for a period of two (2) years thereafter that may be directly or indirectly related to the business of, or tests being carried out by, the Company, or any of its parents, subsidiaries, shall be promptly disclosed by Executive to the Company and shall be the Company’s exclusive property. The following provisions of the California Labor Code shall supplement this Section 3.2(a):

SECTION 2870 OF THE CALIFORNIA LABOR CODE

Application of Provisions Providing that Employee Shall Assign or Offer to Assign Rights in Inventions to the Company.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to employer’s business, or actual or demonstrably anticipated research or development of employer; or

(2) Result from any work performed by the employee for employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

(b) Executive will, upon the Company’s request and without additional compensation, execute any documents necessary or advisable in the opinion of the Company’s legal counsel to direct the issuance of patents to the Company with respect to Inventions that are to be the Company’s exclusive property under this Section 3.2 or to vest in the Company title to the Inventions; the expense of securing any patent, however, shall be borne by the Company.

(c) Executive will hold for the Company's sole benefit any Invention that is to be the Company's exclusive property under this Section 3.2 for which no patent is issued.

3.3 Third Party Agreements and Information. Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

4. OUTSIDE ACTIVITIES DURING EMPLOYMENT.

4.1 Non-Company Business. Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

4.2 No Adverse Interests. Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

5. TERMINATION OF EMPLOYMENT.

5.1 At-Will Relationship. Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

5.2 Termination without Cause; Resignation for Good Reason. If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers to the Company a general release in favor of, and in a form satisfactory to, the Company (the "**Separation Date Release**"), and does not revoke the Separation Date Release during any applicable revocation period prescribed by law and the Separation Date Release becomes effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive a single cash payment equal to 50% of Executive's then-current Base Salary (i.e., six (6) months of severance), less all applicable federal, state and local withholdings and payable on the date the Separation Date Release becomes effective.

(b) Continued Health Insurance Coverage. To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of six (6) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.3 Termination for Cause; Resignation Without Good Reason. If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

5.4 Termination Due to Death or Disability.

(a) Death. This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) Disability. If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release and allows such release to become effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits; provided, however, that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) Cash Severance. The Company shall pay Executive a single cash payment equal to 50% of Executive's then-current Base Salary (i.e., six (6) months of severance), less all applicable federal, state and local withholdings and payable on the date the Separation Date Release becomes effective.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of six (6) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.5 Termination due to Change in Control. If, at any time, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), and Executive executes and delivers the Separation Date Release and allows such release to become effective within sixty (60) days following Executive's termination date, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive a single cash payment equal to 50% of Executive's then-current Base Salary (i.e., six months of severance), less all applicable federal, state and local withholdings, and payable on the date the Separation Date Release becomes effective.

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of six (6) months after the termination date; provided, however, that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

5.6 Deferred Compensation. If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the "**Revised Payment Schedule.**") However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.6 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.6; provided, however, that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

5.7 Limitation on Payments. In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then Executive’s benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting “parachute payments” is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (provided, however, that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive’s stock awards unless the Executive elects in writing a different order for cancellation. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.7 shall be made in writing by the Company’s independent public accountants (the “**Accountants**”), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.7, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.7. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.7.

5.8 No Mitigation. Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

5.9 Definitions.

- (a) For purposes of this Agreement, “**Cause**” shall mean any one or more of the following:
 - (i) Executive’s indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive's participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive's refusal to comply with any lawful directive of the Company;

(iv) Executive's material breach of Executive's fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

Provided, however, that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

(b) For purposes of this Agreement, Executive shall have "**Good Reason**" for Executive's resignation if: (w) any of the following occurs without Executive's consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive's authority, duties or responsibility; provided, however, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive's authority, duties or responsibility;

(ii) a material reduction by the Company in Executive's annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive's place of work, or the Company's principal executive offices if Executive's principal office is at such offices, to a location that increases Executive's daily one-way commute by more than fifty (50) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, “**Change in Control**” shall be deemed to have occurred if, in a single transaction or series of related transactions: (i) any person (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (“**Exchange Act**”), or persons acting as a group, other than a trustee or fiduciary holding securities under an employment benefit program, is or becomes a “beneficial owner” (as defined in Rule 13-3 under the Exchange Act), directly or indirectly of securities of the Company representing a majority (e.g., 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company’s assets are sold.

6. **ARBITRATION.**

To ensure the timely and economical resolution of disputes that may arise in connection with Executive’s employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive’s employment, or the termination of Executive’s employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Orange County, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator’s essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS’ arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

7. **GENERAL PROVISIONS.**

7.1 Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

7.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

7.3 Waiver. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

7.4 Complete Agreement. This Agreement constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. This Agreement supersedes and replaces the Original Employment Agreement in its entirety and the Original Employment Agreement shall have no further force or effect. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.

7.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

7.6 Headings. The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

7.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

7.8 Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement.

POLAR POWER, INC.

By: /s/ Arthur D. Sams
Arthur D. Sams, President and CEO

Understood and Agreed:

Executive

By: /s/ Luis Zavala
Luis Zavala

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT dated as of August 14, 2015 (the “**Agreement**”), is executed by and between POLAR POWER, INC., a California corporation (the “**Borrower**”), whose address is 249 East Gardena Boulevard, Gardena, California 90248 and GIBRALTAR BUSINESS CAPITAL, LLC, a Delaware limited liability company (the “**Lender**”), whose address is 400 Skokie Boulevard, Suite 375, Northbrook, Illinois 60062.

In consideration of the mutual agreements hereinafter set forth, the Borrower and the Lender hereby agree as follows:

1. DEFINITIONS.

1 . 1 **Defined Terms.** For the purposes of this Agreement, the following capitalized words and phrases shall have the meanings set forth below.

“**Account(s)**” shall mean all of Borrower’s now existing or hereafter arising or acquired accounts, accounts receivable, and any other rights to payment, however created including, without limitation, any right to payment for goods sold or leased, or for services rendered, whether arising out of the sale of inventory or otherwise and whether or not it has been earned by performance, and any and all notes, drafts, acceptances, chattel paper, general intangibles and other obligations arising out of or representing a right to payment thereunder, however created.

“**Account Debtor**” shall mean any person and/or entity obligated on an Account.

“**Affiliate**” shall mean, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified. For the purpose hereof, the term “control” shall mean the possession of the power to direct, or cause the direction of, the management and policies of a Person by contract or voting of securities or ownership interests.

“**Bankruptcy Code**” shall mean the United States Bankruptcy Code, as now existing or hereafter amended.

“**Borrowing Base Amount**” shall mean:

(a) an amount equal to eighty-five percent (85%) or such lesser percentage as determined by Lender in its reasonable discretion, of the net amount (after deduction of such reserves and allowances as the Lender deems proper and necessary) of the Eligible Accounts; **plus**

(b) an amount equal to fifty percent (50%) or such lesser percentage as determined by Lender in its reasonable discretion, of the lower of cost or market value (after deduction of such reserves and allowances as the Lender deems proper and necessary) of the Eligible Inventory with a cap on advances made against Eligible Inventory equal to the lesser of (i) one hundred percent (100%) of the funded advances for Eligible Accounts or (ii) SEVEN HUNDRED FIFTY THOUSAND DOLLARS (\$750,000.00).

“Borrowing Base Certificate” shall have the meaning set forth in Section 3.1.

“Business Day” shall mean any day other than a Saturday, Sunday or a legal holiday on which lenders are authorized or required to be closed for the conduct of commercial banking business in Chicago, Illinois.

“Capital Lease” shall mean, as to any Person, a lease by such Person, as lessee, of any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, that is, or should be, in accordance with Financial Accounting Standards Board Statement No. 13, as amended from time to time, or, if such Statement No. 13 is not then in effect, such statement of GAAP as may be applicable, recorded as a “capital lease” on the financial statements of such Person prepared in accordance with GAAP.

“Capitalized Lease Obligations” shall mean, as to any Person, all rental obligations of such Person, as lessee under a Capital Lease which are or will be required to be capitalized on the books of such Person.

“Capital Securities” shall mean, with respect to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital, whether now outstanding or issued or acquired after the date hereof, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent of such ownership interest.

“Change in Control” shall mean the occurrence of any of the following events: (a) Arthur Darius Sams shall cease to own and control, directly or indirectly, at least fifty-one percent (51%) of the outstanding Capital Securities of Borrower or (b) Arthur Darius Sams shall cease to have day-to-day operational control of Borrower or (c) the granting by Arthur Darius Sams, directly or indirectly, of a security interest in any of his Capital Securities in the Borrower, which could result in a change in the identity of the individuals or entities in control of the Borrower. For the purpose hereof, the term “control” shall mean the possession of the power to direct, or cause the direction of, the management and policies of the Borrower by contract or voting of securities or ownership interests.

“Collateral” shall have the meaning set forth in Section 6.1.

“Collateral Management Fee” shall have the meaning set forth in Section 5.2.

“Contingent Liability” and **“Contingent Liabilities”** shall mean, respectively, each obligation and liability of the Borrower and all such obligations and liabilities of the Borrower incurred pursuant to any agreement, or arrangement by which the Borrower: (a) guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, dividend, obligation or other liability of any other Person in any manner (other than by endorsement of instruments in the course of collection), including without limitation, any indebtedness, dividend or other obligation which may be issued or incurred at some future time; (b) guarantees the payment of dividends or other distributions upon the shares or ownership interest of any other Person; (c) agrees (whether contingently or otherwise): (i) to purchase, repurchase, or otherwise acquire any indebtedness, obligation or liability of any other Person or any or any property or assets constituting security therefor, or (ii) to advance or provide funds for the payment or discharge of any indebtedness, obligation or liability of any other Person (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain solvency, assets, level of income, working capital or other financial condition of any other Person, or (iii) to make payment to any other Person other than for value received; (d) agrees to lease property or to purchase securities, property or services from a Person with the purpose or intent of assuring a second Person to whom such first Person is indebted or has obligations to of the ability of such first Person to make payment of the indebtedness or obligation; (e) to induce the issuance of, or in connection with the issuance of, any letter of credit for the benefit of such other Person; or (f) agrees otherwise to assure a creditor against loss. The amount of any Contingent Liability shall (subject to any limitation set forth herein) be deemed to be the outstanding principal amount (or maximum permitted principal amount, if larger) of the indebtedness, obligation or other liability guaranteed or supported thereby.

“Control Agreements” shall have the meaning set forth in Section 6.2.

“Default Rate” shall mean a per annum rate of interest equal to the actual interest rate for the Revolving Loans as set forth in Section 2.1(b) herein plus five percent (5%) per annum.

“Eligible Accounts” shall mean each Account of the Borrower which meets each of the following requirements:

- (a) is genuine in all respects and has arisen in the ordinary course of the Borrower’s business from (i) the sale or lease of Goods by the Borrower, including C.O.D. sales, which Goods have been completed in accordance with the Account Debtor’s specifications (if any) and delivered to and accepted by the Account Debtor, and the Borrower has possession of, or has delivered to the Lender at the Lender’s request, shipping and delivery receipts evidencing such shipment; or (ii) the performance of services by the Borrower, which services have been fully performed, acknowledged and accepted by the Account Debtor;
- (b) is subject to a perfected, first priority lien in favor of the Lender and is not subject to another assignment, claim or lien other than Permitted Liens;
- (c) is evidenced by an invoice delivered to an Account Debtor and is not more than ninety (90) days past invoice date;
- (d) it is not an account arising from a “sale on approval”, “sale or return”, “consignment”, “guaranteed sale” or “bill and hold”, or subject to another repurchase or return agreement;

- (e) it has not arisen out of contracts with the United States or any state, county, city or other governmental body, or any department, agency or instrumentality thereof;
- (f) it is not due from an Account Debtor which is the Borrower or a Subsidiary or a director, officer, employee, agent, parent or Affiliate of the Borrower;
- (g) the Account Debtor with respect thereto is not a consumer Account Debtor as determined by Lender;
- (h) the Account Debtor with respect thereto is either (i) a resident or citizen of, and is located within the United States or (ii) a Foreign Account for which Borrower has credit insurance satisfactory to Lender;
- (i) it does not arise in connection with a sale to an Account Debtor who is located within a state or other jurisdiction which requires the Borrower, as a precondition to commencing or maintaining an action in the courts of that state, either to (i) receive a certificate of authority to do business and be in good standing in such state, or (ii) file a notice of business activities or similar report with such state's taxing authority, unless (A) the Borrower has taken one of the actions described in clauses (i) or (ii), (B) the failure to take one of the actions described in either clause (i) or (ii) may be cured retroactively by the Borrower at its election, or (C) the Borrower has proven to the reasonable satisfaction of the Lender that it is exempt from any such requirements under such state's laws;
- (j) it does not arise out of a contract or order which, by its terms, forbids or makes void or unenforceable the assignment by the Borrower to the Lender of the Account arising with respect thereto and is not unassignable to the Lender for any other reason;
- (k) it is the valid, legally enforceable and unconditional obligation of the Account Debtor with respect thereto, and to the extent it is not subject to the fulfillment of any condition whatsoever or any counterclaim, credit, trade or volume discount, allowance, discount, rebate or adjustment by the Account Debtor with respect thereto, or to any claim by such Account Debtor denying liability thereunder in whole or in part and the Account Debtor has not refused to accept and/or has not returned or offered to return any of the Goods or services which are the subject of such Account;
- (l) it is not an Account with respect to which possession and/or control of the goods sold giving rise thereto is held, maintained or retained by the Borrower or any Subsidiary (or by any agent or custodian of the Borrower or any Subsidiary) for the account of, or subject to, further and/or future direction from the Account Debtor with respect thereto;
- (m) if the Borrower maintains a credit limit for an Account Debtor, the aggregate dollar amount of Accounts due from such Account Debtor, including such Account, does not exceed such credit limit;

(n) if the Account is evidenced by chattel paper or an instrument, the originals of such chattel paper or instrument shall have been endorsed and/or assigned and delivered to the Lender or, in the case of electronic chattel paper, shall be in the control of the Lender, in each case in a manner satisfactory to the Lender;

(o) there is no bankruptcy, insolvency or liquidation proceeding pending by or against the Account Debtor with respect thereto, nor has the Account Debtor suspended business, made a general assignment for the benefit of creditors or failed to pay its debts generally as they come due, and/or no condition or event has occurred having a Material Adverse Effect on the Account Debtor which would require the Accounts of such Account Debtor to be deemed uncollectible in accordance with GAAP;

(p) it does not arise from pending work in process; and

(q) it is otherwise not unacceptable to the Lender for any other reason in Lender's reasonable discretion.

An Account which is an Eligible Account shall cease to be an Eligible Account whenever it ceases to meet any one of the foregoing requirements.

If invoices representing fifteen percent (15%) or more of the unpaid net amount of all Accounts due from any one Account Debtor are unpaid more than ninety (90) days after the original date of such invoices, then all Accounts relating to such Account Debtor shall cease to be Eligible Accounts. Also, (i) no more than fifteen percent (15%) of the total Eligible Accounts other than Verizon, AT&T and Sprint or any Affiliate of Verizon, AT&T and Sprint shall be from any one Account Debtor or the Affiliate of any one Account Debtor, (ii) no more than ONE MILLION TWO HUNDRED THOUSAND DOLLARS (\$1,200,000.00) of the total Eligible Accounts shall be from Verizon or any Affiliate of Verizon, (iii) no more than thirty-five percent (35%) of the total Eligible Accounts shall be from AT&T or any Affiliate of AT&T and (iv) no more than thirty-five percent (35%) of the total Eligible Accounts shall be from Sprint or any Affiliate of Sprint. Lender will establish reserves for dilution of Accounts in such amounts as Lender shall determine from time to time.

"Eligible Inventory" shall mean all Inventory of the Borrower which meets each of the following requirements:

(a) it is not subject to any Lien whatsoever, other than Permitted Liens;

(b) it is non-customized finished Inventory that is new and unused and held for sale;

(c) it is in the possession and control of Borrower and is not now and shall not at any time hereafter be stored with a bailee, warehouseman or similar party without delivery to the Lender by such party, non-negotiable warehouse receipts therefor in the Lender's name or such other bailee's letter, in form and substance acceptable to the Lender;

- (d) it is salable and not “slow moving”, obsolete or discontinued, as determined in the sole discretion of Lender;
- (e) it is not unacceptable to the Lender, in the sole discretion of Lender, due to type, category and/or quantity;
- (f) it is not produced in violation of the Fair Labor Standards Act and/or subject to the so-called “hot goods” provisions contained in Title 29 U.S.C. 215;
- (g) it is not subject to any agreement or license which would restrict the Lender’s ability to sell or otherwise dispose of such Inventory;
- (h) it is located in the continental United States;
- (i) it is not “in transit” to the Borrower or held by the Borrower on consignment;
- (j) it is not raw materials or “work-in-progress” Inventory;
- (k) it is not identified to any purchase order or contract to the extent progress or advance payments are received with respect to such Inventory;
- (l) it does not breach the representations, warranties or covenants, if any, pertaining to Inventory set forth in the Loan Documents; and
- (m) it is otherwise not unacceptable to the Lender for any other reason in Lender’s reasonable discretion.

Inventory which is Eligible Inventory shall cease to be Eligible Inventory whenever it ceases to meet any one of the foregoing requirements.

“**Employee Plan**” shall mean any pension, stock bonus, employee stock ownership plan, retirement, disability, medical, dental or other health plan, life insurance or other death benefit plan, profit sharing, deferred compensation, stock option, bonus or other incentive plan, vacation benefit plan, severance plan or other employee benefit plan or arrangement, including, without limitation, those pension, profit-sharing and retirement plans of the Borrower described from time to time in the financial statements of the Borrower and any pension plan, welfare plan, Defined Benefit Pension Plans (as defined in ERISA) or any multi-employer plan, maintained or administered by the Borrower or to which the Borrower is a party or may have any liability or by which the Borrower is bound.

“**Environmental Laws**” shall mean any Federal, state, foreign or local statute, law, rule, regulation, ordinance, code, guideline, policy and rule of common law now or hereafter in effect, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the environment, Hazardous Materials, employee health and safety, including, without limitation, CERCLA; the Resource Conservation and Recovery Act, 42 U.S.C § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Safe Drinking Water Act, 42 U.S.C. § 3803 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. § 2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 U.S.C. § 11001 et seq.; the Hazardous Material Transportation Act, 49 U.S.C. § 1801 et seq.; the Occupational Safety and Health Act, 29 U.S.C. § 651 et seq.; and any state and local or foreign counterparts or equivalents, in each case as amended from time to time.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

“**Event of Default**” shall mean any of the events or conditions set forth in Section 11.

“**Excluded Collateral**” shall mean Borrower’s Equipment and any products and proceeds thereof.

“**Exit Fee**” shall have the meaning set forth in Section 5.3.

“**Foreign Account**” shall mean an Account that is owing by an Account Debtor residing, located or having its principal activities or place of business outside the United States;

“**GAAP**” shall mean generally accepted accounting principles, using the accrual basis of accounting and consistently applied with prior periods, provided, however, that GAAP with respect to any interim financial statements or reports shall be deemed subject to fiscal year-end adjustments and footnotes made in accordance with GAAP.

