

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the fiscal year ended **December 31, 2016**
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission file number: 001-37960

POLAR POWER, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0479020

(I.R.S. Employer Identification Number)

249 E. Gardena Blvd., Gardena, California 90248

(Address of principal executive offices)

90248

(Zip Code)

Registrant's telephone number, including area code: **(310) 830-9153**

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

Title of class	Name of each exchange on which each is registered
Common Stock, \$0.0001 par value	The NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (do not check if Smaller Reporting Company)

Smaller Reporting Company

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

The registrant was not a public company as of the last business day of its most recently completed second fiscal quarter and therefore, cannot calculate the aggregate market value of its voting common equity held by non-affiliates as of such date. The registrant's common stock began trading on The NASDAQ Capital Market on December 7, 2016.

The number of shares outstanding of the Registrant's common stock, \$0.0001 par value, as of December 31, 2016 was 10,143,158.

DOCUMENTS INCORPORATED BY REFERENCE

None

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CAUTIONARY STATEMENT

All statements included or incorporated by reference in this Annual Report on Form 10-K, other than statements or characterizations of historical fact, are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements concerning projected net sales, costs and expenses and gross margins; our accounting estimates, assumptions and judgments; the demand for ethanol and its co-products; the competitive nature of and anticipated growth in our industry; production capacity and goals; our ability to consummate acquisitions and integrate their operations successfully; and our prospective needs for additional capital. These forward-looking statements are based on our current expectations, estimates, approximations and projections about our industry and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under "Risk Factors" in Item 1A of this Annual Report on Form 10-K. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

PART I

Item 1. Business

Overview

We design, manufacture and sell direct current, or DC, power systems for applications primarily in the telecommunications market and, to a lesser extent, in other markets, including military, electric vehicle charging, cogeneration, distributed power and uninterruptable power supply. Within the telecommunications market, 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. Within this market, we offer three configurations of our DC power systems, with output power ranging from 5 kW to 20 kW and with three possible sources of fuel: diesel, natural gas and liquid petroleum gas.

Our DC base power 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 in telecommunications towers. Substantially all of our net sales are derived from sales of our DC base power systems to Verizon Wireless.

Our DC hybrid power systems combine our DC base power systems with lithium-ion batteries (or other advanced battery chemistries) to efficiently store energy from DC generator or grid systems to provide back-up power or prime power. Our DC hybrid power system replaces lead acid systems with longer-life and higher efficiency lithium-ion batteries equipped with our proprietary battery management system, or BMS, which protects batteries from being over charged or over discharged during daily use.

Our DC solar hybrid power systems combine our DC hybrid power system with solar panels to produce and store lower cost energy generated by the solar panels into lithium batteries, thereby reducing a DC generator's run time and operating costs.

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 testing F-14 radar assemblies. During the same period, we also supplied Martin Marietta with 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 our 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 2008, we began demonstrating our DC power systems to telecommunications companies. These systems can supply additional hours of operation by directly supplying DC power to the radio equipment located at a cell site after the storage capacity of back-up batteries has been exhausted. 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 \$1.7 million of our DC hybrid power systems, which included our DC generator, solar panels and lithium-ion batteries, 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 market and, to a lesser extent, in other markets including military, electrical vehicle charging, cogeneration, distributed power and uninterruptable power supply.

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 some of the key aspects fueling the growth of telecommunications operators include:

- 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.

Because older cell sites were often located indoors, within buildings pre-equipped with air conditioning and large AC power systems as backup sources for power, the telecommunications industry originally found it convenient to use AC power systems. However, in order to be used by the base radios, antennas and batteries located at cell sites, the AC power needed to be converted into DC power through the use of rectifiers (i.e., devices that convert alternating current into direct current). The older rectifier technology used at cell sites is generally unreliable at high temperatures. As a result, older cell sites required air conditioning that, in turn, required a significant amount of AC power in order to operate.

Telecommunications providers and tower operators have invested significant capital in upgrading their current infrastructure from legacy switch-mode rectifier technology to digital rectifiers to increase power conversion efficiency. Current rectifier technology that is being installed at telecommunications sites has a power conversion efficiency of 96%, as compared to 70% for older rectifier technology, significantly reducing the heat generated and the need for air conditioning. In addition, these and other technological improvements have allowed telecommunications providers to install outdoor cell sites with no air conditioners and, in some cases, powering them with generators and renewable energy systems, such as solar. This trend towards using outdoor cell sites and removing air conditioners has provided telecommunications providers and tower operators with the opportunity to use DC power systems as a backup or primary source of power, since all base radios, antennas and batteries located at cell sites use DC power. This opportunity is further demonstrated by the significant increase in sales of our base DC power systems to Verizon Wireless over the past two years.

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 and 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 2016 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. According to the GSMA 2016 Report, although capital expenditures have increased since 2011, with annual global totals peaking in 2014, the capital expenditures declined modestly by 1.5% in 2015, with much of this decline due to the fact that most mobile operators in certain developed nations had already upgraded from 2G to 4G networks. Meanwhile, in an article published by FierceWireless on April 27, 2016 reporting on recent first quarter 2016 earnings reports by a number of wireless carriers in the United States, FierceWireless reported that AT&T's total capital investment during the first quarter of 2016 increased 17.6% year over year, while wireless capital expenditures were down slightly from the fourth quarter of 2015 due to accelerated purchases in the fourth quarter of 2015 in order to take advantage of significant cost savings. AT&T also reported that it would be adding 2.5 times more capacity at 75% of the capital costs compared to a few years ago. In addition, Verizon Wireless announced that although capital expenditures declined by 9.5% during the first quarter of 2016 as compared to the first quarter of 2015 because of an acceleration in spending during the fourth quarter of 2015 to prepare for the Super Bowl, it expected that wireless capital expenditure spending would increase throughout 2016 as a result of its densification project. Consistent with this expectation, Verizon recently announced that capital expenditures were \$4.1 billion in the third quarter of 2016 driven in part by increased spending in wireless for densification, an increase from the previous quarter. According to the GSMA 2015 Report, although capital expenditures in developing countries will decline annually until 2020, these developing countries will continue to invest in upgrading current 2G infrastructure over the next four years. 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 2015 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 led 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, expanding their 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 are 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.