“**Hazardous Materials**” shall mean (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, dielectric fluid containing levels of polychlorinated biphenyls, and radon gas; (b) any chemicals, materials or substances defined as or included in the definition of “hazardous substances”, “hazardous waste”, “hazardous materials”, “extremely hazardous substances”, “restricted hazardous waste”, “toxic substances”, “toxic pollutants”, “contaminants”, “pollutants” or words of similar import, under any applicable Environmental Law; and (c) any other chemical, material or substance, the exposure to, or release of which is prohibited, limited or regulated by any governmental authority.

“**Indebtedness**” shall mean, without duplication, (a) all indebtedness (including principal, interest, fees and charges) of the Borrower for borrowed money or for the deferred purchase price of property or services, including, without limitation, the Obligations, (b) the maximum amount available to be drawn under all letters of credit, Lender’s acceptances and similar obligations issued for the account of the Borrower and all unpaid drawings in respect of such letters of credit, Lender’s acceptances and similar obligations, (c) all indebtedness secured by any Lien on any property owned by the Borrower, whether or not such Indebtedness has been assumed by the Borrower (provided, however, if the Borrower has not assumed or otherwise become liable in respect of such Indebtedness, such Indebtedness shall be deemed to be in an amount equal to the fair market value of the property subject to such Lien), (d) the aggregate amount of all Capitalized Lease Obligations of the Borrower, (e) all Contingent Indebtedness of the Borrower, whether or not reflected on its balance sheet, and (f) all monetary obligations of the Borrower under (i) a so-called synthetic, off-balance sheet or tax retention lease, or (ii) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of the Borrower but which, upon the insolvency or Bankruptcy of the Borrower, would be characterized as the indebtedness of the Borrower under the Bankruptcy Code (without regard to accounting treatment). Notwithstanding the foregoing, Indebtedness shall not include trade payables incurred by the Borrower in accordance with customary practices and in the ordinary course of business of the Borrower.

“Indemnified Party” and **“Indemnified Parties”** shall mean, respectively, each of the Lender and any parent corporations, affiliated corporations or subsidiaries of the Lender, and each of their respective officers, directors, employees, attorneys and agents, and all of such parties and entities.

“Intellectual Property” shall mean all rights, priorities and privileges relating to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including copyrights, patents, service marks and trademarks, and all registrations and applications for registration therefor and all licensees thereof, trade names, domain names, technology, know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

“Liabilities” shall mean at all times all liabilities of the Borrower that would be shown as such on a balance sheet of the Borrower prepared in accordance with GAAP.

“Lien” shall mean any mortgage, pledge, hypothecation, judgment lien or similar legal process, title retention lien, or other lien or security interest, including, without limitation, the interest of a vendor under any conditional sale or other title retention agreement and the interest of a lessor under a lease of any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, by such Person as lessee that is, or should be, a Capital Lease on the balance sheet of the Borrower prepared in accordance with GAAP.

“Loan Documents” shall have the meaning set forth in Section 3.1.

“Lockbox Agreement” shall have the meaning set forth in Section 6.2.

“Material Adverse Effect” shall mean (a) a material adverse change in, or a material adverse effect upon, the assets, business, properties, condition (financial or otherwise) or results of operations of the Borrower, (b) an impairment of the ability of the Borrower to perform any of the material Obligations under any of the Loan Documents, or (c) a material adverse effect on (i) any substantial portion of the Collateral, (ii) the legality, validity, binding effect or enforceability against the Borrower of any of the Loan Documents, (iii) the perfection or priority of any Lien granted to the Lender under any Loan Document, or (iv) the rights or remedies of the Lender under any Loan Document.

“**Maturity Date**” shall mean on demand, but if demand is not made, then September 1, 2017, unless extended pursuant to Section 2.1(e) herein or pursuant to any modification, extension or renewal note executed by the Borrower and accepted by the Lender in its sole and absolute discretion in substitution for the Revolving Note.

“**Non-Excluded Taxes**” shall have the meaning set forth in Section 2.4(a).

“**Obligations**” shall mean the Revolving Loans, as evidenced by the Revolving Note, all interest accrued thereon, any fees due the Lender hereunder, any expenses incurred by the Lender hereunder and any and all other liabilities and obligations of the Borrower to the Lender, howsoever created, arising or evidenced, and howsoever owned, held or acquired, whether now or hereafter existing, whether now due or to become due, direct or indirect, absolute or contingent, and whether several, joint or joint and several.

“**Obligor**” shall mean the Borrower, any accommodation endorser, third party pledgor, or any other party liable with respect to the Obligations or any portion thereof.

“**Other Taxes**” shall mean any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from the execution, delivery, enforcement or registration of, or otherwise with respect to, this Agreement or any of the other Loan Documents.

“**Permitted Liens**” shall mean (a) Liens for taxes, assessments or other governmental charges not yet due or which are being contested in good faith by appropriate proceedings in such a manner as not to make the property forfeitable; (b) Liens or charges incidental to the conduct of the Borrower’s business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of an advance or credit, and which do not in the aggregate materially detract from the value of the property or assets of the Borrower or materially impair the use thereof in the operation of the Borrower’s business; and (c) Liens granted to the Lender hereunder.

“**Person**” shall mean any individual, partnership, limited liability company, corporation, trust, joint venture, joint stock company, association, unincorporated organization, government or agency or political subdivision thereof, or other entity.

“**Prime Rate**” shall mean the floating per annum rate of interest which at any time, and from time to time, shall be as published in The Wall Street Journal’s “Bonds, Rates and Yields Table”. If publication of The Wall Street Journal and/or The Wall Street Journal’s “Bonds, Rates and Yields Table” is discontinued, the Lender, in its sole discretion, shall designate another daily financial or governmental publication of national circulation to be used to determine the Prime Rate. The Lender shall not be obligated to give notice of any change in the Prime Rate.

“**Revolving Loan**” and “**Revolving Loans**” shall mean, respectively, each direct advance and the aggregate of all such direct advances, from time to time made by the Lender to the Borrower under and pursuant to this Agreement, as set forth in Section 2.1 of this Agreement.

“Revolving Loan Availability” shall mean, at any time, an amount equal to the lesser of (a) the Revolving Loan Commitment, or (b) the amount of the Borrowing Base Amount.

“Revolving Loan Commitment” shall mean TWO MILLION DOLLARS (\$2,000,000.00).

“Revolving Note” shall have the meaning set forth in Section 4.

“Subordinated Debt” shall mean that portion of the Liabilities of the Borrower which is subordinated to the Obligations in a manner acceptable to Lender.

“Subsidiary” and **“Subsidiaries”** shall mean, respectively, each and all such corporations, partnerships, limited partnerships, limited liability companies, limited liability partnerships or other entities of which or in which the Borrower owns directly or indirectly fifty percent (50.00%) or more of (i) the combined voting power of all classes of stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such entity if a corporation, (ii) the management authority and capital interest or profits interest of such entity, if a partnership, limited partnership, limited liability company, limited liability partnership, joint venture or similar entity, or (iii) the beneficial interest of such entity, if a trust, association or other unincorporated organization.

“UCC” shall mean the applicable Uniform Commercial Code in effect from time to time.

“Voidable Transfer” shall have the meaning set forth in Section 13.20.

1 . 2 **Accounting Terms.** Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given them in accordance with GAAP. Calculations and determinations of financial and accounting terms used and not otherwise specifically defined hereunder and the preparation of financial statements to be furnished to the Lender pursuant hereto shall be made and prepared, both as to classification of items and as to amount, in accordance with GAAP as used in the preparation of the financial statements of the Borrower on the date of this Agreement. If any changes in accounting principles or practices from those used in the preparation of the financial statements are hereafter occasioned by the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or any successor thereto or agencies with similar functions), which results in a material change in the method of accounting in the financial statements required to be furnished to the Lender hereunder or in the calculation of financial covenants, standards or terms contained in this Agreement, the parties hereto agree to enter into good faith negotiations to amend such provisions so as equitably to reflect such changes to the end that the criteria for evaluating the financial condition and performance of the Borrower will be the same after such changes as they were before such changes; and if the parties fail to agree on the amendment of such provisions, the Borrower will furnish financial statements in accordance with such changes but shall otherwise observe all financial standards and terms in accordance with applicable accounting principles and practices in effect immediately prior to such changes.

1.3 Other Terms Defined in UCC. All other capitalized words and phrases used herein and not otherwise specifically defined shall have the respective meanings assigned to such terms in the UCC, as amended from time to time, to the extent the same are used or defined therein.

1.4 Other Definitional Provisions; Construction. Whenever the context so requires, the neuter gender includes the masculine and feminine, the single number includes the plural, and vice versa, and in particular the word "Borrower" shall be so construed. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and references to Article, Section, Subsection, Annex, Schedule, Exhibit and like references are references to this Agreement unless otherwise specified. An Event of Default shall "continue" or be "continuing" unless and until such Event of Default, in Lender's sole discretion, has been waived in accordance with Section 13.3 hereof. References in this Agreement to any party shall include such party's successors and permitted assigns. References to any "Section" shall be a reference to such Section of this Agreement unless otherwise stated. To the extent any of the provisions of the other Loan Documents are inconsistent with the terms of this Loan Agreement, the provisions of this Loan Agreement shall govern.

2. COMMITMENT OF THE LENDER.

2.1 Revolving Loans.

(a) Revolving Loan Commitment. Subject to the terms and conditions of this Agreement and the other Loan Documents, and in reliance upon the representations and warranties of the Borrower set forth herein and in the other Loan Documents, the Lender agrees to make such Revolving Loans at such times as the Borrower may from time to time request until, but not including, the Maturity Date, and in such amounts as the Borrower may from time to time request, provided, however, that the aggregate principal balance of all Revolving Loans outstanding at any time shall not exceed the Revolving Loan Availability. Revolving Loans made by the Lender may be repaid and, subject to the terms and conditions hereof, borrowed again up to, but not including the Maturity Date unless the Revolving Loans are otherwise terminated or extended as provided in this Agreement.

(b) Revolving Loan Interest Payments. Except as otherwise provided in this Section 2.1(b), the principal amount of the Revolving Loans outstanding from time to time, shall bear interest at the greater of (i) the Prime Rate plus four and three quarters percent (4.75%) per annum or (ii) eight percent (8.0%) per annum. Accrued and unpaid interest on the unpaid principal balance of all Revolving Loans, outstanding from time to time, shall be due and payable monthly, in arrears, commencing on the first day of the month following the month in which the initial Revolving Loan is made and continuing on the same day of each calendar month thereafter, and on the Maturity Date. From and after maturity, whether at stated maturity, by acceleration or otherwise, or after the occurrence of an Event of Default, interest on the outstanding principal balance of the Revolving Loans, at the option of Lender, may accrue at the Default Rate and shall be payable upon demand from the Lender. Lender shall, at any time and without notice to Borrower, make a Revolving Loan advance in the amount of any monthly payment of interest due under the Note, the Collateral Management Fee, and any other fees, costs and expenses due and owing Lender under this Agreement or any of the Loan Documents, and apply the proceeds thereof against the applicable interest payment, fees, charges or expenses.

(c) Revolving Loan Principal Payments. All Revolving Loans hereunder shall be repaid by the Borrower on the Maturity Date, unless payable sooner pursuant to the provisions of this Agreement. In the event the aggregate outstanding principal balance of all Revolving Loans hereunder exceeds the Revolving Loan Availability, the Borrower shall, without notice or demand of any kind, immediately make such repayments of the Revolving Loans or take such other actions as shall be necessary to eliminate such excess.

(d) Prepayments. The Obligations may be prepaid in whole or in part at any time, subject to the payment of the Exit Fee due and owing as set forth in Section 5.3 herein.

(e) Extension of Maturity Date. Notwithstanding anything to the contrary or inconsistent contained herein, provided no Event of Default exists, and subject to the continuing right of Lender to demand payment of the Obligations at any time, the Maturity Date will automatically be extended for one (1) year if neither the Borrower nor the Lender notifies the other party in writing on or before sixty (60) days prior to the Maturity Date then in effect of its intent not to so extend the Maturity Date. If the Maturity Date is extended pursuant to this Section 2.1(e), Borrower shall pay to Lender a renewal fee for each such extension in the amount of one percent (1%) of the Revolving Loan Commitment, which shall be due and payable on or before the Maturity Date then in effect.

2 . 2 Interest and Fee Computation; Collection of Funds. Except as otherwise set forth herein, all interest and fees shall be calculated on the basis of a year consisting of 360 days and shall be paid for the actual number of days elapsed. Lender shall be entitled to charge Borrower for three (3) Business Days of "clearance" at the rate then applicable under Section 2.1(b) on all collections that are received by Borrower and forwarded to Lender hereunder. This across-the-board three (3) Business Day clearance charge on all collections of Borrower is acknowledged by the parties to constitute an integral aspect of the pricing of the financing of Borrower; the effect of such clearance charge being the equivalent of charging interest on such collections through the period ending three (3) Business Days after the receipt thereof. If any payment to be made by the Borrower hereunder or under the Revolving Note shall become due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment. Notwithstanding anything to the contrary contained herein, the final payment due under the Revolving Loans must be made by wire transfer or other immediately available funds. All payments made by the Borrower hereunder or under any of the Loan Documents shall be made without setoff, counterclaim or other defense.

2.3 Late Charge. If any payment of interest or principal due hereunder is not made within five (5) days after such payment is due in accordance with the terms hereof, then, in addition to the payment of the amount so due, the Borrower shall pay to the Lender a “late charge” of three cents for each whole dollar so overdue to defray part of the cost of collection and handling such late payment. The Borrower agrees that the damages to be sustained by the Lender for the detriment caused by any late payment are extremely difficult and impractical to ascertain, and that the amount of three cents for each one dollar due is a reasonable estimate of such damages, does not constitute interest, and is not a penalty.

2.4 Taxes.

(a) All payments made by the Borrower under this Agreement or under any of the Loan Documents shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any governmental authority, excluding net income taxes and franchise taxes (imposed in lieu of net income taxes) now or hereinafter imposed on the Lender as a result of a present or former connection between the Lender and the jurisdiction of the governmental authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document). If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings (collectively, “**Non-Excluded Taxes**”) or Other Taxes are required to be withheld from any amounts payable to the Lender hereunder, the amounts so payable to the Lender shall be increased to the extent necessary to yield to the Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, provided, however, that the Borrower shall not be required to increase any such amounts payable to the Lender with respect to any Non-Excluded Taxes that are attributable to the Lender’s failure to comply with the requirements of subsection 2.4(c).

(b) The Borrower shall pay any Other Taxes to the relevant governmental authority in accordance with applicable law.

(c) At the request of the Borrower and at the Borrower’s sole cost, the Lender shall take reasonable steps to (i) contest its liability for any Non-Excluded Taxes or Other Taxes that have not been paid, or (ii) seek a refund of any Non-Excluded Taxes or Other Taxes that have been paid.

(d) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Lender a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Lender the required receipts or other required documentary evidence or if any governmental authority seeks to collect a Non-Excluded Tax or Other Tax directly from the Lender for any other reason, the Borrower shall indemnify the Lender on an after-tax basis for any incremental taxes, interest or penalties that may become payable by the Lender.

(e) The agreements in this Section shall survive the satisfaction and payment of the Obligations and the termination of this Agreement.

2.5 Use of Proceeds. Borrower shall use the proceeds of the Revolving Loans (i) to pay the Closing Fee due Lender pursuant to Section 3.6 herein, (ii) to pay any other out-of-pocket costs, fees and expenses incurred by Borrower in connection with the Revolving Loans and (iii) for working capital.

2.6 All Revolving Loans to Constitute Single Obligation. The Revolving Loans shall constitute one general obligation of the Borrower, and shall be secured by Lender's priority security interest in and Lien upon all of the Collateral and by all other security interests, Liens, claims and encumbrances heretofore, now or at any time or times hereafter granted by the Borrower to Lender.

3. **CONDITIONS OF BORROWING.**

Notwithstanding any other provision of this Agreement, the Lender shall not be required to disburse or make all or any portion of the Revolving Loans unless the following conditions shall have been satisfied.

3 . 1 Loan Documents. The Borrower shall have executed and delivered, or caused to be executed and delivered to the Lender the following loan documents (together with any amendments, restatements, or replacements therefor and any other document executed and delivered to the Lender in connection with the Revolving Loans being collectively referred to herein as the "**Loan Documents**"), all of which must be satisfactory to the Lender and the Lender's counsel in form, substance and execution:

(a) Loan Agreement. Two copies of this Agreement duly executed by the Borrower.

(b) Demand Revolving Note. A Demand Revolving Note duly executed by the Borrower, in the form prepared by and acceptable to Lender.

(c) Validity Guaranty. A Validity Guaranty dated as of the date of this Agreement duly executed by Arthur Darius Sams, in the form prepared by and acceptable to Lender.

(d) Intellectual Property Security Agreement. An Intellectual Property Security Agreement dated as of the date of this Agreement duly executed by Borrower to and for the benefit of Lender in the form prepared by and acceptable to Lender granting to Lender a Lien on Borrower's Intellectual Property.

(e) Landlord Waiver(s). Landlord Waiver(s) dated as of the date of this Agreement, from the owner of any real estate whereon any Collateral is stored or otherwise located, in the form prepared by and applicable to Lender.

(f) Subordination Agreements. Subordination Agreements dated as of the date of this Agreement by and between Lender and the holder of any Subordinated Debt and acknowledged by Borrower in the form prepared by and acceptable to Lender.

(g) Borrowing Base Certificate. A Borrowing Base Certificate in the form attached hereto as Exhibit "A" (a "**Borrowing Base Certificate**"), certified as accurate by the Borrower and acceptable to the Lender in its sole discretion.

(h) Search Results; Lien Terminations. Copies of UCC search reports dated such a date as is acceptable to the Lender, listing all effective financing statements which name the Borrower, under its present names and any previous names, as debtors, together with (i) copies of such financing statements, (ii) payoff letters for all existing Indebtedness, if any, to be repaid with the Revolving Loans, specifying the amount required to be repaid to obtain appropriate termination and release statements and documents with respect to all agreements relating thereto and all Liens granted in connection therewith, (other than Permitted Liens), and (iii) such other UCC termination statements as the Lender may reasonably request.

(i) Organizational and Authorization Documents. Copies of (i) the Articles of Incorporation and bylaws of the Borrower; (ii) resolutions of the directors of the Borrower approving and authorizing Borrower's execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby; (iii) signature and incumbency certificates of the officers of the Borrower, each of which the Borrower hereby certifies to be true and complete, and in full force and effect without modification, it being understood that the Lender may conclusively rely on each such document and certificate until formally advised by the Borrower of any changes therein; and (iv) good standing certificates in the state of formation of the Borrower and in each other state requested by the Lender.

(j) Insurance. Evidence satisfactory to the Lender of the existence of insurance required to be maintained pursuant to Section 9.3, together with evidence that the Lender has been named as a lender's loss payee on all related insurance policies.

(k) Lockbox Agreement; Control Agreements. The Lockbox Agreement and Control Agreements duly executed by the Borrower, the Lender and the depository bank in the form prepared by and acceptable to the Lender.

(l) Additional Documents. Such other certificates, financial statements, schedules, resolutions, opinions of counsel, notes and other documents which are provided for hereunder or which the Lender shall reasonably require.

3.2 Event of Default. No Event of Default, or event which, with notice or lapse of time, or both would constitute an Event of Default, shall have occurred and be continuing.

3.3 Adverse Changes. No Material Adverse Effect in the financial condition or affairs of the Borrower, as determined in the Lender's sole and complete discretion, shall have occurred.