We believe that the increased trend towards fixed power cost arrangements with tower companies will increase the emphasis on technologies that are more fuel efficient than current legacy systems. In addition, we believe this trend may result in an increased integration of renewable technologies, such as solar, to reduce operating costs and reduce emissions. We believe that the replacement of lower efficiency legacy equipment provides us with an opportunity to introduce our DC power systems with integrated renewable energy technologies earlier than the normal equipment replacement cycle. In February 2015, Verizon Wireless sold 11,000 cell tower assets to American Tower Corporation for \$5.0 billion in cash and then leased the tower space back from American Towers on a monthly basis for 28 years. The leased cell towers will operate Verizon Wireless equipment. Verizon Wireless has also announced plans to use the proceeds of the sale to upgrade its current infrastructure and to implement its network densification plan under which it plans to focus wireless capital spending on adding capacity and density to its existing 4G and LTE networks. In addition, Verizon Wireless has announced plans to develop and deploy 5G wireless technology which would require further expansion of its existing small cell tower technology, in building solutions and distributed antenna solutions, all of which require backup generators to support Verizon Wireless' redundancy goals and objectives. These actions by Verizon Wireless to reinvest capital into upgrading equipment at cell tower sites, including power generation equipment, have benefited us during the last two years.

The increased need for communications during natural and manmade disasters has resulted 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 total net sales, especially to Verizon Wireless, have significantly increased 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, comprised of hybrid vehicle power systems, auxiliary power systems and prime power systems, 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 years ended December 31, 2016 and 2015, sales of auxiliary power systems designed for use in military combat vehicles represented 1.3% and 1.3%, respectively, of our net sales.

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 prototype mobile chargers for four of the major electric car manufacturers to demonstrate how our DC power system equipped with rapid charger software could be 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 plan to further develop this technology in the future to market off-grid hybrid chargers for commercial applications like resorts, shopping centers and convention centers. During the year ended December 31, 2016, we sold one additional mobile charger.

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. We plan to develop next generation of MicroCHP systems to address small commercial and residential markets. We did not sell any of these products during the years ended December 31, 2016 and 2015.

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. We did not sell any of these products during the years ended December 31, 2016 and 2015.

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 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.** Substantially all of our net sales are derived from sales of our DC base power systems to Verizon Wireless, although we do have other customers within the telecommunications market, including AT&T and Telstra, and within other markets including military, electric vehicle charging, cogeneration, distributed power and uninterruptible power.
- **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.** Our growth in sales volumes has enabled us to source components directly from high quality large global manufacturers thereby reducing our component costs. Although we do not have any long term contracts or commitments with our suppliers, we utilize multiple sources for key components, such as engines, to mitigate supply shortages. During the past ten years, we believe we have developed strong long-term relationships with a network of reliable, low-cost manufacturers in the U.S. and abroad.

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 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 product offerings within the data center 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 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 Wireless, 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 an equipment rental program to enter the energy provider market in the telecommunications tower industry. We also plan to target telecommunications tower installations located in the remote outdoor locations with high fuel and maintenance costs. We believe the market is transitioning towards independent energy providers managing all the power and energy assets at telecommunications tower sites. We believe our DC power systems combined with our proprietary remote performance tracking telematics tools allows us to efficiently manage and monitor our rental assets, thereby providing lower life cycle costs to our customers.

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 equipment, electric vehicles and solar energy storage systems can also be powered by our 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 our 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 such as 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, military, 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. Our competitors include Caterpillar, Generac, Cummins, 3-Tech, Ascot, Ausonia, Controllis and Kohler. In addition, incumbent technologies like hydrogen fuel cells are being evaluated, but 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 our proprietary PMHH alternator technology integrated with an engine, control devices and a 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.

Since the early 1980s, our core engineering team 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, provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and recovery from suppliers. 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 March 1, 2017 we had 104 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.

Item 1A. Risk Factors

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

Risks Related to Our Business and Industry

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, Verizon Wireless, comprised 91% and 81% of our total revenues for the years ended December 31, 2016 and 2015, respectively. We expect this trend to continue for the foreseeable future. An unfavorable change in our business relationship with Verizon Wireless, 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 substantially all of our revenue from sales of our DC base power systems to Verizon Wireless within the telecommunications market. Our efforts to expand our product portfolio or markets within which we operate may not succeed, and may reduce our revenue growth rate.

To date, we have derived substantially all of our revenue from sales of our DC base power systems to Verizon Wireless within the telecommunications market. Any factor adversely affecting sales of these power systems to Verizon Wireless or to other customers within this market, including market acceptance, product competition, performance and reliability, reputation, price competition and economic and market conditions, could adversely affect our business and results of operations. Our plan to invest in the development of higher capacity DC hybrid solar systems to address data centers and other applications within the telecommunications market may not result in an anticipated growth in sales and may reduce our revenue growth rate.

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

The design and sales cycle for our DC power systems, from initial contact with our potential customer to the shipments of our product, may be lengthy. Customers generally consider a wide range of factors before making a purchase decision. Prior to purchasing our products, 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 market could result in a significant reduction in sales and negatively affect our profitability if demand for our DC power systems declines within this market.

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 or lower-cost alternative technologies may reduce the demand for our products. A downturn in the demand for our DC power systems within the telecommunications market would likely materially and adversely affect our sales and profitability.

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

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

If our business continues to develop as expected, we anticipate that we will continue to grow 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, especially within the telecommunications market. Significant technological changes could render our existing and potential new products, services and technology obsolete. Our future success will depend, in large part, upon our ability to:

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

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

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

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

- the 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 Engines Company and Kubota Corporation. Purchases from Isuzu, Yanmar and Kubota represented approximately 0%, 19% and 18% of our total cost of sales for 2016, respectively, and represented approximately 6%, 9% and 15% of our total cost of 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 fail to supply engines that meet our quality, quantity or cost requirements, or were to discontinue manufacturing any engines we source from them or discontinue providing any of these engines to us, and we were unable to obtain substitute sources in a timely manner or on terms acceptable to us, our ability to manufacture our products could be materially adversely affected.

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

The prices of some of the key components of our DC power systems are subject to fluctuation due to market forces beyond our control, including changes in the costs of raw materials incorporated into these components. Such price increases occur from time to time due to spot shortages of commodities, increases in labor costs or longer-term shortages due to market forces. In particular, the prices of engines can fluctuate frequently and often significantly. We do not have any long term contracts or commitments with our three key engine suppliers. Substantial increases in the prices of raw materials used in components which we source from our suppliers may result in increased prices charged by our suppliers. If we incur price increases from our suppliers for key components in our DC power systems, our production costs will increase. Given competitive market conditions, we may not be able to pass all or any of those cost increases on to our 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 2016 and 2015, our sales to international customers accounted for 0% and 2%, 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 markets 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

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 Annual Report on Form 10-K.

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

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

Our Chairman, President, Chief Executive Officer and Secretary, Arthur D. Sams, beneficially owns approximately 55% of our outstanding shares of common stock. Mr. Sams therefore has significant influence over management and significant control over matters requiring stockholder approval, including the annual election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. This concentrated control 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.

Our Chairman, President, Chief Executive Officer and Secretary, Arthur D. Sams, controls 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.

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

The trading price of our shares of common stock is volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control, including limited trading volume. In addition to the factors discussed in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K, 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 The NASDAQ Capital Market;
- market conditions in our industry;
- overall performance of the equity markets and general political and economic conditions;
- introduction of new products or services by us or our competitors;
- additions or departures of key management, 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.

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

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

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

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

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 March 9, 2017, our Chairman, President, Chief Executive Officer and Secretary, Arthur D. Sams, beneficially owned approximately 55% of our outstanding common stock. If Mr. Sams were to sell a substantial portion of the shares he holds, our stock price could decline as a result of such sale. As of March 9, 2017, approximately 7,383,158 shares of common stock, including the 5,578,176 shares held by Mr. Sams, are subject to a lock-up agreement with our underwriters which expires on July 7, 2017.

We registered, on a Form as S-8, 1,754,385 shares of common stock that we may issue under our 2016 Omnibus Incentive Plan, or the 2016 Plan. These shares of common stock can be freely sold in the public market upon issuance and once vested, subject to the lock-up period described above.

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

We elected in our certificate of incorporation to not be subject to the provisions of Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns (or, in certain cases, within three years prior, did own) 15% or more of the corporation’s voting stock. Our decision not to be subject to Section 203 will allow, for example, Arthur D. Sams, our Chairman, President, Chief Executive Officer and Secretary (who beneficially owns approximately 55% of our common stock) to transfer shares in excess of 15% of our voting stock to a third-party free of the restrictions imposed by Section 203. This may make us more vulnerable to takeovers that are completed without the approval of our board of directors and/or without giving us the ability to prohibit or delay such takeovers as effectively.

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

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

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

These anti-takeover provisions and other provisions in our certificate of incorporation and bylaws could make it more difficult for stockholders or potential 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 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 report, our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company 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 are required to disclose changes made in our internal controls and procedures on a quarterly basis and our management is required to assess the effectiveness of these controls annually. However, for as long as we are an “emerging growth company” under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. We could be an “emerging growth company” 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 incur significant costs as a result of operating as a public company and our management expects to devote substantial time to public company compliance programs.

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

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

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

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

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

Under our 2016 Plan, we may grant equity awards covering up to 1,754,385 shares of our common stock. As of December 31, 2016, we had not granted any options to purchase shares of common stock under the 2016 Plan or otherwise. We have registered 1,754,385 shares of common stock available for issuance under our 2016 Plan. Sales of shares issued upon exercise of options or granted under our 2016 Plan may result in material dilution to our existing stockholders, which could cause our share price to fall.

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

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

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

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

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 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 and the indemnification agreements that we have entered 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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.

Item 3. 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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Shares of our common stock trade on The NASDAQ Capital Market under the symbol “POLA.” Shares of our common stock began trading on The NASDAQ Capital Market on December 7, 2016. The table below sets forth for the quarter indicated for the year ended December 31, 2016, the reported high and low bid prices of our common stock as reported on The NASDAQ Capital Market. The prices shown below reflect inter-dealer quotations without retail markups, markdowns or commissions, and may not necessarily represent actual transactions.

	High	Low
Year Ended December 31, 2016		
Fourth Quarter (December 7 – December 31)	\$ 10.69	\$ 7.09

Security Holders

As of March 9, 2017, we had 10,143,158 shares of common stock outstanding held of record by approximately 26 stockholders. These holders of record include depositories that hold shares of stock for brokerage firms which, in turn, hold shares of stock for numerous beneficial owners. On March 9, 2017, the last reported sale price of our common stock on The NASDAQ Capital Market was \$8.93 per share.

Dividend Policy

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.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Persons

None.

Use of Proceeds

On December 6, 2016, our Registration Statement on Form S-1 (File No. 333-213572) relating to the initial public offering of our common stock was declared effective by the SEC. Pursuant to the initial public offering, we sold an aggregate of 2,400,000 shares of our common stock at a price of \$7.00 per share. Roth Capital Partners and Joseph Gunnar & Co. acted as joint book-running managers of the offering and as representatives of the underwriters. Feltri and Company acted as co-manager for the offering. The offering did not terminate before all of the securities registered in the registration statement were sold. On December 12, 2016, we closed the sale of such shares, resulting in net proceeds to us of \$16.9 million, after deducting underwriting discounts and commissions of approximately \$1.35 million, and estimated offering costs of approximately \$1.0 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates.

There has been no material change in the expected use of the net proceeds from our initial public offering, as described in our final Prospectus filed with the SEC on December 7, 2016 pursuant to Rule 424(b) under the Securities Act.

Equity Compensation Plan

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2016.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Plan Category			
Equity Compensation Plans Approved by Security Holders:			
2016 Plan	—	\$ —	1,754,385

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management 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 Annual Report on Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" and elsewhere in this Annual Report on Form 10-K. 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 direct current, or DC, power systems for applications primarily in the telecommunications market and, to a lesser extent, in other markets, including military, electric vehicle charging, cogeneration, distributed power and uninterruptable power supply. Within the telecommunications market, our DC power systems provide reliable and low-cost DC power to service applications that do not have access to the utility grid (i.e., prime power applications) or have critical power needs and cannot be without power in the event of utility grid failure (i.e., back-up power applications). Within this market, we offer the following three configurations of our DC power systems, with output power ranging from 5 kW to 20 kW:

- **DC base power systems.** These systems integrate a DC generator and automated controls with remote monitoring, which are typically contained within an environmentally regulated enclosure.
- **DC hybrid power systems.** These systems incorporate lithium-ion batteries (or other advanced battery chemistries) with our proprietary 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 DC power systems are available in diesel, natural gas, liquid propane gas, gasoline and biofuel formats, with diesel, natural gas and liquid propane gas being the predominant formats, and are capable of being 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.

We install, sell and service our products within our identified markets through our direct sales force and a network of independent service providers and dealers. In addition, we have established strategic relationships with local service partners in international markets to jointly promote, distribute and service our products.