3.4 Litigation. No litigation or governmental proceeding shall have been instituted against the Borrower, which in the discretion of the Lender materially adversely affects the financial condition or continued operation of the Borrower.

3.5 Representations and Warranties. All representations and warranties of the Borrower contained herein or in any Loan Document shall be true and correct as of the date of any Revolving Loan as though made on such date, except to the extent such representation or warranty expressly relates to an earlier date.

3.6 Closing Fee. The Borrower shall pay to the Lender a closing fee in the amount of TWENTY THOUSAND DOLLARS (\$20,000.00) ("**Closing Fee**"). An amount equal to fifty percent (50%) of the Closing Fee shall be due and payable on or before the execution of this Agreement by the Lender. The remaining fifty percent (50%) of the Closing Fee shall be due and payable on or before the one year anniversary of this Agreement. The Closing Fee shall be deemed fully earned on the date of this Agreement. The Closing Fee shall not be refundable for any reason.

3.7 Field Examination. The Lender shall have received and approved, in its sole discretion, a field examination for Borrower and an inspection of the Inventory.

4. **DEMAND REVOLVING NOTE EVIDENCING REVOLVING LOANS.**

The Revolving Loans shall be evidenced by a single Demand Revolving Note (together with any and all renewal, extension, modification or replacement notes executed by the Borrower and delivered to the Lender and given in substitution therefor, the "**Revolving Note**") in a form acceptable to Lender, duly executed by the Borrower and payable to the order of the Lender. At the time of the initial disbursement of a Revolving Loan and at each time an additional Revolving Loan shall be requested hereunder or a repayment made in whole or in part thereon, an appropriate notation thereof shall be made on the books and records of the Lender. All amounts recorded shall be, absent demonstrable error, conclusive and binding evidence of (i) the principal amount of the Revolving Loans advanced hereunder, (ii) any unpaid interest owing on the Revolving Loans, and (iii) all amounts repaid on the Revolving Loans. The failure to record any such amount or any error in recording such amounts shall not, however, limit or otherwise affect the obligations of the Borrower under the Revolving Note to repay the principal amount of the Revolving Loans, together with all interest accruing thereon.

5. **MANNER OF BORROWING; COLLATERAL MANAGEMENT FEE; EXIT FEE.**

5.1 Borrowing Procedures. Each of the Revolving Loans shall be made available to the Borrower upon its request, from any Person whose authority to so act has not been revoked by the Borrower in writing previously received by the Lender. A request for a Revolving Loan must be received by no later than 10:00 a.m. Chicago, Illinois time, on the day it is to be funded. The proceeds of each Revolving Loan shall be made available at the office of the Lender by credit to the account of the Borrower or by other means requested by the Borrower and acceptable to the Lender. The Lender is authorized to rely on any written, verbal, electronic, telephonic or telecopy loan requests which the Lender believes in its good faith judgment to emanate from a properly authorized representative of the Borrower, whether or not that is in fact the case. The Borrower does hereby irrevocably confirm, ratify and approve all such advances by the Lender.

5.2 Collateral Management Fee. The Borrower agrees to pay to Lender a monthly collateral management fee in the amount of One Thousand Five Hundred Dollars (\$1,500.00) ("**Collateral Management Fee**"). The Collateral Management Fee shall be due and payable on the last day of each month during the term of the Revolving Loans.

5.3 Exit Fee. As further consideration for the Revolving Loans, at such time as the Obligations are paid in full, whether by acceleration of the Maturity Date, by the voluntary prepayment from the Borrower, through realization upon any Collateral upon the Maturity Date or upon the happening of any other event resulting in the payment of the outstanding principal balance of the Revolving Loans prior to the Maturity Date, Borrower shall pay to Lender, in addition to the outstanding principal balance, accrued interest and other sums due hereunder, a fee ("**Exit Fee**") calculated as follows:

(a) If the Obligations are paid in full during the first year of the Revolving Loans, the Exit Fee shall equal one percent (1%) of the Revolving Loan Commitment; and

(b) If the Obligations are paid in full at any time after the first year of the Revolving Loans, the Exit Fee shall equal one-half percent (.5%) of the Revolving Loan Commitment.

6. SECURITY FOR THE OBLIGATIONS.

6.1 Security for Obligations. As security for the payment of the Obligations, the Borrower does hereby pledge, assign, transfer and deliver to the Lender and does hereby grant to the Lender a continuing and unconditional first priority security interest in and to any and all property of the Borrower, of any kind or description, tangible or intangible, wheresoever located and whether now existing or hereafter arising or acquired, other than the Excluded Collateral, including, but not limited to, the following (all of which property, along with the products and proceeds therefrom, are individually and collectively referred to as the "**Collateral**"):

(a) all property of, or for the account of, the Borrower now or hereafter coming into the possession, control or custody of, or in transit to, the Lender or any agent or bailee for the Lender or any parent, affiliate or subsidiary of the Lender or any participant with the Lender in the Revolving Loans (whether for safekeeping, deposit, collection, custody, pledge, transmission or otherwise), including all earnings, dividends, interest, or other rights in connection therewith and the products and proceeds therefrom, including the proceeds of insurance thereon; and

(b) the additional property of the Borrower, whether now existing or hereafter arising or acquired, and wherever now or hereafter located, together with all additions and accessions thereto, substitutions for, and replacements, products and proceeds therefrom, and all of the Borrower's books and records and recorded data relating thereto (regardless of the medium of recording or storage), together with all of the Borrower's right, title and interest in and to all computer software required to utilize, create, maintain and process any such records or data on electronic media, identified and set forth as follows:

(i) All Accounts and all Goods whose sale, lease or other disposition by the Borrower has given rise to Accounts and have been returned to, or repossessed or stopped in transit by, the Borrower, or rejected or refused by an Account Debtor;

(ii) All Inventory, including, without limitation, raw materials, work-in-process and finished goods;

(iii) All Software and computer programs;

(iv) All Securities, Investment Property, Financial Assets and Deposit Accounts;

(v) All Chattel Paper, Electronic Chattel Paper, Instruments, Documents, Letter of Credit Rights, all proceeds of letters of credit, Healthcare Insurance Receivables, Supporting Obligations, notes secured by real estate, Commercial Tort Claims and General Intangibles, including Payment Intangibles; and

(vi) Proceeds (whether Cash Proceeds or Non-Cash Proceeds) of the foregoing property, including all insurance policies and proceeds of insurance payable by reason of loss or damage to the foregoing property including unearned premiums, and of eminent domain or condemnation awards.

6.2 Lockbox Arrangement; Control Agreements. The Borrower shall direct all of its Account Debtors to make all payments on the Accounts directly to a post office box or bank account (the “**Lockbox**”) designated by, and under the exclusive control of, the Lender. Pursuant to the Lockbox Agreement executed by and among Borrower, the applicable depository institution and Lender (“**Lockbox Agreement**”) the Borrower shall establish the Lockbox and an account (the “**Lockbox Account**”) in the Lender’s name or in Lender’s control into which all payments received in the Lockbox shall be deposited, and into which the Borrower will immediately deposit all payments made for Inventory sold by the Borrower or the performance of services by the Borrower, and received by the Borrower in the identical form in which such payments were made, whether by cash or check. If the Borrower, an Affiliate, a Subsidiary or any director, shareholder, officer, employee, agent or the Borrower or any Affiliate, Subsidiary, or any other Person acting for or in concert with the Borrower shall receive any monies, checks, notes, drafts or other payments relating to or as proceeds of Accounts or other Collateral, the Borrower and each such Person shall receive all such items in trust for, and as the sole and exclusive property of, the Lender and, immediately upon receipt thereof, shall remit the same (or cause the same to be remitted) in kind to the Lockbox Account. The Borrower agrees that all payments made to such Lockbox and Lockbox Account or otherwise received by the Lender, whether in respect of the Accounts or as proceeds of other Collateral or otherwise, will be applied on account of the Revolving Loans in accordance with Section 12.8 of this Agreement. Further, all other bank accounts of Borrower shall be subject to Control Agreements by and among, Borrower, the applicable depository institution and Lender upon terms satisfactory to Lender (“**Control Agreements**”). The Borrower agrees to pay all fees, costs and expenses which the Lender incurs in connection with opening and maintaining the Lockbox, the Lockbox Account, the Control Agreements and depositing for collection by the Lender any check or other item of payment received by the Lender on account of the Obligations. All of such fees, costs and expenses shall constitute Obligations hereunder, shall be payable to the Lender by the Borrower upon demand, and if not paid by Borrower within five (5) days following such demand, shall bear interest at the Default Rate from the date incurred by the Lender. All checks, drafts, instruments and other items of payment or proceeds of Collateral shall be endorsed by the Borrower to the Lender, and, if that endorsement of any such item shall not be made for any reason, the Lender is hereby irrevocably authorized to endorse the same on the Borrower’s behalf. For the purpose of this Section, the Borrower irrevocably hereby makes, constitutes and appoints the Lender (and all Persons designated by the Lender for that purpose) as the Borrower’s true and lawful attorney and agent-in-fact (i) to endorse the Borrower’s name upon such items of payment and/or proceeds of Collateral and upon any Chattel Paper, document, instrument, invoice or similar document or agreement relating to any Account of the Borrower or goods pertaining thereto; (ii) to take control in any manner of any item of payment or proceeds thereof; and (iii) to have access to any lock box or postal box into which any of the Borrower’s mail is deposited, and open and process all mail addressed to the Borrower and deposited therein.

6 . 3 Possession and Transfer of Collateral. Subject to Section 6.2 herein, unless an Event of Default exists hereunder or Lender elects to make demand for payment of the Obligations, the Borrower shall be entitled to possession and use of the Collateral. The cancellation or surrender of the Revolving Note, upon payment or otherwise, shall not affect the rights of the Lender under this Agreement with respect to any other of the Obligations then outstanding. The Borrower shall not sell, assign (by operation of law or otherwise), license, lease or otherwise dispose of, or grant any option with respect to any of the Collateral, except that the Borrower may sell Inventory and collect Accounts in the ordinary course of business.

6 . 4 Financing Statements. The Borrower shall, at the Lender’s request, at any time and from time to time, execute and deliver to the Lender such financing statements, amendments and other documents and do such acts as the Lender deems necessary in order to establish and maintain valid, attached and perfected first security interests in the Collateral in favor of the Lender, free and clear of all Liens and claims and rights of third parties whatsoever, except Permitted Liens. The Borrower hereby irrevocably authorizes the Lender at any time, and from time to time, to file with such jurisdictions as Lender deems necessary any initial financing statements and amendments thereto without the signature of Borrower that (a) indicate the Collateral (i) is comprised of all assets of the Borrower or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of the jurisdiction wherein such financing statement or amendment is filed, or (ii) as being of an equal or lesser scope or within greater detail as the granting of the security interest set forth herein, and (b) contain any other information required by Section 5 of Article 9 of the Uniform Commercial Code of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including whether the Borrower is an organization, the type of organization and any organization identification number issued to the Borrower. The Borrower agrees to furnish any such information to the Lender promptly upon request. The Borrower further ratifies and affirms its authorization for any financing statements and/or amendments thereto, executed and filed by the Lender in any jurisdiction prior to the date of this Agreement. In addition, Borrower shall make appropriate entries on its books and records disclosing the Lender’s security interests in the Collateral.

6.5 Preservation of the Collateral. The Lender may, but is not required to, take such action from time to time as the Lender deems appropriate to maintain or protect the Collateral. The Lender shall have exercised reasonable care in the custody and preservation of the Collateral if the Lender takes such action as the Borrower shall reasonably request in writing which is not inconsistent with the Lender's status as a secured party, but the failure of the Lender to comply with any such request shall not be deemed a failure to exercise reasonable care; provided, however, the Lender's responsibility for the safekeeping of the Collateral shall (a) be deemed reasonable if such Collateral is accorded treatment substantially equal to that which the Lender accords its own property, and (b) not extend to matters beyond the reasonable control of the Lender, including, without limitation, acts of God, war, insurrection, riot or governmental actions. In addition, any failure of the Lender to preserve or protect any rights with respect to the Collateral against claims of prior or third parties, or to do any act with respect to preservation of the Collateral, not so requested by the Borrower, shall not be deemed a failure to exercise reasonable care in the custody or preservation of the Collateral. The Borrower shall have the sole responsibility for taking such action as may be necessary, from time to time, to preserve all rights of the Borrower and the Lender in the Collateral against prior or third parties. Without limiting the generality of the foregoing, where Collateral consists in whole or in part of securities, the Borrower represents to, and covenants with, the Lender that the Borrower has made arrangements for keeping informed of changes or potential changes affecting the securities (including, but not limited to, rights to convert or subscribe, payment of dividends, reorganization or other exchanges, tender offers and voting rights), and the Borrower agrees that the Lender shall have no responsibility or liability for informing the Borrower of any such or other changes or potential changes or for taking any action or omitting to take any action with respect thereto.

6.6 Other Actions as to any and all Collateral. The Borrower further agrees to take any other action reasonably requested by the Lender to ensure the attachment, perfection and first priority of, and the ability of the Lender to enforce, the Lender's security interest in any and all of the Collateral including, without limitation, (a) causing the Lender's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Lender to enforce, the Lender's security interest in such Collateral, (b) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Lender to enforce, the Lender's security interest in such Collateral, (c) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other Person obligated on Collateral, (d) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Lender, and (e) taking all actions required by the UCC in effect from time to time or by other law, as applicable in any relevant UCC jurisdiction, or by other law as applicable in any foreign jurisdiction.

6.7 Collateral in the Possession of a Warehouseman or Bailee. If any of the Collateral at any time is in the possession of a warehouseman or bailee, the Borrower shall promptly notify the Lender thereof, and if requested by the Lender, shall promptly obtain an acknowledgement from the warehouseman or bailee, in form and substance reasonably satisfactory to the Lender, that the warehouseman or bailee holds such Collateral for the benefit of the Lender, as secured party, and shall act upon the instructions of the Lender, without the further consent of the Borrower.

6.8 Letter-of-Credit Rights. If the Borrower at any time is a beneficiary under a letter of credit now or hereafter issued in favor of the Borrower, the Borrower shall promptly notify the Lender thereof and, at the request and option of the Lender, the Borrower shall, pursuant to an agreement in form and substance satisfactory to the Lender, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Lender of the proceeds of any drawing under the letter of credit, or (ii) arrange for the Lender to become the transferee beneficiary of the letter of credit, with the Lender agreeing, in each case, that the proceeds of any drawing under the letter to credit are to be applied as provided in this Agreement.

6.9 Commercial Tort Claims. If the Borrower shall at any time hold or acquire a Commercial Tort Claim, the Borrower shall immediately notify the Lender in writing signed by the Borrower of the details thereof and grant to the Lender in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement in each case in form and substance satisfactory to the Lender, and shall execute any amendments thereto deemed reasonably necessary by the Lender to perfect its security interest in such Commercial Tort Claim.

6.10 Electronic Chattel Paper and Transferable Records. If the Borrower at any time holds or acquires an interest in any electronic chattel paper or any "transferable record", as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, the Borrower shall promptly notify the Lender thereof and, at the request of the Lender, shall take such action as the Lender may reasonably request to vest in the Lender control under Section 9-105 of the UCC of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. The Lender agrees with the Borrower that the Lender will arrange, pursuant to procedures satisfactory to the Lender and so long as such procedures will not result in the Lender's loss of such control under Section 9-105 of the UCC, for the Borrower to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act for a party in control to make without loss of control, unless an Event of Default has occurred and is continuing or would occur after taking into account any action by the Borrower with respect to such electronic chattel paper or transferable record.

6.11 Verification of Accounts. Any of the Lender's officers, employees or agents shall have the right, at any time or times hereafter, in the Lender's name or in the name of a nominee of the Lender, to verify the validity, amount or any other matter relating to any Accounts by mail, telephone, facsimile or otherwise and to sign Borrower's name on any verification of Accounts and notices thereof to Account Debtors.

6.12 Account Covenants. Unless the Lender notifies Borrower in writing that Lender suspends any one or more of the following requirements, Borrower shall (a) promptly upon Borrower's learning thereof, inform the Lender, in writing, of any material delay in Borrower's performance of any of its obligations to any Account Debtor and of any assertion of any material claims, offsets or counterclaims by any Account Debtor and of any allowances, credits and/or other monies granted by Borrower to any Account Debtor outside of the ordinary course of Borrower's business, and (b) not permit or agree to any compromise or settlement with respect to Accounts which constitute, in the aggregate, more than five percent (5%) of all Accounts then owing to Borrower.

6.13 Right to Notify Account Debtors. The Lender shall have the right, now and at any time or times hereafter, at its option, without notice thereof to Borrower (a) to notify any or all Account Debtors that the Accounts have been assigned to Lender and the Lender has a security interest therein; (b) to direct such Account Debtors to make all payments due from them to Borrower upon the Accounts directly to the Lender; and (c) from and after the occurrence of any Event of Default or demand by Lender for payment of the Obligations, without notice to Borrower, to enforce payment of and collect, by legal proceedings or otherwise, the Accounts in the name of the Lender and Borrower.

6.14 Power of Attorney. Borrower, irrevocably, hereby designates, makes, constitutes and appoints the Lender (and all Persons designated by the Lender) as Borrower's true and lawful attorney (and agent-in-fact), with power, upon the occurrence of an Event of Default, without notice to Borrower and in Borrower's or the Lender's name (a) to demand payment of Accounts; (b) to enforce payment of the Accounts by legal proceedings or otherwise; (c) to exercise all of Borrower's rights and remedies with respect to the collection of the Accounts; (d) to settle, adjust, compromise, discharge, release, extend or renew the Accounts; (e) to settle, adjust or compromise any legal proceedings brought to collect the Accounts; (f) to sell or assign the Accounts upon such terms, for such amounts and at such time or times as Lender deems advisable; (g) to prepare, file and sign Borrower's name on any notice of lien, assignment or satisfaction of lien or similar document in connection with the Accounts; or (h) to prepare, file and sign Borrower's name on any proof of claim in Bankruptcy or similar document against any Account Debtor.

7. REPRESENTATIONS AND WARRANTIES.

To induce the Lender to make the Revolving Loans, the Borrower makes the following representations and warranties to the Lender, each of which shall be true and correct as of the date of the execution and delivery of this Agreement, and which shall survive the execution and delivery of this Agreement:

7.1 Borrower Organization and Name. The Borrower is a corporation duly organized, existing and in good standing under the laws of the State of California, with full and adequate power to carry on and conduct its business as presently conducted. The Borrower is duly licensed or qualified in all foreign jurisdictions wherein the nature of its activities require such qualification or licensing. The exact legal name of the Borrower is as set forth in the first paragraph of this Agreement, and the Borrower currently does not conduct business under any other name or trade name.