During the years ended December 31, 2016 and 2015, 97% and 81%, respectively, of our total net sales were within the telecommunications market, with 91% and 79%, respectively, of our total net sales during those periods being derived from our largest customer, Verizon Wireless. During those periods, sales of our DC base power systems represented 97% and 79%, respectively, of all DC power systems sold while sales of our DC solar hybrid power systems represented 3% and 2%, respectively, of all DC power systems sold. We did not sell any of our DC hybrid power systems during these periods. To date, all sales to Verizon Wireless have been comprised of our DC base power systems.

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 occurs upon shipment of our product or delivery of the product to the destination specified by the customer. Once a product is delivered, we do not have a post-delivery obligation to provide additional services to 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 product with the buyer's carrier or deliver the product to a customer's location. We regularly review our customers' financial positions to ensure that collectability is reasonably assured. Except for warranties, we have no post-sales obligations.

Warranty Costs. We provide limited warranties for parts and labor at no cost to our customers within a specified time period after the sale. The warranty terms are typically from one to five years. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and recovery from suppliers. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty costs. We estimate the actual historical warranty claims coupled with an analysis of unfulfilled claims to record a liability for specific warranty purposes. Our product warranty obligations are included in other accrued liabilities in the balance sheets. As of December 31, 2016 and 2015, we had accrued a liability for warranty reserve of \$175,000 and \$25,000, respectively. Management believes that the warranty accrual is appropriate; however actual claims incurred could differ from original estimates, requiring adjustments to the accrual. The product warranty accrual is allocated to current and liabilities in the balance sheets.

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 Recent Accounting Pronouncements

See “Note 1 – Organization and Summary of Significant Accounting Policies – Recent Accounting Pronouncements” of the Notes to Financial Statements commencing on page F-11 of this Annual Report on Form 10-K for management’s discussion as to the impact of recent accounting pronouncements.

Jumpstart Our Business Startups Act of 2012

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

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an “emerging growth company” we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer’s compensation to median employee compensation. These exemptions will apply until we no longer meet the requirements of being an “emerging growth company.” We will remain an “emerging growth company” until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (ii) 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.

Financial Performance Summary – Year Ended December 31, 2016

Our revenues increased by \$15,954,735, or 233%, to \$22,801,494 for the year ended December 31, 2016, as compared to \$6,846,759 for the year ended December 31, 2015. We reported net income of \$4,402,810 for 2016, as compared to a net loss of \$33,339 for 2015. The significant improvement in our financial performance during 2016 is a result of increased revenues combined with lower material and labor, administrative, sales and engineering costs as a percentage of net sales, as compared to 2015.

The significant increase in revenues during 2016 is a direct result of an increase in the number of DC power systems sold to Verizon Wireless 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 December 31, 2016 was \$3,142,513, with 93% of that amount being attributable to our largest customer, Verizon Wireless.

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. and international markets as we continue to expand our sales infrastructure in these 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 Years Ended December 31, 2016 and 2015

	Year Ended December 31,		Dollar	Percentage	Results as a Percentage of Net Revenues for the Year Ended December 31,	
	2016	2015	Variance	Variance	2016	2015
			Favorable (Unfavorable)	Favorable (Unfavorable)		
Net sales	\$ 22,801,494	\$ 6,846,759	\$ 15,954,735	233%	100%	100%
Cost of sales	12,619,837	4,558,725	(8,061,112)	(177)%	55.03%	66.6%
Gross profit	10,181,657	2,288,034	7,893,623	345%	44.7%	33.4%
Research and development expenses	213,931	116,297	(97,634)	(84)%	0.9%	1.7%
Sales and marketing expenses	424,579	392,306	(32,273)	(8)%	1.9%	5.7%
General and administrative expenses	2,112,336	1,454,563	(657,773)	(45)%	9.3%	21.2%
Depreciation and amortization expense	26,888	18,342	(8,546)	(47)%	0.1%	0.3%
Total operating expenses	2,777,734	1,981,508	(796,226)	(40)%	12.2%	28.9%
Income from operations	7,403,923	306,526	7,079,397	2,315%	32.5%	4.5%
Interest expense	(112,550)	(50,971)	(61,579)	(121)%	0.5%	0.7%
Other income (expense)	(27,516)	(15,325)	(12,075)	(80)%	0.1%	0.2%
Income before income taxes	7,263,857	240,229	7,104,369	2,924%	31.9%	3.5%
Provision for income taxes	2,861,047	273,569	(2,587,478)	(946)%	12.5%	4.0%
Net income (loss)	\$ 4,402,810	\$ (33,339)	\$ 4,436,149	13,306%	19.3%	(0.5)%

Net Sales. Net sales increased by \$15,954,735, or 233%, to \$22,801,494 for 2016, as compared to \$6,846,759 for 2015. The increase in net sales was primarily due to an increase in the number of DC base power systems sold to Verizon Wireless. Sales to Verizon Wireless accounted for 91% of our total net sales during 2016, as compared to 81% of total net sales in 2015. In addition, in early 2016, 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 by \$8,061,112 to \$12,619,837 during 2016, compared to \$4,558,725 during 2015; however cost of sales as a percentage of net sales decreased from 66.6% in 2015 to 55.3% in 2016. The favorable improvement in cost of sales as a percentage of net sales was attributed to improved overhead absorption resulting from increased revenues and lower material costs resulting from increased purchases of raw materials.

Gross Profit. Our gross profit during 2016 increased by \$7,893,623, to \$10,181,657, as compared to \$2,288,034 during 2015. Gross profit as a percentage of net sales increased to 45% in 2016, as compared to 33% in 2015, a change of 12%. The improvement in gross profit margin during 2016 was primarily due to the following factors: (i) we were able to negotiate lower cost of goods due to our increased buying power, (ii) we were able to capitalize certain factory overhead in 2016 into our ending finished goods inventory instead of as a reflection of cost of sales (there were no such finished good as of 2015), and (iii) increased absorption of factory overhead due to significantly increased sales volumes. Going forward, we expect our gross margins as a percentage of net sales to normalize within the range of 43% to 48%, depending on the product mix.

Research and Development Expenses. During 2016, research and development expenses increased by \$97,634 to \$213,931 as compared to \$116,297 during 2015. The increase in the research and development expenses was a result of the addition of new engineers to support current and new product development strategies. We plan to continue expanding our research and development efforts during 2017 and anticipate research and development expenses as a percentage of sales to increase to 2% in 2017 from 0.9% in 2016.