7.2 Authorization; Validity. The Borrower has full right, power and authority to enter into this Agreement, to make the borrowings and execute and deliver the Loan Documents as provided herein and to perform all of its duties and obligations under this Agreement and the Loan Documents. The execution and delivery of this Agreement and the Loan Documents to which the Borrower is a party will not, nor will the observance or performance of any of the matters and things herein or therein set forth, violate or contravene any provision of law or of the organizational documents of the Borrower. All necessary and appropriate action has been taken on the part of the Borrower to authorize the execution and delivery of this Agreement and the Loan Documents to which the Borrower is a party. This Agreement and the Loan Documents to which the Borrower is a party are valid and binding agreements and contracts of the Borrower in accordance with their respective terms, subject to Bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

7.3 Consent; Absence of Breach. The execution, delivery and performance of this Agreement, the other Loan Documents to which the Borrower is a party and any other documents or instruments to be executed and delivered by the Borrower in connection with the Revolving Loans, and the borrowings by the Borrower hereunder, do not and will not (a) require any consent, approval, authorization of, or filings with, notice to or other act by or in respect of, any governmental authority or any other Person (other than any consent or approval which has been obtained and is in full force and effect); (b) conflict with (i) any provision of law or any applicable regulation, order, writ, injunction or decree of any court or governmental authority, (ii) the articles of incorporation or bylaws of the Borrower, or (iii) any material agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon the Borrower or any of its properties or assets; or (c) require, or result in, the creation or imposition of any Lien on any asset of Borrower, other than Liens in favor of the Lender created pursuant to this Agreement and Permitted Liens.

7.4 Ownership of Properties; Liens. The Borrower is the sole owner of all of its properties and assets, real and personal, tangible and intangible, of any nature whatsoever (including patents, trademarks, trade names, service marks and copyrights), free and clear of all Liens, charges and claims (including, to the knowledge of Borrower, infringement claims with respect to Intellectual Property, other than Permitted Liens.

7.5 Equity Ownership. All issued and outstanding Capital Securities of the Borrower are duly authorized and validly issued, fully paid, non-assessable, and free and clear of all Liens and such securities were issued in compliance with all applicable state and federal laws concerning the issuance of securities. As of the date hereof, there are no pre-emptive or other outstanding rights, options, warrants, conversion rights or other similar agreements or understandings for the purchase or acquisition of any Capital Securities of the Borrower.

7.6 Intellectual Property. The Borrower owns and possesses or has a license or other right to use all Intellectual Property, as are necessary for the conduct of the businesses of the Borrower, without any infringement upon rights of others which could reasonably be expected to have a Material Adverse Effect, and no material claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property by Borrower or the validity or effectiveness of any Intellectual Property used by Borrower nor does the Borrower know of any valid basis for any such claim.

7.7 Litigation and Contingent Liabilities. There is no litigation, arbitration proceeding, demand, charge, claim, petition or governmental investigation or proceeding pending, or to the knowledge of the Borrower, threatened, against the Borrower, which, if adversely determined could reasonably be expected to have a Material Adverse Effect. The Borrower has no material guarantee obligations, contingent liabilities, liabilities for taxes, or any long-term leases or unusual forward or long-term commitments, including any interest rate or foreign currency swap or exchange transaction or other obligation in respect of derivatives, that are not properly reflected or adequately reserved for in accordance with GAAP in the most recent financial statements delivered pursuant to the terms hereof or properly reflected or adequately reserved for in accordance with GAAP in the most recent quarterly financial statements delivered pursuant to the terms hereof.

7.8 Environmental Laws and Hazardous Substances. The Borrower has not generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Substances, on or off any of the premises of the Borrower (whether or not owned by it) in any manner which at any time violates in any material respect any Environmental Law or any license, permit, certificate, approval or similar authorization thereunder. The Borrower will comply in all material respects with all Environmental Laws and will obtain all licenses, permits certificates, approvals and similar authorizations thereunder. There has been no investigation, proceeding, complaint, order, directive, claim, citation or notice by any governmental authority or any other Person, nor is any pending or, to the best of the Borrower's knowledge, threatened, and the Borrower shall immediately notify the Lender upon becoming aware of any such investigation, proceeding, complaint, order, directive, claim, citation or notice, and shall take prompt and appropriate actions to respond thereto, with respect to any non-compliance with, or violation of, the requirements of any Environmental Law by the Borrower or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Material or any other environmental, health or safety matter, which affects the Borrower or its business, operations or assets or any properties at which the Borrower has transported, stored or disposed of any Hazardous Substances. The Borrower has no material liability, contingent or otherwise, in connection with a release, spill or discharge, threatened or actual, of any Hazardous Substances or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Material. The Borrower further agrees to allow the Lender or its agent reasonable access to the properties of the Borrower to confirm compliance with all Environmental Laws, and the Borrower shall, following a reasonable determination by the Lender that there is material non-compliance, or any condition which requires any action by or on behalf of the Borrower in order to avoid any non-compliance in any material respect, with any Environmental Law, at the Borrower's sole expense, cause an independent environmental engineer acceptable to the Lender to conduct such tests of the relevant site as are appropriate, and prepare and deliver a report setting forth the result of such tests, a proposed plan for remediation and an estimate of the costs thereof.

7.9 Financial Statements. All financial statements submitted to the Lender have been prepared in accordance with GAAP on a basis, except as otherwise noted therein, consistent with the previous fiscal year and truly and accurately reflect, in all material respects, the financial condition of the Borrower and the results of the operations for the Borrower as of such date and for the periods indicated. Since the date of the most recent financial statement submitted by the Borrower to the Lender, there has been no material adverse change in the financial condition or in the assets or liabilities of the Borrower.

7.10 Event of Default. No Event of Default exists and no event has occurred and is continuing which, with the lapse of time, the giving of notice, or both, would constitute such an Event of Default and the Borrower is not in default (without regard to grace or cure periods) under any contract or agreement to which it is a party, the effect of which default could reasonably be expected to have a Material Adverse Effect.

7.11 Solvency, etc. As of the date hereof, and immediately prior to and after giving effect to the issuance of each Revolving Loan hereunder and the use of the proceeds thereof, (a) the fair value of the Borrower's assets is greater than the amount of its liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated as required under the Section 548 of the Bankruptcy Code, (b) the present fair saleable value of the Borrower's assets is not less than the amount that will be required to pay the probable liability on its debts as they become absolute and matured, (c) the Borrower is able to realize upon its assets and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business, (d) the Borrower does not intend to, and does not believe that it will, incur debts or liabilities beyond its ability to pay as such debts and liabilities mature, and (e) the Borrower is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which its property would constitute unreasonably small capital.

7.12 ERISA Obligations. All Employee Plans of the Borrower meet the minimum funding standards of Section 302 of ERISA where applicable and each such Employee Plan that is intended to be qualified within the meaning of Section 401 of the Internal Revenue Code of 1986 is qualified. No withdrawal liability has been incurred under any such Employee Plans and no "Reportable Event" or "Prohibited Transaction" (as such terms are defined in ERISA), has occurred with respect to any such Employee Plans, unless approved by the appropriate governmental agencies. The Borrower has promptly paid and discharged all obligations and liabilities that have become due arising under the Employee Retirement Income Security Act of 1974 ("**ERISA**") of a character which if unpaid or unperformed may, in the judgment of Lender, result in the imposition of a Lien against any of its properties or assets.

7.13 Labor Relations. Except as could not reasonably be expected to have a Material Adverse Effect, (i) there are no strikes, lockouts or other labor disputes against the Borrower or, to the knowledge of the Borrower, threatened, (ii) hours worked by and payment made to employees of the Borrower have not been in violation of the Fair Labor Standards Act or any other applicable law, and (iii) no unfair labor practice complaint is pending against the Borrower or, to the knowledge of the Borrower, threatened before any governmental authority.

7.14 Security Interest. This Agreement creates a valid security interest in favor of the Lender in the Collateral and, when properly perfected by filing in the appropriate jurisdictions, or by possession or Control of such Collateral by the Lender or delivery of such Collateral to the Lender, shall constitute a valid, perfected, first-priority security interest in such Collateral subject only to Permitted Liens.

7.15 Taxes. The Borrower has timely filed all tax returns and reports required by law to have been filed by it and has paid all taxes, governmental charges and assessments due and payable with respect to such returns, except any such taxes or charges which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books and the contesting of such payment does not create a Lien on the Collateral which is not a Permitted Lien. There is no controversy or objection pending in respect of any tax returns of the Borrower. The Borrower has made adequate reserves on its books and records in accordance with GAAP for all taxes that have accrued but which are not yet due and payable.

7.16 Adverse Circumstances. No condition, circumstance, event, agreement, document, instrument, restriction, litigation or proceeding (or threatened litigation or proceeding or basis therefor) exists which (a) could reasonably be expected to have a Material Adverse Effect, (b) would constitute an Event of Default under any of the Loan Documents, or (c) would constitute such an Event of Default with the giving of notice or lapse of time or both.

7.17 Lending Relationship. The Borrower acknowledges and agrees that the relationship hereby created with the Lender is and has been conducted on an open and arm's length basis in which no fiduciary relationship exists and that the Borrower has not relied and is not relying on any such fiduciary relationship in executing this Agreement and in consummating the Revolving Loans. The Lender represents that it will receive the Revolving Note payable to its order as evidence of a Lender loan.

7.18 Business Loan. After being so advised by Lender, Borrower acknowledges and agrees that the Revolving Loans, including interest rate, fees and charges as contemplated hereby, (i) are business loans within the purview of 815 ILCS 205/4(1)(c), as amended from time to time, (ii) are exempted transactions under the Truth In Lending Act, 12 U.S.C. 1601 et seq., as amended from time to time, and (iii) do not, and when disbursed shall not, violate the provisions of the Illinois usury laws, any consumer credit laws or the usury laws of any state which may have jurisdiction over this transaction, the Borrower or any property securing the Revolving Loans.

7.19 Compliance with Regulation U. No portion of the proceeds of the Revolving Loans shall be used by the Borrower, or any affiliates of the Borrower, either directly or indirectly, for the purpose of purchasing or carrying any margin stock, within the meaning of Regulation U as adopted by the Board of Governors of the Federal Reserve System.

7.20 Place of Business. The principal place of business of the Borrower is 249 East Gardena Boulevard, Gardena, California 90248. Borrower shall promptly notify the Lender of any change in such location. The Borrower will not remove or permit the Collateral to be removed from such location without the prior written consent of the Lender, except for Inventory sold and obsolete Collateral removed in the usual and ordinary course of the Borrower's business.

7.21 Complete Information. This Agreement and all financial statements, schedules, certificates, confirmations, agreements, contracts, and other materials and information heretofore or contemporaneously herewith furnished in writing by the Borrower to the Lender for purposes of, or in connection with, this Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of the Borrower to the Lender pursuant hereto or in connection herewith will be, taken as a whole, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information, taken as a whole, not misleading in light of the circumstances under which made (it being recognized by the Lender that any projections and forecasts provided by the Borrower are based on good faith estimates and assumptions believed by the Borrower to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

8. **NEGATIVE COVENANTS.**

8 . 1 Indebtedness. The Borrower shall not, either directly or indirectly, create, assume, incur or have outstanding any Indebtedness (including purchase money indebtedness), or become liable, whether as endorser, guarantor, surety or otherwise, for any debt or obligation of any other Person, except:

- (a) the Obligations;
- (b) obligations of the Borrower for taxes, assessments, municipal or other governmental charges;
- (c) obligations of the Borrower for accounts payable, other than for money borrowed, incurred in the ordinary course of business; and
- (d) obligations existing on the date hereof which are disclosed on the financial statements referred to in Section 7.9.

8.2 Encumbrances. The Borrower shall not, either directly or indirectly, create, assume, incur or suffer or permit to exist any Lien or charge of any kind or character upon any asset of the Borrower, whether owned at the date hereof or hereafter acquired except for Permitted Liens.

8 . 3 Investments. The Borrower shall not, either directly or indirectly, make or have outstanding any investments (whether through purchase of stocks, obligations or otherwise) in, or loans or advances to, any other Person, or acquire all or any substantial part of the assets, business, stock or other evidence of beneficial ownership of any other Person except:

- (a) investments in direct obligations of the United States;
- (b) investments in certificates of deposit issued by any financial institution with assets greater than ONE HUNDRED MILLION DOLLARS (\$100,000,000.00); or
- (c) investments in Prime Commercial Paper (for purposes hereof, Prime Commercial Paper shall mean short-term unsecured promissory notes sold by large corporations and rated A-1/P-1 by Standard & Poor's Ratings Group, a division of McGraw Hill, Inc., and Moody's Investment Service, Inc.).

8.4 Transfer; Merger. The Borrower shall not, whether in one transaction or a series of related transactions, (a) be a party to any merger or consolidation, or purchase or otherwise acquire all or substantially all of the assets or any Capital Securities of any class of, or any partnership or joint venture interest in, any other Person without Lender's prior written consent, which consent shall not be unreasonably withheld, (b) sell, transfer, convey or lease all or any substantial part of its assets or Capital Securities (including the sale of Capital Securities of any Subsidiary), except for sales of Inventory in the ordinary course of business, or (c) sell or assign, with or without recourse, any Accounts.

8.5 Issuance of Capital Securities. The Borrower shall not, either directly or indirectly, issue or distribute any Capital Securities of the Borrower that would result in a Change in Control.

8.6 Distributions. The Borrower shall not, either directly or indirectly, purchase or redeem any of its Capital Securities, declare or pay any dividends, whether in cash or otherwise, set aside any funds for any such purpose, make any distribution to its equityholders, pay any management fees or similar fees to any of its equityholders or any Affiliate thereof; provided, however, Borrower may make quarterly distributions to its equityholder(s) in an amount not greater than the estimated income tax payments required to be made by each such equityholder based upon the income of such equityholder accruing due to the operations of Borrower and the resulting federal tax liability of such equityholder. In the event that the aggregate amount of such quarterly distributions to any equityholder for estimated federal income tax payments exceeds, in any material respect, the actual annual federal income tax liability of such equityholder(s) based upon the income of such shareholder accruing due to the operations of the Borrower, the failure of such equityholder(s), within thirty (30) days after the determination of such equityholder's annual federal income tax liability, to make a contribution of capital to the Borrower in the amount of such excess shall be an Event of Default under this Agreement.

8.7 Business Activities; Change of Legal Status; Organizational Documents. The Borrower shall not (a) engage in any line of business other than the businesses engaged in on the date hereof and businesses reasonably related thereto, (b) change its name, its organizational identification number, if it has one, its type of organization, its jurisdiction of organization or other legal structure or (c) permit its by-laws, articles of incorporation or other organizational documents to be amended in any material way without the prior written consent of the Lender.

8.8 Transactions with Affiliates. The Borrower shall not, directly or indirectly, enter into or permit to exist any transaction with any of its Affiliates or with any director, officer or employee of the Borrower other than transactions in the ordinary course of, and pursuant to the reasonable requirements of, the business of the Borrower and upon fair and reasonable terms which are fully disclosed to the Lender and are no less favorable to the Borrower than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate of the Borrower.

8.9 Unconditional Purchase Obligations. The Borrower shall not and shall not permit any Subsidiary to enter into or be a party to any contract for the purchase of materials, supplies or other property or services if such contract requires that payment be made by it regardless of whether delivery is ever made of such materials, supplies or other property or services.

8.10 Cancellation of Debt. The Borrower shall not cancel any claim or debt owing to it, except for reasonable consideration or in the ordinary course of business.

8.11 Inconsistent Agreements. The Borrower shall not enter into any agreement containing any provision which would (a) be violated or breached by any borrowing by the Borrower hereunder or by the performance by the Borrower of any of its Obligations hereunder or under any other Loan Document, or (b) prohibit the Borrower from granting to the Lender a Lien on any of its assets.

8.12 Bank Accounts. The Borrower shall not establish any deposit, operating or other bank accounts unless such account is subject to a Control Agreement as set forth in Section 6.2.

9. **AFFIRMATIVE COVENANTS.**

9.1 Borrower Existence. The Borrower shall at all times (a) preserve and maintain its existence and good standing in the jurisdiction of its organization, (b) preserve and maintain its qualification to do business and good standing in each jurisdiction where the nature of its business makes such qualification necessary (other than such jurisdictions in which the failure to be qualified or in good standing could not reasonably be expected to have a Material Adverse Effect), and (c) continue as a going concern in the business which the Borrower is presently conducting.

9.2 Maintain Property. The Borrower shall at all times maintain, preserve and keep its plant, properties and Equipment, including, but not limited to, any Collateral, in good repair, working order and condition, normal wear and tear excepted, and shall from time to time make all needful and proper repairs, renewals, replacements, and additions thereto so that at all times the efficiency thereof shall be fully preserved and maintained. The Borrower shall permit the Lender to examine and inspect such plant, properties and Equipment, including, but not limited to, any Collateral, at all reasonable times upon reasonable prior notice, except in the event of an emergency.

9 . 3 Maintain Insurance. The Borrower shall at all times insure and keep insured in insurance companies reasonably acceptable to the Lender, all insurable property owned by it which is of a character usually insured by companies similarly situated and operating like properties, against loss or damage from fire and such other hazards or risks as are customarily insured against by companies similarly situated and operating like properties; and shall similarly insure employers', public and professional liability risks. Prior to the date of the initial funding of the Revolving Note, the Borrower shall deliver to the Lender a certificate setting forth in summary form the nature and extent of the insurance maintained by the Borrower pursuant to this Section 9.3. All such policies of insurance must be satisfactory to the Lender in relation to the amount and term of the Obligations and type and value of the Collateral and assets of the Borrower, shall identify the Lender as lender's loss payee and as an additional insured. In the event the Borrower either fails to provide the Lender with evidence of the insurance coverage required by this Section or at any time hereafter shall fail to obtain or maintain any of the policies of insurance required above, or to pay any premium in whole or in part relating thereto, then the Lender, without waiving or releasing any obligation or default by the Borrower hereunder, may at any time (but shall be under no obligation to so act), obtain and maintain such policies of insurance and pay such premium and take any other action with respect thereto, which the Lender deems advisable. This insurance coverage (i) may, but need not, protect the Borrower's interest in such property, including, but not limited to the Collateral, and (ii) may not pay any claim made by, or against, the Borrower in connection with such property, including, but not limited to the Collateral. The Borrower may later cancel any such insurance purchased by the Lender, but only after providing the Lender with evidence that the Borrower has obtained the insurance coverage required by this Section. The costs of such insurance obtained by the Lender, through and including the effective date such insurance coverage is canceled or expires, shall be payable on demand by the Borrower to the Lender, together with interest at the Default Rate on such amounts until repaid and any other charges by the Lender in connection with the placement of such insurance. The costs of such insurance, which may be greater than the cost of insurance which the Borrower may be able to obtain on its own, together with interest thereon at the Default Rate and any other charges by the Lender in connection with the placement of such insurance may be added to the total Obligations due and owing.

9 . 4 Payment of Taxes and Liabilities. The Borrower shall pay and discharge, prior to delinquency and before penalties accrue thereon, all property and other taxes, and all governmental charges or levies against it or any of the Collateral, as well as claims of any kind which, if unpaid, could become a Lien on any of its property; provided that the foregoing shall not require the Borrower to pay any such tax or charge so long as it shall contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP and, in the case of a claim which could become a Lien on any of the Collateral, such contest proceedings stay the foreclosure of such Lien or the sale of any portion of the Collateral to satisfy such claim.

9 . 5 ERISA Liabilities; Employee Plans. The Borrower shall (i) keep in full force and effect any and all Employee Plans which are presently in existence or may, from time to time, come into existence under ERISA, and not withdraw from any such Employee Plans, unless such withdrawal can be effected or such Employee Plans can be terminated without liability to the Borrower; (ii) make contributions to all of such Employee Plans in a timely manner and in a sufficient amount to comply with the standards of ERISA; including the minimum funding standards of ERISA; (iii) comply with all material requirements of ERISA which relate to such Employee Plans; (iv) notify the Lender promptly upon receipt by the Borrower of any notice concerning the imposition of any withdrawal liability or of the institution of any proceeding or other action which may result in the termination of any such Employee Plans or the appointment of a trustee to administer such Employee Plans; (v) promptly advise the Lender of the occurrence of any "Reportable Event" or "Prohibited Transaction" (as such terms are defined in ERISA), with respect to any such Employee Plans; and (vi) amend any Employee Plan that is intended to be qualified within the meaning of Section 401 of the Internal Revenue Code of 1986 to the extent necessary to keep the Employee Plan qualified, and to cause the Employee Plan to be administered and operated in a manner that does not cause the Employee Plan to lose its qualified status.