Sales and Marketing Expenses. Sales and marketing expenses increased to \$424,579 during 2016, as compared to \$392,306 during 2015. The \$32,273 increase in expenses was mainly related to a addition of sales support personnel. We anticipate a our sales costs will continue to increase in the short term while we hire new sales personnel to expand our sales infrastructure in U.S. and international markets.

General and Administrative Expenses. Our general and administrative expenses increased by \$657,773, to \$2,112,336 during 2016, as compared to \$1,454,563 during 2015. The increase in general and administrative expenses was primarily due to a \$397,779 increase in employee fringe benefits resulting from discretionary bonus awarded to all employees and a \$298,682 increase in management salaries resulting from addition of employees. During 2016, we also experienced an increase in legal and professional fees of \$251,297 resulting from expenses related to audits and legal review of internal controls and procedures, together with indirect legal and accounting fees related to our public offering. We anticipate our general and administrative costs to remain flat or slightly lower as percentage of sales during 2017.

Depreciation and Amortization Expenses. During 2016, depreciation and amortization expenses increased by \$8,546, to \$26,888, as compared to \$18,342 during 2015. The increase is attributed to purchase of ERP software to upgrade financial and manufacturing information systems. In presenting our statement of operations for 2015, we reclassified \$125,231 of depreciation expense that was previously reflected as operating expenses to cost of sales.

Interest Expense. During 2016, our interest expense was \$112,550, as compared to \$50,971 during 2015, an increase of \$61,579. 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 utilized to fund our working capital needs. During 2016, significant increase in sales resulting in higher accounts receivable balances being financed by our working capital line, resulting in higher interest fees. We anticipate our interest expenses to be significantly lower due to future funding of working capital needs from the equity capital raised in December 2016.

Other Expense. During 2016, other expense increased by \$12,075 to \$27,516, compared to \$15,325 during 2015. The increase in other expense in 2016 is primarily attributable to \$32,500 in costs associated with closing of the working capital credit line facility, offset by \$4,487 in income resulting from sales of certain fixed assets.

Income Tax. Our income tax increased \$2,587,478 to \$2,861,047 in 2016, as compared to \$273,569 for 2015. We have estimated an interim effective federal tax rate of 39% for both 2016 and 2015, excluding any applicable federal research tax credits. In addition, we estimate a California tax rate of 8% for 2016, excluding any applicable state tax credits.

Net Income (Loss). As a result of the factors identified above, we generated net income of \$4,402,810 for 2016, as compared to net loss of \$33,339 for 2015, a increase of \$4,436,149. A significant portion of the increase in net income can be attributed to a 233% increase in sales resulting in increased absorption of our overhead and related semi-fixed and fixed costs associated with operations.

Liquidity and Capital Resources

Sources of Liquidity

During the year ended December 31, 2016, we funded our operations primarily from cash on hand, cash generated by our operations, a working capital credit line of \$2,000,000 and net proceeds of \$1,665,000 from an equity financing during 2015 and 2014. On December 7, 2016, we raised \$19,320,000 in equity capital in our initial public offering resulting in net proceeds of \$16,957,334. These funds were also used to make capital expenditures and to increase inventory to support higher production. As of December 31, 2016, we had working capital of \$22,924,390, as compared to \$1,545,338 at December 31, 2015. This \$21,379,052 increase in working capital is primarily attributable to a \$15,978,740 increase in cash and cash equivalents resulting from our initial public offering in December 2016.

On December 31, 2016, and December 31, 2015, our trade receivables totaled \$4,403,946 (94%) and \$1,496,654 (81%) respectively, of which \$4,160,975 and \$1,235,931 respectively, represented customer account balances of our largest telecommunications customer with 60-day payment terms.

Our available capital resources on December 31, 2016 consisted primarily of \$16,242,158 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.

Prior 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 balance outstanding under the credit facility as of December 31, 2015 was \$965,150. As of December 31, 2016, we paid back all outstanding balances and terminated the credit facility.

Future Capital Requirements

We believe that our current and future available capital resources, revenues from operations and other sources of liquidity will enable us to fund our operating expenses and capital expenditure requirements for at least the next twelve months.

Cash Flow

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

	Year Ended	
	December 31,	
	2016	2015
Net Cash Provided By (Used In):		
Operating Activities	\$ 627,056	\$ (620,727)
Investing Activities	(296,303)	(403,423)
Financing Activities	15,647,987	734,076
Net increase (decrease) in cash	<u>\$ 15,978,740</u>	<u>\$ (290,074)</u>

Operating Activities

Net cash provided in operating activities for year 2016 was \$627,056, as compared to net cash used \$620,727 for 2015, a increase of \$1,247,783. This increase was primarily due to net income of \$4,402,810 and increase in accounts payable of \$476,471, offset by an increase in accounts receivable of \$2,907,292 and an increase in inventory of \$2,746,492 resulting from increased production and revenue during 2016.

Investing Activities

Net cash used by investing activities for 2016 totaled \$296,303, as compared to \$403,423 for 2015, a decrease of \$107,120. This decrease was primarily due to a \$58,335 decrease in net property and equipment during 2016 compared to 2015.

Financing Activities

Net cash provided by financing activities totaled \$15,647,987 for 2016, as compared to net cash provided by financing activities of \$734,076 during 2015, a increase of \$14,913,911. This increase was primarily due to \$16,957,334 in cash provided by equity capital raised during December 2016, offset by the \$965,150 repayment of our working capital line.

Backlog

As of December 31, 2016, we had a backlog of \$3,142,513. The amount of backlog represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. Our backlog consists of 94% in our purchases of our DC power systems by telecommunications customers, of which 93% is from the single largest telecommunications customer. In addition, our backlog includes 6.4% in purchases from military contractors and 0.8% from miscellaneous customers. We believed the majority of its 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Miscellaneous.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the financial statements, which begin at page F-1 of this Annual Report on Form 10-K.

Item 9. Changes and Disagreements with Accountants on Accounting and Finance Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of December 31, 2016, our disclosure controls and procedures were effective at the reasonable assurance level. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's public accounting firm due to a transition period established by the rules of the SEC.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

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 Annual Report on Form 10-K.

<u>Name</u>	<u>Age</u>	<u>Positions Held</u>
Executive Officers		
Arthur D. Sams	65	Chairman of the Board, President, Chief Executive Officer and Secretary
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 Employee		
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 and as our Secretary since October 2016. Under his leadership, we have grown to be a leading brand name in the design and manufacturing of DC power systems for the telecommunications, military, 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 a supply chain consultant to International Game Technology, a large gaming equipment company in Reno, Nevada, from December 2008 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. From July 2001 to May 2003, Mr. Masina worked as the Business Development Manager in his family business, which provided consulting services to a regional telecommunications provider in India with respect to the acquisition of telecommunications sites. 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 serves as a member of each of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. 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 serves as a member of each of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. 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 in 2010. Mr. Goldman currently serves on the board of directors and/or advisory boards of two privately-held 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 Employee

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 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, 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

Mr. Sams, our Chairman, President and Chief Executive Officer, controls 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. These committees 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 serve on committees until their resignation or until otherwise determined by our board of directors. Each of these committees has adopted a written charter that satisfies the applicable standards of the SEC and the NASDAQ Listing Rules, which we have posted on the investor relations section of our website.

Audit Committee

The members of our Audit Committee are Mr. Goldman and Mr. Albrecht. Mr. Albrecht is 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. Under applicable NASDAQ rules, 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 December 7, 2017. 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 assists 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 is 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

The members of our Compensation Committee are Mr. Goldman and Mr. Albrecht. Mr. Goldman is the chair of the Compensation Committee. Each member of our Compensation Committee is 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 is 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

The members of our Nominating and Corporate Governance Committee are Messrs. Goldman and Albrecht. Mr. Goldman is the chair of the Nominating and Corporate Governance Committee. Each member of our Nominating and Corporate Governance Committee is independent as defined under the NASDAQ Listing Rules. Under its charter, our Nominating and Corporate Governance Committee is 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;
- considering other corporate governance and related matters as requested by our board of directors; and
- reviewing and evaluating the performance of the Nominating and Corporate Governance Committee, including compliance with its charter.

Compensation Committee Interlocks and Insider Participation

During 2015, Arthur D. Sams, Chairman of our Board of Directors, solely determined all executive officer compensation. Since July 2016, all officer compensation and bonuses for executive officers has been determined by our Compensation Committee which is comprised of two independent directors.

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. A copy of the code is 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.

Item 11. Executive Compensation.

This section sets forth certain information regarding total compensation earned by our named executives for the years set forth below. 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 years ended December 31, 2016 and 2015, whom we refer to collectively as our named executive officers. These officers are:

- Arthur D. Sams, our President, Chief Executive Officer, Secretary 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 2016 and 2015 to our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)⁽¹⁾	Total (\$)
Arthur D. Sams, President, Chief Executive Officer and Secretary	2016	200,000	150,500	350,500
	2015	150,000	7,500	157,500
Rajesh Masina, Vice President Operations	2016	118,462	77,750	196,212
	2015	92,383	5,750	98,133
Luis Zavala, Vice President Finance and Acting Chief Financial Officer	2016	118,462	77,750	196,212
	2015	84,123	5,750	89,873

- (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 2016 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 1,754,385 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 175,439 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

Our non-employee directors receive a quarterly cash retainer of \$2,500. In addition, we 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 of our certificate of incorporation and our bylaws provide for indemnification by us of our directors, officers, employees and agents to the fullest extent permitted by the DGCL.

Article X of our certification of incorporation 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.

We have entered into agreements to indemnify our directors and officers as determined by our board of directors. These agreements 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 certificate of incorporation and our 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 certificate of incorporation or our 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.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information regarding beneficial ownership of our common stock as of March 9, 2017 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 March 9, 2017. 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 March 9, 2017 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. Percentage of beneficial ownership is based on 10,143,158 shares of common stock outstanding as of the date of the table.

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	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Arthur D. Sams	Common	5,578,176	55.0%
Rajesh Masina (1)	Common	105,264	1.0%
Luis Zavala (1)	Common	47,369	*
Keith Albrecht (1)	Common	23,334	*
Matthew Goldman (1)(2)	Common	466,667	4.6%
Smartgen Solutions, Inc. (3)	Common	506,150	5.0%
Polaris Capital, LLC (2)	Common	466,667	4.6%
All directors and executive officers as a group (5 persons)	Common	6,197,476	61.3%

* Less than 1%.

- (1) Messrs. Sams, Albrecht and Goldman are directors of Polar. Messrs. Sams, Masina and Zavala are named executive officers of Polar.
- (2) Includes 466,667 shares of common stock held by Polaris Capital, LLC. Mr. Goldman, the managing member and sole beneficial owner of Polaris Capital, LLC, has voting and investment power over such shares of common stock.
- (3) 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 Penumarthy, the President and Secretary of Smartgen Solutions, Inc., has voting and investment power over such shares of common stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The following is a summary of transactions since January 1, 2014 to which we have been a participant, in which:

- the amount involved exceeded or will exceed \$120,000; 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 Compensation” above, 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 30% 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 2016, Smartgen performed \$111,684 in field services for us and \$96,590 in field services for us during 2015.

During 2016, Smartgen purchased \$0 in goods, parts and services from us and \$17,650 in goods, parts and services during 2015.

Sales of Common Stock to Officers and Directors

Matthew Goldman and Richard Albrecht, each of whom is a current member of our board of directors, participated in our private placement offering that commenced in July 2014 and purchased 350,878 and 17,544 shares of our common stock, respectively, for cash consideration equal to \$1,000,000 and \$50,000, respectively. 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 to Messrs. Goldman and Albrecht 115,790 and 15,789 additional shares of common stock, respectively.

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 506,151 shares of our common stock at a price per share of approximately \$0.99, 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 a private placement that was conducted between July and September 2014 for approximately \$2.14 per share, we recorded a compensation charge of \$581,895, representing the difference between the sales price to Smartgen and the price sold to other investors, 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, Chief Executive Officer and Secretary, 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 Annual Report on Form 10-K for a further discussion of these agreements.

Indemnification of Officers and Directors

Our certificate of incorporation and our bylaws 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.

Policies and Procedures for Related Person Transactions

Our board of directors has adopted a written policy with respect to related person transactions. This policy governs the review, approval or ratification of covered related person transactions. The Audit Committee of our board of directors manages 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 generally provides 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.

Our Audit Committee has determined 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 provides 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.

Item 14. Principal Accounting Fees and Expenses.

The following table presents fees for professional audit services rendered by Weinberg & Company, P.A. for 2016 and 2015.