9 . 6 Financial Statements. The Borrower shall at all times maintain a standard and modern system of accounting, on the accrual basis of accounting and in all respects in accordance with GAAP consistently applied, and shall furnish to the Lender or its authorized representatives such information regarding the business affairs, operations and financial condition of the Borrower, including, but not limited to:

(a) as soon as available, and in any event, within ninety (90) days after the close of each of its fiscal years, a copy of the annual reviewed financial statements of the Borrower, including balance sheet, statement of income and retained earnings, statement of cash flows for the fiscal year then ended and such other information (including nonfinancial information) as the Lender may reasonably request, in reasonable detail, prepared and certified by an independent certified public accountant acceptable to the Lender;

(b) as soon as available, and in any event, within thirty (30) days following the end of each month, a copy of the internal financial statements of the Borrower regarding such month, including balance sheet, statement of income and retained earnings, statement of cash flows for the month then ended and such other information (including nonfinancial information) as the Lender may reasonably request, in reasonable detail, prepared and certified as accurate by the Borrower; and

(c) within ten (10) days after the filing due date (as such date may be extended in accordance with properly granted extensions) each year, a signed copy of the complete income tax returns filed with the Internal Revenue Service by the Borrower and prepared by a tax professional reasonably acceptable to Lender.

No material change with respect to such accounting principles shall be made by the Borrower without giving prior notification to the Lender. The Borrower represents and warrants to the Lender that the financial statements delivered to the Lender at or prior to the execution and delivery of this Agreement and to be delivered at all times thereafter accurately reflect and will accurately reflect, in all material respects, and in accordance with GAAP, the financial condition of the Borrower. The Lender shall have the right at all times during business hours, upon reasonable prior notice except if an Event of Default exists, in which case no such prior notice shall be required, to inspect the books and records of the Borrower and make extracts therefrom. The Borrower agrees to advise the Lender promptly of any material adverse change in the financial condition, the operations or any other status of the Borrower.

9.7 Supplemental Financial Statements. The Borrower shall promptly upon receipt thereof, provide to the Lender copies of interim and supplemental reports if any, submitted to the Borrower by independent accountants in connection with any interim audit or review of the books of the Borrower.

9.8 Borrowing Base Certificate. The Borrower shall, at least once every seven (7) days and concurrently with each request for a Revolving Loan, deliver to the Lender a Borrowing Base Certificate together with such supporting documents required by Lender, certified as accurate by the Borrower and acceptable to the Lender in its sole and absolute discretion.

9.9 Aged Accounts Schedule, Aged Accounts Payable. The Borrower shall, concurrently with each request for a Revolving Loan and within ten (10) days following the end of each month, deliver to the Lender (i) an aged schedule of the Accounts of the Borrower by invoice date, listing the name and amount due from each Account Debtor and showing the aggregate amounts due from (a) 0-30 days, (b) 31-60 days, (c) 61-90 days and (d) more than 90 days, and certified as accurate by the Borrower and (ii) an aged schedule of the accounts payable of Borrower by invoice date listing the name and amount due to each creditor, and certified as accurate by Borrower.

9.10 Inventory Reports. The Borrower shall, at least once every seven (7) days, deliver to the Lender a summary inventory report, certified as accurate by the Borrower, and within such time as the Lender may specify, such other schedules and reports as the Lender may require. In addition, Borrower shall, on or before ten (10) days after the end of each month, deliver to the Lender an inventory report by stock keeping unit, certified as accurate by the Borrower.

9.11 Inventory Appraisals. The Borrower shall allow the Lender to obtain updated appraisals of Borrower's Inventory, the results of which must be satisfactory to the Lender in the Lender's sole and absolute discretion. All such appraisals by the Lender shall be at Borrower's sole expense, provided, however, that so long as no Event of Default exists, the Borrower shall not be required to reimburse Lender for Inventory appraisals more frequently than one (1) time each fiscal year.

9.12 Audits. The Borrower shall allow the Lender to conduct field examinations of the Accounts, Inventory and/or other business operations of the Borrower, the results of which must be satisfactory to the Lender in the Lender's sole and absolute discretion. All such inspections or audits by the Lender shall be at Borrower's sole expense, provided however, that so long as no Event of Default exists, the Borrower shall not be required to reimburse the Lender for inspections or audits more frequently than four (4) times each fiscal year.

9.13 Other Reports. The Borrower shall, within sixty (60) days prior to the end of each fiscal year, deliver to Lender projections for the operation of Borrower's business for the ensuing fiscal year. The Borrower shall, within such period of time as the Lender may specify, deliver to the Lender such other schedules and reports as the Lender may reasonably require.

9.14 Collateral Records. Borrower shall keep full and accurate books and records relating to the Collateral and shall mark such books and records to indicate the Lender's Lien in the Collateral including, without limitation, placing a legend, in form and content acceptable to the Lender, on all Chattel Paper created by the Borrower indicating that the Lender has a Lien on such Chattel Paper.

9.15 Notice of Proceedings. The Borrower shall, promptly after knowledge thereof shall have come to the attention of any officer of the Borrower, give written notice to the Lender of all threatened or pending actions, suits, and proceedings before any court or governmental department, commission, board or other administrative agency which could, in the reasonable judgment of Lender, be expected to have a Material Adverse Effect.

9.16 Notice of Default. The Borrower shall, promptly after the commencement thereof, give notice to the Lender in writing of the occurrence of an Event of Default or of any event which, with the lapse of time, the giving of notice or both, would constitute an Event of Default hereunder.

10. **INTENTIONALLY DELETED.**

11. **EVENTS OF DEFAULT.**

The Borrower, without notice or demand of any kind, shall be in default under this Agreement upon the occurrence of any of the following events (each an “**Event of Default**”).

BORROWER ACKNOWLEDGES THAT WHILE THERE ARE EVENTS OF DEFAULT SET FORTH, THE OBLIGATIONS ARE DUE UPON DEMAND, AND IF DEMAND IS NOT MADE, THEN UPON THE SPECIFIED MATURITY DATE.

11.1 Nonpayment of Obligations. Any amount due and owing on the Revolving Note or any of the Obligations, whether by its terms or as otherwise provided herein, is not paid within five (5) days following the date when due.

11.2 Misrepresentation. Any warranty, representation, certificate or statement in this Agreement, the Loan Documents or any other agreement with the Lender shall be false in any material respect when made or at any time thereafter, or if any financial data or any other information now or hereafter furnished to the Lender by or on behalf of any Obligor shall prove to be false, inaccurate or misleading in any material respect.

11.3 Nonperformance. Any failure to perform or default in the performance of any covenant, condition or agreement contained in this Agreement other than the timely payment of the Obligations as required hereunder or in the Loan Documents or any other agreement with the Lender and such failure to perform or default in performance continues for thirty (30) days (except as to Events of Default specified elsewhere in this Section 11 or where no cure period or a longer or shorter cure period is specified in this Agreement or in the Loan Documents for a particular default) following written notice from Lender to Borrower.

11.4 Default under Other Indebtedness. Any default by Borrower in the payment of any Indebtedness for any other obligation beyond any period of grace provided with respect thereto or in the performance of any other term, condition or covenant contained in any agreement (including any capital or operating lease or any agreement in connection with the deferred purchase price of property) under which any such obligation is created, as a result of which default the holder of such obligation (or the other party to such other agreement) is entitled to cause such obligation to become due prior to its stated maturity or terminate such other agreement.

11.5 Other Material Obligations. Any default in the payment when due, or in the performance or observance of, any material obligation of, or condition agreed to by, Borrower where such default, singly or in the aggregate with all other such defaults, could, in the reasonable judgment of Lender, have a Material Adverse Effect.

11.6 Bankruptcy, Insolvency, etc. Borrower becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; or Borrower applies for, consents to, or acquiesces in the appointment of a trustee, receiver or other custodian for Borrower or any property thereof, or makes a general assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee, receiver or other custodian is appointed for Borrower or for a substantial part of the property of Borrower and is not discharged within thirty (30) days; or any Bankruptcy, reorganization, debt arrangement, or other case or proceeding under any Bankruptcy or insolvency law, or any dissolution or liquidation proceeding, is commenced in respect of Borrower, and if such case or proceeding is not commenced by Borrower, it is consented to or acquiesced in by Borrower, or remains undismissed for thirty (30) days; or Borrower takes any action to authorize, or in furtherance of, any of the foregoing.

11.7 Judgments. The entry of any judgment, decree, levy, attachment, garnishment or other process, or the filing of any Lien (other than Permitted Liens) against Borrower which is not fully covered by insurance, and which judgment or other process could, in the reasonable judgment of Lender, have a Material Adverse Effect.

11.8 Change in Control. The occurrence of any Change in Control.

11.9 Collateral Impairment. The entry of any judgment, decree, levy, attachment, garnishment or other process, or the filing of any Lien (other than Permitted Liens) against, any of the Collateral or any collateral under a separate security agreement securing any of the Obligations and such judgment or other process shall not have been, within thirty (30) days from the entry thereof, (i) bonded over to the satisfaction of the Lender and appealed, (ii) vacated, or (iii) discharged, or the loss, theft, destruction, seizure or forfeiture, or the occurrence of any material deterioration or impairment of any of the Collateral or any of the collateral under any security agreement securing any of the Obligations, or any material decline or depreciation in the value or market price thereof (whether actual or reasonably anticipated), which causes the Collateral, in the sole opinion of the Lender acting in good faith, to become unsatisfactory as to value or character, or which causes the Lender to reasonably believe that it is insecure and that the likelihood for repayment of the Obligations is or will soon be impaired, time being of the essence. The cause of such deterioration, impairment, decline or depreciation shall include, but is not limited to, the failure by the Borrower to do any act deemed reasonably necessary by the Lender to preserve and maintain the value and collectability of the Collateral.

11.10 Material Adverse Effect. The occurrence of any development, condition or event which has a Material Adverse Effect.

12. **REMEDIES.**

If the Obligations are not paid immediately upon the demand of Lender or upon the occurrence of an Event of Default, the Lender shall have all rights, powers and remedies set forth in the Loan Documents, in any written agreement or instrument (other than this Agreement or the Loan Documents) relating to any of the Obligations or any security therefor, or as otherwise provided at law or in equity. Without limiting the generality of the foregoing, the Lender may, at its option at any time or upon the occurrence of an Event of Default, declare its commitments to the Borrower to be terminated and all Obligations to be immediately due and payable, all without further action of any kind required on the part of the Lender. The Borrower hereby waives any and all presentment, demand, notice of dishonor, protest, and all other notices and demands in connection with the enforcement of Lender's rights under the Loan Documents, and hereby consents to, and waives notice of release, with or without consideration of any Collateral, notwithstanding anything contained herein or in the Loan Documents to the contrary. In addition to the foregoing:

1 2 . 1 Possession and Assembly of Collateral. The Lender may, without notice, demand or legal process of any kind, take possession of any or all of the Collateral (in addition to Collateral of which the Lender already has possession), wherever it may be found, and for that purpose may pursue the same wherever it may be found, and may enter into any of the Borrower's premises where any of the Collateral may be or is supposed to be, and search for, take possession of, remove, keep and store any of the Collateral until the same shall be sold or otherwise disposed of and the Lender shall have the right to store the same in any of the Borrower's premises without cost to the Lender. At the Lender's request, the Borrower will, at the Borrower's sole expense, assemble the Collateral and make it available to the Lender at a place or places to be designated by the Lender which is reasonably convenient to the Lender and the Borrower.

1 2 . 2 Sale of Collateral. The Lender may sell any or all of the Collateral at public or private sale, upon such terms and conditions as the Lender may deem proper, and the Lender may purchase any or all of the Collateral at any such sale. The Lender may apply the net proceeds, after deducting all costs, expenses, attorneys' and paralegals' fees incurred or paid at any time in the collection, protection and sale of the Collateral and the Obligations, to the payment of the Revolving Note and/or any of the other Obligations, returning the excess proceeds, if any, to the Borrower. The Borrower shall remain liable for any amount remaining unpaid after such application, with interest. Any notification of intended disposition of the Collateral required by law shall be conclusively deemed reasonably and properly given if given by the Lender at least ten (10) calendar days before the date of such disposition. The Borrower hereby confirms, approves and ratifies all acts and deeds of the Lender relating to the foregoing, and each part thereof, and expressly waives any and all claims of any nature, kind or description which it has or may hereafter have against the Lender or its representatives, by reason of taking, selling or collecting any portion of the Collateral. The Borrower consents to releases of the Collateral at any time and to sales of the Collateral in groups, parcels or portions, or as an entirety, as the Lender shall deem appropriate. The Borrower expressly absolves the Lender from any loss or decline in market value of any Collateral by reason of delay in the enforcement or assertion or nonenforcement of any rights or remedies under this Agreement.

12.3 Standards for Exercising Remedies. To the extent that applicable law imposes duties on the Lender to exercise remedies in a commercially reasonable manner, the Borrower acknowledges and agrees that it is not commercially unreasonable for the Lender (a) to fail to incur expenses reasonably deemed significant by the Lender to prepare Collateral for disposition or otherwise to complete raw material or work-in-process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against Account Debtors or other Persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against Account Debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other Persons, whether or not in the same business as the Borrower, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (h) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, including, without limitation, any warranties of title, (k) to purchase insurance or credit enhancements to insure the Lender against risks of loss, collection or disposition of Collateral or to provide to the Lender a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Lender, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Lender in the collection or disposition of any of the Collateral. The Borrower acknowledges that the purpose of this Section is to provide non-exhaustive indications of what actions or omissions by the Lender would not be commercially unreasonable in the Lender's exercise of remedies against the Collateral and that other actions or omissions by the Lender shall not be deemed commercially unreasonable solely on account of not being indicated in this Section. Without limitation upon the foregoing, nothing contained in this Section shall be construed to grant any rights to the Borrower or to impose any duties on the Lender that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section.

12.4 UCC and Offset Rights. The Lender may exercise, from time to time, any and all rights and remedies available to it under the UCC or under any other applicable law in addition to, and not in lieu of, any rights and remedies expressly granted in this Agreement or in any other agreements between any Obligor and the Lender, and may, without demand or notice of any kind, appropriate and apply toward the payment of such of the Obligations, whether matured or unmatured, including reasonable costs of collection and attorneys' and paralegals' fees, and in such order of application as the Lender may, from time to time, elect, any indebtedness of the Lender to any Obligor, however created or arising, including, but not limited to, balances, credits, deposits, accounts or moneys of such Obligor in the possession, control or custody of, or in transit to the Lender. The Borrower, on behalf of itself and each Obligor, hereby waives the benefit of any law that would otherwise restrict or limit the Lender in the exercise of its right, which is hereby acknowledged, to appropriate at any time hereafter any such indebtedness owing from the Lender to any Obligor.

12.5 Additional Remedies. If the Obligations are not paid immediately upon the demand of Lender or upon the occurrence of an Event of Default, the Lender shall have the right and power to:

(a) instruct the Borrower, at its own expense, to notify any parties obligated on any of the Collateral, including, but not limited to, any Account Debtors, to make payment directly to the Lender of any amounts due or to become due thereunder, or the Lender may directly notify such obligors of the security interest of the Lender, and/or of the assignment to the Lender of the Collateral and direct such obligors to make payment to the Lender of any amounts due or to become due with respect thereto, and thereafter, collect any such amounts due on the Collateral directly from such Persons obligated thereon;

(b) enforce collection of any of the Collateral, including, but not limited to, any Accounts, by suit or otherwise, or make any compromise or settlement with respect to any of the Collateral, or surrender, release or exchange all or any part thereof, or compromise, extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder;

(c) take possession or control of any proceeds and products of any of the Collateral, including the proceeds of insurance thereon;

(d) extend, renew or modify for one or more periods (whether or not longer than the original period) the Revolving Note, any other of the Obligations, any obligation of any nature of any other obligor with respect to the Revolving Note or any of the Obligations;

(e) grant releases, compromises or indulgences with respect to the Revolving Note, any of the Obligations, any extension or renewal of any of the Obligations, any security therefor, or to any other obligor with respect to the Revolving Note or any of the Obligations;

(f) transfer the whole or any part of securities which may constitute Collateral into the name of the Lender or the Lender's nominee without disclosing, if the Lender so desires, that such securities so transferred are subject to the security interest of the Lender, and any corporation, association, or any of the managers or trustees of any trust issuing any of said securities, or any transfer agent, shall not be bound to inquire, in the event that the Lender or said nominee makes any further transfer of said securities, or any portion thereof, as to whether the Lender or such nominee has the right to make such further transfer, and shall not be liable for transferring the same;

(g) vote the Collateral;

(h) make an election with respect to the Collateral under Section 1111 of the Bankruptcy Code or take action under Section 364 or any other section of the Bankruptcy Code; provided, however, that any such action of the Lender as set forth herein shall not, in any manner whatsoever, impair or affect the liability of the Borrower hereunder, nor prejudice, waive, nor be construed to impair, affect, prejudice or waive the Lender's rights and remedies at law, in equity or by statute, nor release, discharge, nor be construed to release or discharge, the Borrower, or other Person liable to the Lender for the Obligations; and

(i) at any time, and from time to time, accept additions to, releases, reductions, exchanges or substitution of the Collateral, without in any way altering, impairing, diminishing or affecting the provisions of this Agreement, the Loan Documents, or any of the other Obligations, or the Lender's rights hereunder, under the Revolving Note or under any of the other Obligations.

The Borrower hereby ratifies and confirms whatever the Lender may do with respect to the Collateral and agrees that the Lender shall not be liable for any error of judgment or mistakes of fact or law with respect to actions taken in connection with the Collateral except for Lender's gross negligence or willful misconduct.

12.6 Attorney-in-Fact. The Borrower hereby irrevocably makes, constitutes and appoints the Lender (and any officer of the Lender or any Person designated by the Lender for that purpose) as the Borrower's true and lawful proxy and attorney-in-fact (and agent-in-fact) in the Borrower's name, place and stead, with full power of substitution to (i) take such actions as are permitted in this Agreement, (ii) execute such financing statements and other documents and to do such other acts as the Lender may require to perfect and preserve the Lender's security interest in, and to enforce such interests in the Collateral, and (iii) carry out any remedy provided for in this Agreement, including, without limitation, endorsing the Borrower's name to checks, drafts, instruments and other items of payment, and proceeds of the Collateral, executing change of address forms with the postmaster of the United States Post Office serving the address of the Borrower, changing the address of the Borrower to that of the Lender, opening all envelopes addressed to the Borrower and applying any payments contained therein to the Obligations. The Borrower hereby acknowledges that the constitution and appointment of such proxy and attorney-in-fact are coupled with an interest and are irrevocable. The Borrower hereby ratifies and confirms all that said attorney-in-fact may do or cause to be done by virtue of any provision of this Agreement.

12.7 No Marshaling. The Lender shall not be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order. To the extent that it lawfully may, the Borrower hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of the Lender's rights under this Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Borrower hereby irrevocably waives the benefits of all such laws.

12.8 Application of Proceeds. Upon receipt of cash or solvent credits from collection of items of payment, proceeds of Collateral or any other source, the Lender will apply such cash, credits and proceeds against the Obligations secured hereby. The Lender shall further have the exclusive right to determine how, when and what application of such payments and such credits shall be made on the Obligations, and such determination shall be conclusive upon the Borrower. Any proceeds of any disposition by the Lender of all or any part of the Collateral may be first applied by the Lender to the payment of expenses incurred by the Lender in connection with the Collateral, including reasonable attorneys' fees and legal expenses as provided for in Section 13 hereof.

12.9 No Waiver. No Event of Default shall be waived by the Lender except in writing. No failure or delay on the part of the Lender in exercising any right, power or remedy hereunder shall operate as a waiver of the exercise of the same or any other right at any other time; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. There shall be no obligation on the part of the Lender to exercise any remedy available to the Lender in any order. The remedies provided for herein are cumulative and not exclusive of any remedies provided at law or in equity. The Borrower agrees that in the event that the Borrower fails to perform, observe or discharge any of its Obligations or liabilities under this Agreement or any other agreements with the Lender, no remedy of law will provide adequate relief to the Lender, and further agrees that the Lender shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

13. **MISCELLANEOUS.**

13.1 Obligations Absolute. None of the following shall affect the Obligations of the Borrower to the Lender under this Agreement or the Lender's rights with respect to the Collateral:

- (a) acceptance or retention by the Lender of other property or any interest in property as security for the Obligations;
- (b) release by the Lender of all or any part of the Collateral or of any party liable with respect to the Obligations;
- (c) release, extension, renewal, modification or substitution by the Lender of the Revolving Note, or any note evidencing any of the Obligations, or the compromise of the liability of any Obligor for the Obligations; or
- (d) failure of the Lender to resort to any other security or to pursue the Borrower or any other obligor liable for any of the Obligations before resorting to remedies against the Collateral.

13.2 Entire Agreement. This Agreement and the other Loan Documents (i) are valid, binding and enforceable against the Obligors and the Lender in accordance with their respective provisions and no conditions exist as to their legal effectiveness; (ii) constitute the entire agreement between the parties; and (iii) are the final expression of the intentions of the Obligors and the Lender. No promises, either expressed or implied, exist between the Obligors and the Lender, unless contained herein. This Agreement, together with the other Loan Documents, supersedes all negotiations, representations, warranties, commitments, term sheets, discussions, negotiations, offers or contracts (of any kind or nature, whether oral or written) prior to or contemporaneous with the execution hereof with respect to any matter, directly or indirectly related to the terms of this Agreement and the other Loan Documents. This Agreement and the other Loan Documents are the result of negotiations among the Lender, the Borrower and the other parties thereto, and have been reviewed (or have had the opportunity to be reviewed) by counsel to all such parties, and are the products of all parties. Accordingly, this Agreement and the other Loan Documents shall not be construed more strictly against the Lender merely because of the Lender's involvement in their preparation.

13.3 Amendments; Waivers. No amendment, modification, termination, discharge or waiver of any provision of this Agreement or of the Loan Documents, or consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

13.4 WAIVER OF DEFENSES. THE BORROWER WAIVES EVERY PRESENT AND FUTURE DEFENSE (OTHER THAN THE DEFENSE OF PAYMENT), CAUSE OF ACTION, COUNTERCLAIM OR SETOFF WHICH THE BORROWER MAY NOW HAVE OR HEREAFTER MAY HAVE TO ANY ACTION BY THE LENDER IN ENFORCING THIS AGREEMENT. THE BORROWER RATIFIES AND CONFIRMS WHATEVER THE LENDER MAY DO IN GOOD FAITH PURSUANT TO THE TERMS OF THIS AGREEMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDER GRANTING ANY FINANCIAL ACCOMMODATION TO THE BORROWER.

13.5 FORUM SELECTION AND CONSENT TO JURISDICTION. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL, IN THE LENDER'S SOLE DISCRETION, BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS; PROVIDED THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE THE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION. THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. THE BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE. THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

13.6 WAIVER OF JURY TRIAL. THE LENDER AND THE BORROWER, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE IRREVOCABLY, THE RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDING BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, THE REVOLVING NOTE OR ANY OF THE OTHER OBLIGATIONS, THE COLLATERAL, OR ANY OTHER AGREEMENT EXECUTED OR CONTEMPLATED TO BE EXECUTED IN CONJUNCTION WITH THIS AGREEMENT, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH THE LENDER AND THE BORROWER ARE ADVERSE PARTIES. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDER GRANTING ANY FINANCIAL ACCOMMODATION TO THE BORROWER.

13.7 Assignability. The Lender may at any time assign the Lender's rights in this Agreement, the other Loan Documents, the Obligations, or any part thereof and transfer the Lender's rights in any or all of the Collateral and the Lender thereafter shall be relieved from all liability with respect to such Collateral. Lender will give Borrower written notice of any such assignment. In addition, the Lender may at any time sell one or more participations in the Revolving Loans. The Borrower may not sell or assign this Agreement, or any other agreement with the Lender or any portion thereof, either voluntarily or by operation of law, without the prior written consent of the Lender. This Agreement shall be binding upon the Lender and the Borrower and their respective legal representatives and successors. All references herein to the Borrower shall be deemed to include any successors, whether immediate or remote. In the case of a joint venture or partnership, the term "**Borrower**" shall be deemed to include all joint venturers or partners thereof, who shall be jointly and severally liable hereunder.

13.8 Confidentiality. The Borrower and the Lender hereby agree and acknowledge that any and all information relating to the Borrower which is (i) furnished by the Borrower to the Lender (or to any Affiliate of the Lender), and (ii) non-public, confidential or proprietary in nature, shall be kept confidential by the Lender or such Affiliate in accordance with applicable law, provided, however, that such information and other credit information relating to the Borrower may be distributed by the Lender or such Affiliate to the Lender's or such Affiliate's directors, officers, employees, attorneys, affiliates, auditors and regulators, and upon the order of a court or other governmental agency having jurisdiction over the Lender or such Affiliate, to any other party. The Borrower and the Lender further agree that this provision shall survive the termination of this Agreement.

13.9 Binding Effect. This Agreement shall become effective upon execution and delivery by the Borrower and the Lender. If this Agreement is not dated or contains any blanks when executed by the Borrower, the Lender is hereby authorized, without notice to the Borrower, to date this Agreement as of the date when it was executed by the Borrower, and to complete any such blanks according to the terms upon which this Agreement is executed.

13.10 Governing Law. This Agreement, the Loan Documents and the Revolving Note shall be delivered and accepted in and shall be deemed to be contracts made under and governed by the internal laws of the State of Illinois (but giving effect to federal laws applicable to national lenders), and for all purposes shall be construed in accordance with the laws of such State, without giving effect to the choice of law provisions of such State, except that any exercise by Lender of its remedies under this Agreement pertaining to the Collateral shall be conducted in accordance with the laws of the state where the Collateral is located.

13.11 Enforceability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by, unenforceable or invalid under any jurisdiction, such provision shall as to such jurisdiction, be severable and be ineffective to the extent of such prohibition or invalidity, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

13.12 Survival of Borrower Representations. All covenants, agreements, representations and warranties made by the Borrower herein shall, notwithstanding any investigation by the Lender, be deemed material and relied upon by the Lender and shall survive the making and execution of this Agreement and the Loan Documents and the issuance of the Revolving Note, and shall be deemed to be continuing representations and warranties until such time as the Borrower has fulfilled all of its Obligations to the Lender, and the Lender has been paid in full. The Lender, in extending financial accommodations to the Borrower, is expressly acting and relying on the aforesaid representations and warranties.

13.13 Extensions of Lender's Commitment and Revolving Note. This Agreement shall secure and govern the terms of any extensions or renewals of the Lender's commitment hereunder and the Revolving Note pursuant to the execution of any modification, extension or renewal note executed by the Borrower and accepted by the Lender in its sole and absolute discretion in substitution for the Revolving Note.

13.14 Time of Essence. Time is of the essence in making payments of all amounts due the Lender under this Agreement and in the performance and observance by the Borrower of each covenant, agreement, provision and term of this Agreement.

13.15 Communication. The Lender is hereby authorized to rely upon and accept as an original any communication which is sent to the Lender by facsimile, or electronic transmission (each, a "**Communication**") which the Lender in good faith believes has been signed by Borrower and has been delivered to the Lender by a properly authorized representative of the Borrower, whether or not that is in fact the case. Notwithstanding the foregoing, the Lender shall not be obligated to accept any such Communication as an original and may in any instance require that an original document be submitted to the Lender in lieu of, or in addition to, any such Communication.

13.16 Notices. Except as otherwise provided herein, the Borrower waives all notices and demands in connection with the enforcement of the Lender's rights hereunder. All notices, requests, demands and other communications provided for hereunder shall be in writing, sent by certified or registered mail, postage prepaid, by facsimile, telegram or delivered in person, and addressed as follows:

If to the Borrower:

POLAR POWER, INC.
249 East Gardena Boulevard
Gardena, California 90248
Attention: Arthur Darius Sams
President

With a copy to:

TROUTMAN SANDERS
5 Park Plaza, Suite 1400
Irvine, California 92614
Attention: Larry Cerutti, Esq.

If to the Lender:

GIBRALTAR BUSINESS CAPITAL, LLC
400 Skokie Boulevard, Suite 375
Northbrook, Illinois 60062
Attention: Scott Winicour,
Chief Operating Officer

With a copy to:

ROBBINS, SALOMON & PATT, LTD.
180 North LaSalle Street, Suite 3300
Chicago, Illinois 60601
Attention: Andrew M. Sachs, Esq.

or, as to each party, at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this subsection. All notices addressed as above shall be deemed to have been properly given (i) if served in person, upon acceptance or refusal of delivery; (ii) if mailed by certified or registered mail, return receipt requested, postage prepaid, on the third (3rd) day following the day such notice is deposited in any post office station or letter box; or (iii) if sent by recognized overnight courier, on the first (1st) day following the day such notice is delivered to such carrier. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

13.17 Release of Claims Against Lender. In consideration of the Lender making the Revolving Loans, the Borrower and all other Obligors do each hereby release and discharge the Lender of and from any and all claims, harm, injury, and damage of any and every kind, known or unknown, legal or equitable, which any Obligor may have against the Lender from the date of their respective first contact with the Lender until the date of this Loan Agreement, including any claim arising from any reports (environmental reports, surveys, appraisals, etc.) prepared by any parties hired or recommended by the Lender. The Borrower and all other Obligors confirm to Lender that they have reviewed the effect of this release with competent legal counsel of their choice, or have been afforded the opportunity to do so, prior to execution of this Agreement and the Loan Documents and do each acknowledge and agree that the Lender is relying upon this release in extending the Revolving Loans to the Borrower.

13.18 Costs, Fees and Expenses. The Borrower shall pay or reimburse the Lender for all reasonable actual out of pocket costs, fees and expenses incurred by the Lender or for which the Lender becomes obligated in connection with the negotiation, preparation, consummation, administration, collection of the Obligations or enforcement of this Agreement, the other Loan Documents and all other documents provided for herein or delivered or to be delivered hereunder or in connection herewith (including any amendment, supplement or waiver to any Loan Document), or during any workout, restructuring or negotiations in respect thereof, including reasonable consultants' fees and attorneys' fees and time charges of counsel to the Lender, plus costs and expenses of such attorneys or of the Lender; search fees, costs and expenses; and all taxes payable in connection with this Agreement or the other Loan Documents, whether or not the transaction contemplated hereby shall be consummated. In furtherance of the foregoing, the Borrower shall pay any and all stamp and other taxes, UCC search fees, a UCC policy of insurance issued by a title insurance company acceptable to Lender, filing fees and other costs and expenses in connection with the execution and delivery of this Agreement and the other Loan Documents to be delivered hereunder, and agrees to save and hold the Lender harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such costs and expenses. That portion of the Obligations consisting of costs, expenses or advances to be reimbursed by the Borrower to the Lender pursuant to this Agreement or the other Loan Documents which are not paid on or prior to the date hereof shall be payable by the Borrower to the Lender on demand. If at any time or times hereafter the Lender: (a) employs counsel for advice or other representation (i) with respect to this Agreement or the other Loan Documents, (ii) to represent the Lender in any litigation, contest, dispute, suit or proceeding or to commence, defend, or intervene or to take any other action in or with respect to any litigation, contest, dispute, suit, or proceeding (whether instituted by the Lender, the Borrower, or any other Person) in any way or respect relating to this Agreement, the other Loan Documents or the Borrower's business or affairs, or (iii) to enforce any rights of the Lender against the Borrower or any other Person that may be obligated to the Lender by virtue of this Agreement or the other Loan Documents; (b) takes any action to protect, collect, sell, liquidate, or otherwise dispose of any of the Collateral; and/or (c) attempts to or enforces any of the Lender's rights or remedies under the Agreement or the other Loan Documents, the reasonable actual out of pocket costs and expenses incurred by the Lender in any manner or way with respect to the foregoing, shall be part of the Obligations, payable by the Borrower to the Lender on demand.

13.19 Indemnification. The Borrower agrees to defend (with counsel satisfactory to the Lender), protect, indemnify, exonerate and hold harmless each Indemnified Party from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and distributions of any kind or nature (including the disbursements and the reasonable fees of counsel for each Indemnified Party thereto), which may be imposed on, incurred by, or asserted against, any Indemnified Party (whether direct, indirect or consequential and whether based on any federal, state or local laws or regulations, including securities laws, Environmental Laws, commercial laws and regulations, under common law or in equity, or based on contract or otherwise) in any manner relating to or arising out of this Agreement or any of the Loan Documents, or any act, event or transaction related or attendant thereto, the preparation, execution and delivery of this Agreement and the Loan Documents, including the making or issuance and management of the Revolving Loans, the use or intended use of the proceeds of the Revolving Loans, the enforcement of the Lender's rights and remedies under this Agreement, the Loan Documents, any Revolving Note, any other instruments and documents delivered hereunder, or under any other agreement between the Borrower and the Lender; provided, however, that the Borrower shall not have any obligations hereunder to any Indemnified Party with respect to matters determined by a court of competent jurisdiction by final and nonappealable judgment to have been caused by or resulting from the willful misconduct or gross negligence of such Indemnified Party. To the extent that the undertaking to indemnify set forth in the preceding sentence may be unenforceable because it violates any law or public policy, the Borrower shall satisfy such undertaking to the maximum extent permitted by applicable law. Any liability, obligation, loss, damage, penalty, cost or expense covered by this indemnity shall be paid to each Indemnified Party on demand, and failing prompt payment, together with interest thereon at the Default Rate from the date incurred by each Indemnified Party until paid by the Borrower, shall be added to the Obligations of the Borrower and be secured by the Collateral. The provisions of this Section shall survive the satisfaction and payment of the other Obligations and the termination of this Agreement.

13.20 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by any Obligor or the transfer to the Lender of any property should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (collectively, a "**Voidable Transfer**"), and if the Lender is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorney's fees of the Lender, the Obligations shall automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

13.21 Customer Identification - USA Patriot Act Notice. The Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "**Act**"), and the Lender's policies and practices, the Lender is required to obtain, verify and record certain information and documentation that identifies the Borrower, which information includes the name and address of the Borrower and such other information that will allow the Lender to identify the Borrower in accordance with the Act.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Loan and Security Agreement as of the date first above written.

POLAR POWER, INC., a California corporation

By: /s/ Arthur D. Sams
Name: Arthur D. Sams
Title: President

Agreed and accepted:

GIBRALTAR BUSINESS CAPITAL, LLC,
a Delaware limited liability company

By: /s/ Mark J. Stoeberl
Name: Mark J. Stoeberl
Title: C.C.O.

EXHIBIT "A"
BORROWING BASE CERTIFICATE



MEMORANDUM OF UNDERSTANDING

Polar Power, Inc., a California corporation, located at 22520 Avalon Blvd, Carson, California, USA (“Company”) does hereby promise to pay to Richard J. Ulinski (“Inventor”) at 315 North Canyon Blvd, Monrovia, CA 91016, a total sum of SIX HUNDRED THOUSAND DOLLARS (\$600,000) to fully acquire all rights to all control systems and associated products that Mr. Ulinski developed between December 2004 to December 30, 2014 mentioned in Appendix A.

Subject to the terms and conditions set forth in this Agreement, Inventor agrees to transfer, assign, and convey to Company, and Company agrees to acquire from Inventor, the Confidential Information, constituting all his rights, titles, and interests in the Confidential Information. Inventor acknowledges and agrees that all ownership interests in and rights to the Confidential Information as listed in Appendix A shall be the sole and exclusive property of Company. The Confidential Information also includes all documentation including all schematics, production files, Bills of materials, descriptions, specifications, manuals, and other materials pertaining to it.

This agreement made on the 30th day of December 2014 will supersede and/or nullify the INTELLECTUAL PROPERTY PURCHASE AGREEMENT (“Agreement”) made and entered into as of the 7th day of July 2012, by and between RICHARD J. ULINSKI, trustee of the Richard J and Kathleen Ulinski trust and Polar Power Inc.

The sum that was paid so far by the Company to the Inventor is as follows

| Instrument | Paid out date | Amount |
|--------------------------|--------------------------|----------------------|
| Royalty paid so far | 01/01/2012 - 12/13/2014 | \$ 243,784.80 |
| Royalty lump-sum payment | 12/30/2014 | \$ 45,000.00 |
| | Total paid so far | \$ 288,784.80 |

Balance amount of THREE HUNDRED AND ELEVEN THOUSAND TWO HUNDRED FIFTEEN DOLLARS AND 20 CENTS (\$311,215.20) is paid in monthly installments of FIFTEEN THOUSAND DOLLARS (\$15,000) for TWENTY (20) months and a final payment of ELEVEN THOUSAND TWO HUNDRED FIFTEEN DOLLARS AND 20 CENTS (\$11,215.20) in the twenty first month.



Payments will be made in lawful money of the United States, commencing January 1, 2015 and continuing on the first day of each calendar month thereafter until all sums hereunder has been fully paid.

Inventor agrees to support all existing and new projects for the Company and would devote the time and effort necessary to support such projects. Company will cover any reasonable expenses that Inventor incurs during the development of new projects.

Upon signing this agreement, Inventor agrees that Company owns the sole and exclusive right, title and interest in and to the Confidential Information, including any copyright, trademark, and trade secret rights that may exist.

Inventor shall transfer and convey to Company good and marketable title to the Confidential Information, free and clear of any judgments, liens, security interests and pledges.

Inventor agrees that, for a period of five (5) years after the date of this Agreement, he will not sell, license, develop for hire, or in any way (either directly or through any other party) produce control systems and devices, including circuit board layout and related electronic engineering similar to or designed to accomplish the same functions as the Confidential Information sold to Company under this Agreement.

Neither this Agreement nor any term hereof may be waived, amended, discharged, modified, changed or terminated orally; nor shall any waiver of any provision hereof be effective except by an instrument in writing signed by "Company" and "Inventor".

In the case of the Company going public, or a change in the ownership of the Company due to new investors, this agreement will remain in force.

It is expressly understood and agreed that Company shall not be liable for, nor is Company assuming in any manner, any of the obligations or liabilities of Inventor of any kind or nature, prior to the date of this Agreement.