	2016	2015
Audit Fees	\$ 66,500	\$ 45,800
Audit-Related Fees	125,704	—
Tax Fees	21,506	—
All Other Fees	—	—
Total	\$ 213,710	\$ 45,800

Audit Fees. Consist of amounts billed for professional services rendered for the audit of our annual consolidated financial statements included in this Annual Report on Form 10-K, and our Registration Statements on Forms S-1 and S-8, including amendments thereto.

Audit-Related Fees. Audit-Related Fees consist of fees billed for professional services that are reasonably related to the performance of the audit or review of our consolidated financial statements but are not reported under “Audit Fees.” The fees for 2016 and 2015 represent amounts billed for professional services performed in connection with our initial public offering.

Tax Fees. Tax Fees consist of fees for professional services for tax compliance activities, including the preparation of federal and state tax returns and related compliance matters.

All Other Fees. Consists of amounts billed for services other than those noted above.

Our Audit Committee considered all non-audit services provided by Weinberg & Company, P.A. and determined that the provision of such services was compatible with maintaining such firm’s audit independence.

Audit Committee Pre-Approval Policy

Our Audit Committee is responsible for approving all audit, audit-related, tax and other services. The Audit Committee pre-approves all auditing services and permitted non-audit services, including all fees and terms to be performed for us by our independent auditor at the beginning of the fiscal year. Non-audit services are reviewed and pre-approved by project at the beginning of the fiscal year. Any additional non-audit services contemplated by us after the beginning of the fiscal year are submitted to the Chairman of our Audit Committee for pre-approval prior to engaging our independent auditor for such services. These interim pre-approvals are reviewed with the full Audit Committee at its next meeting for ratification.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

Reference is made to the financial statements listed on and attached following the Index to Financial Statements contained on page F-1 of this report.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

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

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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, 2016 and 2015, and the related statements of operations, changes in shareholders' 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, 2016 and 2015, 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
March 10, 2017

POLAR POWER, INC.
BALANCE SHEETS

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,242,158	\$ 263,418
Accounts receivable	4,403,946	1,496,654
Inventories, net	4,839,591	2,093,099
Prepaid expenses	178,569	93,125
Total current assets	<u>25,664,264</u>	<u>3,946,296</u>
Other assets:		
Property and equipment, net	737,586	542,892
Deposits	66,796	88,944
Deferred tax assets	<u>160,637</u>	<u>205,000</u>
Total assets	<u>\$ 26,629,283</u>	<u>\$ 4,783,132</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 659,355	\$ 182,884
Customer deposits	71,954	229,602
Income taxes payable	1,227,308	295,778
Accrued liabilities and other current liabilities	669,889	268,636
Current portion of notes payable	111,368	327,693
Line of credit	—	965,150
Payable for acquired technology	—	131,215
Total current liabilities	<u>2,739,874</u>	<u>2,400,958</u>
Notes payable, net of current portion	<u>237,431</u>	<u>127,840</u>
Total liabilities	<u>2,977,305</u>	<u>2,528,798</u>
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 50,000,000 shares authorized, 10,143,158 and, 7,365,614, shares issued and outstanding, respectively	1,014	736
Additional paid-in capital	19,242,715	2,248,159
Retained earnings	4,408,249	5,439
Total shareholders' equity	<u>23,651,978</u>	<u>2,254,334</u>
Total liabilities and shareholders' equity	<u>\$ 26,629,283</u>	<u>\$ 4,783,132</u>

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

POLAR POWER, INC.
STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2016	2015
Net sales	\$ 22,801,494	\$ 6,846,759
Cost of sales	12,619,837	4,558,725
Gross profit	<u>10,181,657</u>	<u>2,288,034</u>
Operating Expenses		
General and administrative	2,112,336	1,454,563
Research and development	213,931	116,297
Sales and Marketing	424,579	392,306
Depreciation and amortization	26,888	18,342
Total operating expenses	<u>2,777,734</u>	<u>1,981,508</u>
Income from operations	<u>7,403,923</u>	<u>306,526</u>
Other expenses		
Interest expenses	(112,550)	(50,971)
Other expenses	(27,516)	(15,325)
Total other expense	<u>(140,066)</u>	<u>(66,296)</u>
Income before income taxes	<u>7,263,857</u>	<u>240,230</u>
Income tax provision	(2,861,047)	(273,569)
Net Income (loss)	<u>\$ 4,402,810</u>	<u>\$ (33,339)</u>
Net Income (loss) per share – basic and diluted	<u>\$ 0.58</u>	<u>\$ (0.01)</u>
Weighted average shares outstanding, basic and diluted	<u>7,564,629</u>	<u>6,832,329</u>

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

POLAR POWER, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock,		Additional	Retained	Total
	Number	Amount	paid-in	Earnings	Shareholders'
			capital		Equity
Balances, December 31, 2014	6,724,569	\$ 672	\$ 1,166,328	\$ 38,778	\$ 1,205,778
Common shares issued for cash to related party	506,150	51	499,949	—	500,000
Additional cost of shares issued to related party		—	581,895	—	581,895
Additional shares issued to related party	134,895	13	(13)	—	—
Net loss	—	—		(33,339)	(33,339)
Balances, December 31, 2015	7,365,614	736	2,248,159	5,439	2,254,334
Common shares issued for services	17,544	2	37,498	—	37,500
Common shares issued for cash, net of offering costs	2,760,000	276	16,957,058		16,957,334
Net income	—	—		4,402,810	4,402,810
Balances, December 31, 2016	<u>10,143,158</u>	<u>\$ 1,014</u>	<u>\$19,242,715</u>	<u>\$4,408,249</u>	<u>\$ 23,651,978</u>

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

POLAR POWER, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net Income (loss)	\$ 4,402,810	\$ (33,339)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Common shares issued for services	37,500	—
Additional costs of shares issues to related party	—	581,895
Depreciation and amortization	207,857	143,573
Changes in operating assets and liabilities		
Accounts receivable	(2,907,292)	(868,416)
Inventories	(2,746,492)	(1,192,827)
Prepaid expenses	(85,444)	15,177
Deposits	22,148	13,755
Deferred tax assets	44,363	(15,000)
Accounts payable	476,471	104,823
Income taxes payable	931,530	257,373
Customer deposits	(157,648)	173,244
Accrued expenses and other current liabilities	401,253	199,015
Net cash provided by (used in) operating activities	627,056	(620,727)
Cash flows from investing activities:		
Acquisition of property and equipment	(165,088)	(223,423)
Payable for acquired technology	(131,215)	(180,000)
Net cash used in investing activities	(296,303)	(403,423)
Cash flows from financing activities:		
Advances (repayment) of credit line net	(965,150)	965,150
Repayment of notes	(344,197)	(731,074)
Proceeds from issuance of common stock	16,957,334	500,000
Net cash provided by financing activities	15,647,987	734,076
Increase (decrease) in cash and cash equivalents	15,978,740	(290,074)
Cash and cash equivalents, beginning of period	263,418	553,492
Cash and cash equivalents, end of period	\$ 16,242,158	\$ 263,418
Supplemental Cash Flow Information:		
Interest paid	\$ 112,550	\$ 50,971
Taxes Paid	1,885,337	31,197
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.