IN WITNESS WHEREOF, "Company" has executed this agreement as of the date and year written below.

"Company"

POLAR POWER, INC.,

a California corporation

By: /s/ Arthur D. Sams
Arthur D. Sams

President

"Inventor"

By: /s/ Richard J. Ulinski

Richard J. Ulinski



Appendix A

Products developed by Richard Ulinski for Polar Power, Inc from December 2004 to December 30, 2014:

1. 200-0100 Power Protection Module. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 2. 200-0101 Power Supply for Power Protection Module. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 3. 200-0150 Load Bank Controller. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 4. 200-0160 DCGPU AC output filter. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 5. 200-0180 LM Aero Blimp Power Monitor. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 6. 200-0210 DCGPU DC output filter. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 7. 200-0240 Multi Purpose Display. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 8. 200-0250 Generator Controller Module. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 9. 200-0280 5 Volt Speed Control Circuit.. Circuit design, Schematic, PCB layout,
 10. 200-0290 Engine Interface Module. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 11. 200-0320 CAN Buss display module. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 12. 200-0330 LEM Current sensor Module. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 13. 200-0340 High Voltage Adaptor. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 14. 200-0360 Current Limiting Regulator. . Circuit design, Schematic, PCB layout.
 15. 200-0380 Network Interface Module version 1. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 16. 200-0400 Over Voltage Protection PCB. . Circuit design, Schematic, PCB layout,
 17. 200-0450 300 Volt to 12 Volt Converter. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
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18. 200-0510 Network Interface (Ethernet module). . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 19. 200-0520 Remote Sensor Unit. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 20. 200-0550 CAN Bridge Assembly. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 21. 200-0570 Battery Monitor. . Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 22. 200-0580 Remote Fuel Monitor.. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 23. 200-0630 32 Relay Alarm Module.. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 24. 200-0640 8 Relay Alarm Module.. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 25. 200-0650 Relay Daughter Board.. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 26. 200-0660 1820 Temperature Sensor.. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
 27. 200-0670 Fuel Level Test Circuit.. Circuit design, Schematic, PCB layout, Fabrication drawings, Assembly drawings, and Printed Circuit Board manufacturing production files.
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**AIR COMMERCIAL REAL ESTATE ASSOCIATION
STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT
LEASE — GROSS**

(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. Basic Provisions (“Basic Provisions”).

1.1 **Parties:** This Lease (“Lease”), dated for reference purposes only November 7, 2014, is made by and between Two Bros L. P. (“Lessor”) and Polar Power, Inc., a California corporation (“Lessee”), (collectively the “Parties,” or individually a “Party”).

1.2 **Premises:** That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 249 E. Gardena Boulevard, Carson located in the County of Los Angeles, State of California and generally described as (describe briefly the nature of the property and, if applicable, the “Project”, if the property is located within a Project) an approximate 40,066 square foot industrial building situated on approximately 78,444 square feet of land (“Premises”). (See also Paragraph 2)

1.3 **Term:** four (4) years and two (2) months (“Original Term”) commencing January 1, 2015 (“Commencement Date”) and ending February 28, 2019 (“Expiration Date”). (See also Paragraph 3)

1.4 **Early Possession:** If the Premises are available Lessee may have non-exclusive possession of the Premises commencing (“Early Possession Date”). (See also Paragraphs 3.2 and 3.3)

1.5 **Base Rent:** \$29, 648.00 per month (“Base Rent”), payable on the first day of each month commencing February 1, 2015 (See also Paragraph 4)

If (his box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Paragraph 51

1.6 Base Rent and Other Monies Paid Upon Execution:

- (a) **Base Rent:** \$29,648 . 00 for the period February 1 - 28, 2015
- (b) **Security Deposit:** \$88,944.00 (“Security Deposit”). (See also Paragraph 5 and 54)
- (c) **Association Fees:** \$N/A for the period
- (d) **Other:** \$N/A for
- (e) **Total Due Upon Execution of this Lease:** \$118,592.00

1.7 **Agreed Use:** light manufacturing, assembly of power generation systems and related uses (See also Paragraph 6)

1.8 **Insuring Party:** Lessor is the “Insuring Party”. The annual “Base Premium” is \$4, 700. 00 (See also Paragraph B)

1.9 **Real Estate Brokers:** (See also Paragraph 15 and 25)

(a) **Representation:** The following real estate brokers (the “Brokers”) and brokerage relationships exist in this transaction (check applicable boxes):

Daum Commercial Real Estate Svcs/Brad Levin & Larry Iles represents Lessor exclusively (“Lessor’s Broker”);

Lee & Associates/Craig Poropat represents Lessee exclusively (“Lessee’s Broker”); or represents both Lessor and Lessee (“Dual Agency”).

(b) **Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of _____ or _____% of the total Base Rent) for the brokerage services rendered by the Brokers.

~~1 . 1 0 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by _____ (“Guarantor”). (See also Paragraph 37)~~

1.11 **Attachments.** Attached hereto are the following, all of which constitute a part of this Lease:

- an Addendum consisting of Paragraphs 51 through 56
- a plot plan depicting the Premises;
- a current set of the Rules and Regulations;
- a Work Letter;
- a energy disclosure addendum is attached;
- other (specify): _____

2. **Premises.**

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. While the approximate square footage of the Premises may have been used in the marketing of the Premises for purposes of comparison, the Base Rent stated herein is NOT tied to square footage and is not subject to adjustment should the actual size be determined to be different. **Note: Lessee is advised to verify the actual size prior to executing this Lease.**

2.2 **Condition.** Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs (“**Start Date**”), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems (“**HVAC**”), loading doors, sump pumps, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the surface and structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the “**Building**”) shall be free of material defects, and that the Unit does not contain hazardous levels of any mold or fungi defined as toxic under applicable state or federal law. If a non-compliance with said warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor’s sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor’s expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Building. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee’s sole cost and expense, except for the roof, foundations, and bearing walls which are handled as provided in paragraph 7.

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2 . 3 **Compliance.** Lessor warrants that to the best of its knowledge the improvements on the Premises comply with the building codes, applicable laws, covenants or restrictions of record, regulations, and ordinances (“**Applicable Requirements**”) that were in effect at the time that each improvement, or portion thereof, was constructed. Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee’s use (see Paragraph 50), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. **NOTE: Lessee is responsible for determining whether or not the Applicable Requirements, and especially the zoning, are appropriate for Lessee’s intended use, and acknowledges that past uses of the Premises may no longer be allowed.** If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor’s expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee’s sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building (“**Capital Expenditure**”), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months’ Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee’s termination notice that Lessor has elected to pay the difference between the actual cost thereof and an amount equal to 6 months’ Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor shall pay for such Capital Expenditure and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease or any extension thereof, on the date that on which the Base Rent is due, an amount equal to 1/144th of the portion of such costs reasonably attributable to the Premises. Lessee shall pay Interest on the balance but may prepay its obligation at any time. If, however, such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor’s termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor’s share of such costs have been fully paid. If Lessee is unable to finance Lessor’s share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not, however, have any right to terminate this Lease.

2 . 4 **Acknowledgements.** Lessee acknowledges that: (a) it has been given an opportunity to inspect and measure the Premises, (b) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the size and condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee’s intended use, (c) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, (d) it is not relying on any representation as to the size of the Premises made by Brokers or Lessor, (e) the square footage of the Premises was not material to Lessee’s decision to lease the Premises and pay the Rent stated herein, and (f) neither Lessor, Lessors agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee’s ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor’s sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2 . 5 **Lessee as Prior Owner/Occupant.** The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

3. **Term.**

3.1 **Term.** The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 **Early Possession.** My provision herein granting Lessee Early Possession of the Premises is subject to and conditioned upon the Premises being available for such possession prior to the Commencement Date. Any grant of Early Possession only conveys a non-exclusive right to occupy the Premises. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such Early Possession. All other terms of this Lease (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such Early Possession shall not affect the Expiration Date.

3.3 **Delay In Possession.** Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession by such date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or change the Expiration Date. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the Commencement Date, as the same may be extended under the terms of any Work Letter executed by Parties, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. If possession of the Premises is not delivered within 120 days after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 **Lessee Compliance.** Lessor shall not be required to deliver possession of the Premises to Lessee until Lessee complies with its obligations to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. **Rent.**

4.1 **Rent Defined.** All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("**Rent**").

4.2 **Payment.** ... Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. All monetary amounts shall be rounded to the nearest whole dollar. In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of \$25 in addition to any Late Charge and Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent, Insurance and Real Property Taxes, and any remaining amount to any other outstanding charges or costs.

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4.3 **Association Fees.** In addition to the Base Rent, Lessee shall pay to Lessor each month an amount equal to any owner's association or condominium fees levied or assessed against the Premises. Said monies shall be paid at the same time and in the same manner as the Base Rent.

5. **Security Deposit.** Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount already due Lessor, for Rents which will be due in the future, and/ or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 90 days after the expiration or termination of this Lease, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. **Use.**

6.1 **Use.** Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

6.2 **Hazardous Substances.**

(a) **Reportable Uses Require Consent.** The term "**Hazardous Substance**" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "**Reportable Use**" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties,

and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessee). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. **No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.**

(e) **Lessor Indemnification.** Except as otherwise provided in paragraph 8.7, Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which result from Hazardous Substances which existed on the Premises prior to Lessee's occupancy or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) **Investigations and Remediations.** Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to Lessee's occupancy, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

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(g) **Lessor Termination Option.** If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6 . 3 **Lessee's Compliance with Applicable Requirements.** Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the such Requirements, without regard to whether such Requirements are now in effect or become effective after the Start Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements. Likewise, Lessee shall immediately give written notice to Lessor of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold; or (ii) any mustiness or other odors that might indicate the presence of mold in the Premises. In addition, Lessee shall provide Lessor with copies of its business license, certificate of occupancy and/or any similar document within 10 days of the receipt of a written request therefor.

6 . 4 **Inspection; Compliance.** Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance Condition (see paragraph 9.1) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination. In addition, Lessee shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of a written request therefor.

7. **Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.**

7.1 **Lessee's Obligations.**

(a) **In General.** Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), ceilings, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee is also responsible for keeping the roof and roof drainage clean and free of debris. Lessor shall keep the surface and structural elements of the roof, foundations, and bearing walls in good repair (see paragraph 7.2). Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition (including, e.g. graffiti removal) consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) **Service Contracts.** Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler, and pressure vessels, (iii) fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, and (v) clarifiers. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) **Failure to Perform.** If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly pay to Lessor a sum equal to 115% of the cost thereof.

(d) **Replacement.** Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (ie. 1/144th of the cost per month). Lessee shall pay Interest on the unamortized balance but may prepay its obligation at any time.

7 . 2 **Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee, except for the surface and structural elements of the roof, foundations and bearing walls, the repair of which shall be the responsibility of Lessor upon receipt of written notice that such a repair is necessary. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 **Utility Installations; Trade Fixtures; Alterations.**

(a) **Definitions.** The term "**Utility Installations**" refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "**Trade Fixtures**" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "**Alterations**" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "**Lessee Owned Alterations and/or Utility Installations**" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

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(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, will not affect the electrical, plumbing, HVAC, and/or life safety systems, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) **Liens; Bonds.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 **Ownership; Removal; Surrender; and Restoration.**

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Premises) to the level specified in Applicable Requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. **Insurance; Indemnity.**

8.1 **Payment of Premium Increases.**

(a) Lessee shall pay to Lessor any insurance cost increase ("**Insurance Cost Increase**") occurring during the term of this Lease. Insurance Cost Increase is defined as any increase in the actual cost of the insurance required under Paragraph 8.2(b), 8.3(a) and 8.3(b) ("**Required Insurance**"), over and above the Base Premium as hereinafter defined calculated on an annual basis. Insurance Cost Increase shall include but not be limited to increases resulting from the nature of Lessee's occupancy, any act or omission of Lessee, requirements of the holder of mortgage or deed of trust covering the Premises, increased valuation of the Premises and/or a premium rate increase. The parties are encouraged to fill in the Base Premium in paragraph 1.8 with a reasonable premium for the Required Insurance based on the Agreed Use of the Premises. If the parties fail to insert a dollar amount in Paragraph 1.8, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the commencement of the Original Term for the Agreed Use of the Premises. In no event, however, shall Lessee be responsible for any portion of the increase in the premium cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of \$2,000,000 per occurrence.

(b) Lessee shall pay any such Insurance Cost Increase to Lessor within 30 days after receipt by Lessee of a copy of the premium statement or other reasonable evidence of the amount due. If the insurance policies maintained hereunder cover other property

besides the Premises, Lessor shall also deliver to Lessee a statement of the amount of such Insurance Cost Increase attributable only to the Premises showing in reasonable detail the manner in which such amount was computed. Premiums for policy periods commencing prior to, or extending beyond the term of this Lease, shall be prorated to correspond to the term of this Lease.

8.2 Liability Insurance.

(a) **Carried by Lessee.** Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an annual aggregate of not less than \$2,000,000. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured-Managers or Lessors of Premises" Endorsement. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an **"insured contract"** for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) **Carried by Lessor.** Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) **Building and Improvements.** The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee not by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender or included in the Base Premium), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$5,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

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(b) **Rental Value.** The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value insurance"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) **Adjacent Premises.** If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4 **Lessee's Property; Business Interruption Insurance; Worker's Compensation Insurance.**

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations.

(b) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) **Worker's Compensation Insurance.** Lessee shall obtain and maintain Worker's Compensation Insurance in such amount as may be required by Applicable Requirements. Such policy shall include a Waiver of Subrogation Endorsement. Lessee shall provide Lessor with a copy of such endorsement along with the certificate of insurance or copy of the policy required by paragraph 8.5.

(d) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 **Insurance Policies.** Insurance required herein shall be by companies maintaining during the policy term a "General Policyholders Rating" of at least A-, VII, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates with copies of the required endorsements evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 **Waiver of Subrogation.** Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 **Indemnity.** Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 **Exemption of Lessor and its Agents from Liability.** Notwithstanding the negligence or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessee is required to maintain pursuant to the provisions of paragraph 8.

8.9 **Failure to Provide Insurance.** Lessee acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, for any month or portion thereof that Lessee does not maintain the required insurance

and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or \$100, whichever is greater. The parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/ costs that Lessor will incur by reason of Lessee's failure to maintain the required insurance. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to maintain such insurance, prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease.

9. **Damage or Destruction.**

9.1 **Definitions.**

(a) **"Premises Partial Damage"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 6 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 6 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **"Insured Loss"** shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

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(d) **“Replacement Cost”** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) **“Hazardous Substance Condition”** shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance, in, on, or under the Premises which requires restoration.

9.2 **Partial Damage - Insured Loss.** If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor’s expense, repair such damage (but not Lessee’s Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor’s election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee’s responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 **Partial Damage - Uninsured Loss.** If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee’s expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor’s expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee’s commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 **Total Destruction.** Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor’s damages from Lessee, except as provided in Paragraph 8.6.

9.5 **Damage Near End of Term.** If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month’s Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee’s receipt of Lessor’s written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor’s commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee’s option shall be extinguished.

9.6 **Abatement of Rent; Lessee’s Remedies.**

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee’s use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) **Remedies.** If Lessor is obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee’s election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. **“Commence”** shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9 . 7 **Termination; Advance Payments.** Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

10. **Real Property Taxes.**

10.1 **Definition.** As used herein, the term "**Real Property Taxes**" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises or the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. Real Property Taxes shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises, and (ii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease.

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(a) **Payment of Taxes.** Lessor shall pay the Real Property Taxes applicable to the Premises provided, however, that Lessee shall pay to Lessor the amount, if any, by which Real Property Taxes applicable to the Premises increase over the fiscal tax year during which the Commencement Date Occurs ("Tax Increase"). Payment of any such Tax Increase shall be made by Lessee to Lessor within 30 days after receipt of Lessor's written statement setting forth the amount due and computation thereof. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect. In the event lessee incurs a late charge on any Rent payment, Lessor may estimate the current Real Property Taxes, and require that the Tax Increase be paid in advance to Lessor by Lessee monthly in advance with the payment of the Base Rent. Such monthly payment shall be an amount equal to the amount of the estimated installment of the Tax Increase divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable Tax Increase is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable Tax Increase. If the amount collected by Lessor is insufficient to pay the Tax Increase when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. Advance payments may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any such advance payments may be treated by Lessor as an additional Security Deposit.

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(b) **Additional Improvements.** Notwithstanding anything to the contrary in this Paragraph 10.2, Lessee shall pay to Lessor upon demand therefor the entirety of any increase in Real Property Taxes assessed by reason of Alterations or Utility Installations placed upon the Premises by Lessee or at Lessee's request or by reason of any alterations or improvements to the Premises made by Lessor subsequent to the execution of this Lease by the Parties.

10.3 **Joint Assessment.** If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Tax Increase for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

10.4 **Personal Property Taxes.** Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. **Utilities and Services.** Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered or billed to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered or billed. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. **Assignment and Subletting.**

12.1 **Lessor's Consent Required.**

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "**assign or assignment**") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

(f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, ie. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.

12.2 **Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or

subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 **Additional Terms and Conditions Applicable to Subletting.** The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

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(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. **Default; Breach; Remedies.**

13.1 **Default; Breach.** A "**Default**" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "**Breach**" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee. THE ACCEPTANCE BY LESSOR OF A PARTIAL PAYMENT OF RENT OR SECURITY DEPOSIT SHALL NOT CONSTITUTE A WAIVER OF ANY OF LESSOR'S RIGHTS, INCLUDING LESSOR'S RIGHT TO RECOVER POSSESSION OF THE PREMISES.

(c) The failure of Lessee to allow Lessor and/or its agents access to the Premises or the commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3 business days following written notice to Lessee.

(d) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate or financial statements, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42, (viii) material safety data sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b), (c) or (d), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "**debtor**" as defined in 11 U.S.C. §101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(h) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its

guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 **Remedies.** If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor an amount equal to 115% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover any damages to which Lessor is otherwise entitled. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

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(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture.** Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges.** Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 10% of each such overdue amount or \$100, whichever is greater. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 **Interest.** Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due shall bear interest from the 31st day after it was due. The interest ("**Interest**") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 **Breach by Lessor.**

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to seek reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. **Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "**Condemnation**"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the Building, or more than 25% of that portion of the Premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. **Brokerage Fees.**

15.1 **Additional Commission.** In addition to the payments owed pursuant to Paragraph 1.9 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee or anyone affiliated with Lessee

acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, within which the Premises is located, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the fee schedule of the Brokers in effect at the time the Lease was executed.

15.2 **Assumption of Obligations.** Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.9, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due as and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.

15.3 **Representations and Indemnities of Broker Relationships.** Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. **Estoppel Certificates.**

(a) Each Party (as "**Responding Party**") shall within 10 days after written notice from the other Party (the "**Requesting Party**") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "**Estoppel Certificate**" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

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(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate. In addition, Lessee acknowledges that any failure on its part to provide such an Estoppel Certificate will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, should the Lessee fail to execute and/or deliver a requested Estoppel Certificate in a timely fashion the monthly Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or \$100, whichever is greater for remainder of the Lease. The Parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional ask/costs that Lessor will incur by reason of Lessee's failure to provide the Estoppel Certificate. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to provide the Estoppel Certificate nor prevent the exercise of any of the other rights and remedies granted hereunder.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall within 10 days after written notice from Lessor deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Definition of Lessor.** The term "**Lessor**" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Days.** Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. **Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor or its partners, members, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor's partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. **No Prior or Other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. Notices.

23.1 **Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, or by mail, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 72 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or by email shall be deemed delivered upon telephone confirmation of receipt (if by fax, a confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers.

(a) No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the

obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent.

(b) The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

(c) THE PARTIES AGREE THAT THE TERMS OF THIS LEASE SHALL GOVERN WITH REGARD TO ALL MATTERS RELATED THERETO AND HEREBY WAIVE THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE TO THE EXTENT THAT SUCH STATUTE IS INCONSISTENT WITH THIS LEASE.

25. Disclosures Regarding The Nature of a Real Estate Agency Relationship.

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:

(i) Lessor's Agent. A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) Lessee's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

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(iii) **Agent Representing Both Lessor and Lessee.** A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(b) **Brokers have no responsibility with respect to any default or breach hereof by either Party.** The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Broker more than one year after the Start Date and that the liability (including court costs and attorneys' fees), of any Broker with respect to any such lawsuit and/or legal proceeding shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

(c) **Lessor and Lessee agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.**

26. **No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Holdover Base Rent shall be calculated on monthly basis. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, a deed of trust, or other hypothecation or security device (collectively, "**Security Device**"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "**Lender**") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment.** In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor which was not paid or credited to such new owner.

30.3 **Non-Disturbance.** With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "**Non-Disturbance Agreement**") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall, if requested by Lessee, use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 **Self-Executing.** The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. **Attorneys' Fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "**Prevailing Party**" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach (\$200 is a reasonable minimum per occurrence for such services and consultation).

32. **Lessor's Access; Showing Premises; Repairs.** Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

33. **Auctions.** Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

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34. **Signs.** Lessor may place on the Premises ordinary "For Sale" signs at any time and ordinary "For Lease" signs during the last 6 months of the term hereof. Except for ordinary "for sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. **Termination; Merger.** Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. **Consents.** Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. **Guarantor.**

37.1 **Execution.** The Guarantors, if any, shall each execute a guaranty in the form most recently published by the AIR Commercial Real Estate Association

37.2 **Default.** It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. **Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. **Options.** If Lessee is granted an Option, as defined below, then the following provisions shall apply:

39.1 **Definition. "Option"** shall mean: (a) the right to extend or reduce the term of or renew this Lease or to extend or reduce the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 **Options Personal To Original Lessee.** Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 **Multiple Options.** In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 **Effect of Default on Options.**

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.

40. **Multiple Buildings.** If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will abide by and conform to all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and to cause its

employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessee also agrees to pay its fair share of common expenses incurred in connection with such rules and regulations.

4 1 . **Security Measures.** Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

4 2 . **Reservations.** Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.

44. **Authority; Multiple Parties; Execution.**

(a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party satisfactory evidence of such authority.

(b) If this Lease is executed by more than one person or entity as "Lessee", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.

(c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

4 5 . **Conflict.** Any conflict between the printed provisions of this Lease and typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

4 6 . **Offer.** Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

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47. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. **Waiver of Jury Trial.** THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.

49. **Arbitration of Disputes.** An Addendum requiring the Arbitration of disputes between the Parties and/or Brokers arising out of this Lease is is not attached to this Lease.

50. **Accessibility; Americans with Disabilities Act.**

(a) The Premises: have not undergone an Inspection by a Certified Access Specialist (CASp). have undergone an inspection by a Certified Access Specialist (CASp) and it was determined that the Premises met all applicable construction-related accessibility standards pursuant to California Civil Code §55.51 et seq. have undergone an Inspection by a Certified Access Specialist (CASp) and it was determined that the Premises did not meet all applicable construction-related accessibility standards pursuant to California Civil Code §55.51 et seq.

(b) Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises. Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. **SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.**

2. **RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.**

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: _____
On: Nov. 19, 2014
By LESSOR:
Two Bros L.P.

By: /s/ Sandy Shadrow
Name Printed: Sandy Shadrow
Title: Managing Member

By: _____
Name Printed: _____
Title: _____
Address: 2220 Avenue of the Stars, #2005
Los Angeles, CA 90067 USA
Telephone: (310) 908-8300
Facsimile (____) _____
Email: _____
Email: _____
Federal ID No. _____

Executed at: _____
On: Nov. 17, 2014
By LESSEE:
Polar Power, Inc., a California corporation

By: /s/ Arthur D. Sams
Name Printed: Arthur Sams
Title: President

By: _____
Name Printed: _____
Title: _____
Address: 22520 Avalon Blvd.
Carson, CA 90745
Telephone: (310) 830-9153
Facsimile (310) 830-9825
Email: _____
Email: _____
Federal ID No. _____

BROKER:

Daum Commercial Real Estate Services

Att: Craig Levin / Larry Iles

Title: First Vice President/Vice President

Address: 1025 W. 190th Street, Suite 420

Gardena, CA 90248

Telephone: (310) 538-6700

Facsimile (310) 515-0230

Email: brad.levin@daumcommercial.com

Federal ID No. _____

Broker/Agent BRE License #: D/AQ #01129558 / 01020885

BROKER:

Daum Commercial Real Estate Services

Att: Craig Poropat

Title: _____

Address: 1411 W. 190th Street, Suite 450

Gardena, CA 90248

Telephone: (310) 768-8800

Facsimile () _____

Email: _____

Federal ID No. _____

Broker/Agent BRE License #: _____

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 500 N Brand Blvd, Suite 900, Glendale, CA 91203.

Telephone No. (213) 687.8777. Fax No.: (213) 687.8616.

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RENT ADJUSTMENT(S)

STANDARD LEASE ADDENDUM

Dated November 7, 2014

By and Between (Lessor) Two Bros L.P.

(Lessee) Polar Power, Inc., a California corporation

Address of Premises: 249 E. Gardena Blvd.
Carson, CA

Paragraph 51

A. RENT ADJUSTMENTS:

The monthly rent for each month of the adjustment period(s) specified below shall be increased using the method(s) indicated below:

(Check Method(s) to be Used and Fill in Appropriately)

~~I. Cost of Living Adjustment(s) (COLA)~~

a. ~~On (Fill in COLA Dates):~~

~~the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): CPI W (Urban Wage Earners and Clerical Workers) or CPI U (All Urban Consumers), for (Fill in Urban Area):~~

~~_____ . All Items
(1982-1984 = 100), herein referred to as "CPI".~~

~~b. The monthly rent payable in accordance with paragraph A.I.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.I.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or (Fill in Other "Base Month"): _____. The sum so calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment.~~

~~c. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.~~

~~II. Market Rental Value Adjustment(s) (MRV)~~

~~a. On (Fill in MRV Adjustment Date(s)):~~

~~the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:~~

~~1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty days, then:~~

(a) ~~Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new~~

~~MRV within the next 30 days. Any associated costs will be split equally between the Parties, or~~

~~(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:~~

~~(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("**Consultant**" check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.~~

~~(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.~~

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(iii) ~~If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.~~

(iv) ~~The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.~~

2) ~~Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.~~

~~b. Upon the establishment of each New Market Rental Value:~~

1) ~~the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and~~

2) ~~the first month of each Market Rental Value term shall become the new 'Base Month' for the purpose of calculating any further Adjustments.~~

III. Fixed Rental Adjustment(s) (FRA)

The Base Rent shall be increased to the following amounts on the dates set forth below:

| On (Fill in FRA Adjustment Date(s)): | The New Base Rent shall be: |
|--------------------------------------|-----------------------------|
| January 1, 2016 | \$ 30,537.44 |
| January 1, 2017 | \$ 31,453.56 |
| January 1, 2018 | \$ 32,397.17 |
| January 1, 2019 | \$ 33,369.09 |

IV. Initial Term Adjustments.

The formula used to calculate adjustments to the Base Rate during the original Term of the Lease shall continue to be used during the extended term.

B. NOTICE:

Unless specified otherwise herein, notice of any such adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE:

The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease or if applicable, paragraph 9 of the Sublease.

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017.

Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

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OPTION(S) TO EXTEND
STANDARD LEASE ADDENDUM

Dated November 7, 2014
By and Between (Lessor) Two Bros L.P.
(Lessee) Polar Power, Inc., a California corporation
Address of Premises: 249 E. Gardena Blvd.
Carson, CA

Paragraph 52

A. OPTION(S) TO EXTEND:

Lessor hereby grants to Lessee the option to extend the term of this Lease for one (1) additional thirty-six (36) month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) In order to exercise an option to extend, Lessee must give written notice of such election to Lessor and Lessor must receive the same at least 6 but not more than 9 months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire. Options (if there are more than one) may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this Option.

(iii) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(iv) This Option is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(v) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below: (Check Method(s) to be Used and Fill in Appropriately)

I. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates):

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): CPI W (Urban Wage Earners and Clerical Workers) or CPI U (All Urban Consumers), for (Fill in Urban Area):

(1982-1984 = 100), herein referred to as "CPI". All Items

b. The monthly rent payable in accordance with paragraph A.I.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.I.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or (Fill in Other "Base Month"):

The sum so calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the

rent payable for the month immediately preceding the rent adjustment.

~~e. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.~~

II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s)) March 1, 2019 and March 1, 2022

the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

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1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached, within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("**Consultant**" - check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, ie. the one that is NOT the closest to the actual MRV.

2) When determining MRV, the Lessor, Lessee and Consultants shall consider the terms of comparable market transactions which shall include, but not limited to, rent, rental adjustments, abated rent, lease term and financial condition of tenants.

3) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and

2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

III. Fixed Rental Adjustment(s) (FRA)

~~The Base Rent shall be increased to the following amounts on the dates set forth below:~~

~~On (Fill in FRA Adjustment Date(s)):~~

~~The New Base Rent shall be:~~

IV. Initial Term Adjustments.

The formula used to calculate adjustments to the Base Rate during the original Term of the Lease shall continue to be used during the extended term.

B. NOTICE:

Unless specified otherwise herein, notice of any rental adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE:

The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease or if applicable, paragraph 9 of the Sublease.

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017.

Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

SS

INITIALS

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INITIALS

**ADDENDUM TO STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE-GROSS
FOR THE PREMISES LOCATED AT
249 E. GARDENA BLVD., CARSON, CA
BY AND BETWEEN TWO BROS L.P. (LESSOR) AND
POLAR POWER, INC., A CALIFORNIA CORPORATION (LESSEE)
DATED NOVEMBER 7, 2014**

53. **RENT ABATEMENT.**

Lessee shall be granted the months of January 2015 and February 2016 Rent free provided Lessee is not in default of the Lease.

54. **SECURITY DEPOSIT.**

Provided Lessee is not in default of the Lease, Lessor will apply \$29,648 of the Security Deposit towards May 2016 rent, reducing the Security Deposit to \$59,262.

55. **LESSOR IMPROVEMENTS.**

Lessor shall, at Lessor's sole cost and expense, complete the following prior to Commencement Date:

- A.) Paint office as needed.
- B.) Clean existing floor tiles and carpet throughout offices. If carpet cannot be cleaned, Lessor will work something out with Tenant that will be mutually agreeable.
- C.) Lessor will credit Lessee up to \$2,000 off their rent upon installation of the automatic front gate system.

56. **WIRING INSTRUCTIONS.**

The Base Rent shall be wired to the address below:

| | |
|-----------------|--|
| Bank: | Bank of America |
| Address: | 2049 Century Park East Suite 200, Los Angeles, CA. 90067 |
| ABA/Routing: | 026009593 |
| Account Title: | Two Bros Investments LP |
| Account Number: | 325039363008 |

57. **GARDENER.**

Notwithstanding anything to the contrary herein, Lessee agrees to retain Maurice Vogel of New Leaf Gardening as the gardener for the Premises for the term of the Lease, so long as his fees are comparable to other gardening services. They currently charge, which the Lessee agrees to pay, \$150.00 per month for gardening services (every other week) for the Premises.

Maurice Vogel, New Leaf Gardening (310) 540-7556

LESSOR:

TWO BROS L.P.

By: /s/ Sandy Shadrow
Name: Sandy Shadrow
Title: Managing Member

By: _____
Name: _____
Title: _____

Date: 11/19, 2014

LESSEE

**POLAR POWER, INC.,
a California corporation**

By: /s/ Arthur D. Sams
Name: Arthur Sams
Title: President

By: _____
Name: _____
Title: _____

Date: Nov. 17, 2014

*** If Lessee is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. This Lease must be executed by two officers — one of whom is the CEO, president or vice president, and the second of whom is the secretary, assistant secretary or treasurer — unless Lessee provides Lessor with a certified copy of a resolution of the CORPORATION which provides otherwise and such certified copy of the resolution shall be attached to this Lease. ***



Uniform Disclosure and Limitation of Liability Form

Property Address:

249 E. Gardena Blvd., Carson, CA

THIS FORM CLARIFIES AND LIMITS THE DISCLOSURES THAT HAVE BEEN MADE, LIMITS BROKER'S LIABILITY WITH RESPECT TO SUCH DISCLOSURES, AND PLACES VARIOUS DUTIES AND RESPONSIBILITIES UPON SELLER/LESSOR AND BUYER/LESSEE. PLEASE READ IT CAREFULLY.

I. Notice to Owners, Buyers and Tenants Regarding Hazardous Substances and Underground Storage Tanks: Comprehensive Federal, state and local regulations have recently been enacted to control the use, storage, handling, clean up, removal and disposal of hazardous and toxic wastes and substances. Extensive legislation has also been adopted with regard to underground storage tanks. As real estate licensees, we are not experts in the area of hazardous substances and we encourage you to consult with your legal counsel with respect to your rights and liabilities with regard to hazardous substances laws and regulations and to obtain technical advice with regard to the use, storage, handling, clean-up, removal or disposal of hazardous substances from professionals, such as a civil engineer, geologist or other persons with experience in these matters to advise you concerning the property. We also encourage you to review the past uses of the property, which may provide information as to the likelihood of the existence of hazardous substances or storage tanks on the property.

DAUM, hereinafter called "Broker", will disclose any knowledge it actually possesses with respect to the existence of hazardous substances or underground storage tanks on the property. Broker has not made any investigations or obtained reports regarding the property, unless so indicated in a separate document signed by Broker. Broker makes no representation or warranty regarding the existence or non-existence of hazardous substances or underground storage tanks on the property.

With regard to the sale of real property, recently enacted California Health and Safety Code Section 25359.7 provides that any owner of non-residential real property who knows, or has reasonable cause to believe, that any release of hazardous substances has come to be located on or beneath real property, shall, prior to the sale of real property, give written notice of that condition to the buyer of the real property. Failure of the owner to provide written notice when required shall subject the owner to actual damages and other remedies provided by the law. In addition, where the owner has actual knowledge of the presence of any hazardous substance and knowingly and willfully fails to provide written notice to the buyer, the owner is liable for a civil penalty not to exceed \$5,000 for each separate violation.

With regard to leases of real property, Section 25359.7 of the California Health and Safety Code provides that any lessee of real property who knows, or has reasonable cause to believe, that any release of hazardous substances has come to be located on or beneath the real property shall, upon discovery by the lessee of the presence or suspected presence of a hazardous substance release, give notice of that condition to the owner of the real property. Failure of the lessee to provide written notice as required to the owner shall make the lease voidable at the discretion of the owner. The Health and Safety Code provides that if the lessee has actual knowledge of the presence of any hazardous substance release and knowingly or willfully fails to provide written notice as required to the owner, the lessee is liable for a civil penalty not to exceed \$5,000 for each violation.

As used in this notice, the term "hazardous substances" is used in the broadest sense and includes all hazardous and toxic materials, substances, or waste as defined by applicable Federal, state and local laws and regulations and includes, but is not limited to petroleum products, paints and solvents, PCBs, asbestos, pesticides and other substances. Hazardous substances may be found on any type of real property, improved or unimproved, occupied or vacant.

II. Notice to Owners, Buyers and Tenants Regarding the "Americans with Disabilities Act": Legislation known as the "Americans with Disabilities Act" ("ADA") was recently adopted and may affect The Property and/or its intended use. As real estate licensees, we are not experts in the legal or technical aspects of ADA as it may pertain to you. We encourage you to consult your legal counsel, architect and/or other professionals with appropriate experience with regard to your rights or obligations for compliance with ADA.

III. Disclaimer and Indemnification: This document has been prepared by DAUM ("Broker") at the request of all parties which agree to indemnify and hold DAUM, its principals, shareholders, officers, agents and employees harmless from any liability which may arise from the preparation of this or any other document relating to this transaction.

All parties acknowledge having been advised to have this and all transaction documents approved by legal counsel and financial counsel prior to execution and delivery.

This transaction is entered into with the understanding that Buyer/Lessee has independently verified to its satisfaction the following items: All measurements, utilities (including power, plumbing, heating and air-conditioning systems), minimum clearance, loading door(s) dimensions, truck access, fire sprinkler system capacity (if any), restrooms, City codes including zoning, setbacks, occupancy permits, hazardous material and waste inspection, and ability to conduct its intended use on the premises.

The items set forth above shall not be considered as an exhaustive list of items, but examples of items Buyer/Lessee should investigate.

Any information provided by Broker has been obtained from sources deemed reliable. While Broker does not doubt its accuracy, Broker has not verified it, assumes no responsibility and makes no guarantee, warranty or representation regarding it. It is Buyer's/Lessee's responsibility to independently confirm its accuracy and completeness. Buyer/Lessee hereby indemnifies and holds harmless Broker named in this transaction, its principals, shareholders, officers, agents and employees from the following: Any claim for personal injury, merchandise or property damage or loss of value arising from or related to physical condition of the property, including, without limitation, soil, roof or structural condition, any claim, dispute or action in connection with completion of work or repairs to the premises, any expense

including reasonable attorney fees and costs suffered in connection with any of the above matters.

IV. Credit and Financial Information: Broker has provided Seller/Lessor with credit information obtained from Buyer/Lessee, which Broker has not verified and does not guarantee. Seller/Lessor acknowledges that Broker does not guarantee either payment or Buyer's/Lessee's performance of the terms of the purchase/lease agreement. Seller's/Lessor's execution of this document is based strictly on Seller's/Lessor's independent verification of Buyer's/Lessee's credit-worthiness and Seller/Lessor holds Broker harmless in the event of Buyer's/Lessee's default.

NOTE: If the property covered by this Uniform Disclosure and Limitation of Liability Form is owned jointly or by a corporation, each individual signing represents and warrants that he/she is authorized to execute and deliver this document and to bind such other owners or corporation having any interest in the property.

DAUM makes no representation or warranty regarding the status of The Property with regard to the items covered in this Uniform Disclosure and Limitation of Liability Form.

APPROVED this 17th day of Nov. 2014

Polar Power, Inc., a California corporation

By: /s/ Arthur D. Sams
Arthur Sams, President

APPROVED this 19th day of Nov. 2014

By: /s/ Sandy Shadrow
Sandy Shadrow, Managing Member

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in the foregoing Registration Statement on Form S-1 of our report dated September 9, 2016 relating to the balance sheets of Polar Power, Inc. as of December 31, 2015 and 2014, and the related statements of operations, shareholders' equity, and cash flows for the years then ended. We also consent to the reference to our firm under the caption "Experts" in the Prospectus.

/s/ Weinberg & Company, P.A.

Los Angeles, California
September 9, 2016