POWER POWER, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Polar Power Inc. was incorporated in 1979 in the State of Washington as Polar Products Inc., and in 1991 reincorporated in the State of California under the name Polar Power, Inc. In December 2016, Polar Power, Inc. reincorporated in the State of Delaware (the “Company”). The Company designs, manufactures and sells direct current, or DC, power systems to supply reliable and low-cost energy to off-grid, bad-grid and backup power 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.

On November 14, 2016, the Company effected a 1-for-2.85 reverse split of its common shares. All share and per share amounts have been retroactively restated to reflect the split as if it had occurred as of the earliest period presented.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Material estimates relate to the assumptions made in determining reserves for uncollectible receivables, inventory reserves and returns, impairment analysis of long term assets and deferred tax assets, 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 occurs upon shipment of the Company’s product or delivery of the product to the destination specified by the customer. Once a product is delivered, the Company does not have a post-delivery obligation to provide additional services to 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 product with the buyer’s carrier or delivers the product to a customer’s location. The Company regularly reviews its customers’ financial positions to ensure that collectability is reasonably assured. Except for warranties, the Company has no post-sales obligations.

Inventories

Inventories consist of raw materials and finished goods 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 December 31, 2016 and 2015, the Company has established inventory reserves of \$250,000 and \$250,000, respectively, for obsolete and slow-moving inventory. As of December 31, 2016 and 2015, the components of inventories were as follows:

	Years End December 31,	
	2016	2015
Raw materials	\$ 3,302,818	\$ 2,343,099
Finished goods	1,786,773	-
	<u>5,089,591</u>	<u>2,343,099</u>
Less: Inventory reserve	(250,000)	(250,000)
Total Inventories, net	<u>\$ 4,839,591</u>	<u>\$ 2,093,099</u>

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 warranty terms are typically from one to five years. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and recovery from suppliers. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty costs. The Company estimates the actual historical warranty claims coupled with an analysis of unfulfilled claims to record a liability for specific warranty purposes. The Company's product warranty obligations are included in other accrued liabilities in the balance sheets. As of December 31, 2016 and 2015, the Company had accrued a liability for warranty reserve of \$175,000 and \$25,000, respectively. Management believes that the warranty accrual is appropriate; however actual claims incurred could differ from original estimates, requiring adjustments to the accrual. The product warranty accrual is included in current liabilities in the accompanying balance sheets.

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

	Years End December 31,	
	2016	2015
Changes in estimates for warranties		
Balance at beginning of the period	\$ 25,000	\$ 25,000
Payments	(135,457)	-
Provision for warranties	<u>285,457</u>	<u>-</u>
Balance at end of the period	<u>\$ 175,000</u>	<u>\$ 25,000</u>

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less when purchased to be cash equivalents. The carrying amounts reported in the Balance Sheets for cash and cash equivalents are valued at cost, which approximates their fair value.

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 as of December 31, 2016 and 2015.

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 the estimated useful life. Maintenance and repairs that do not improve or extend the 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 December 31, 2016 or December 31, 2015.

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 not be realized before the Company is able to realize their benefits, or that future deductibility is uncertain.

Tax benefits from an uncertain tax position are recognized only if it more likely than not that the tax position will be sustained on examination by the taxing authorities based on technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has greater than 50 percent likelihood of being realized upon ultimate resolution. 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 line of credit, 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 years ended December 31, 2016 and 2015, 91% and 81% of the revenue was generated from our largest telecommunications customer, Verizon Wireless. In 2016 and 2015, sales to international customers accounted for 0% and 2%, of total revenue, respectively.

Accounts receivable. At December 31, 2016 and 2015, 94% and 81% respectively, of our accounts receivable were from one customer, Verizon Wireless.

Accounts payable. On December 31, 2016, accounts payable to the largest vendor represented 29% while the other two largest vendors represented 9% each. On December 31, 2015, accounts payable to the Company’s largest vendor represented 17%, while the other two largest vendors represented 8% each.

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, Yanmar and Kubota, represented approximately 0%, 19% and 18% of the Company’s total cost of sales for 2016, respectively, and represented approximately 6%, 9% and 15% of the Company’s total cost of sales for 2015.

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, 2016 and 2015, because the exercise price of the outstanding warrants were higher than the average fair market value of common shares during the reporting periods.

Recent Accounting Pronouncements

In May 2014, the 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 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.

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.

In March 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The amendments in this ASU require, among other things, that all income tax effects of awards be recognized in the income statement when the awards vest or are settled. The ASU also allows for an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and allows for a policy election to account for forfeitures as they occur. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any entity in any interim or annual period. 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.

Reclassifications

In presenting the Company's statement of operations for the year ended December 31, 2015, the Company has reclassified \$125,231 of depreciation expense to cost of sales that was previously reflected as a depreciation and amortization expense.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2016	December 31, 2015
Production tooling, jigs, fixtures	\$ 70,749	\$ 70,749
Shop equipment and machinery	1,193,892	842,698
Vehicles	51,883	58,683
Leasehold improvements	42,173	42,173
Office equipment	100,245	98,811
Software	97,533	40,810
Total property and equipment, cost	<u>1,556,475</u>	<u>1,153,924</u>
Less: accumulated depreciation and amortization	<u>(818,889)</u>	<u>(611,032)</u>
Property and equipment, net	<u>\$ 737,586</u>	<u>\$ 542,892</u>

Depreciation and amortization expense on property and equipment for the years ended December 31, 2016 and 2015 was \$207,857 and \$143,573, respectively. During the years ended December 31, 2016 and 2015, \$180,969 and \$125,231, respectively, of the depreciation expense were included in the balance of cost of sales for the years then ended.

NOTE 3 – NOTES PAYABLE

Notes payable consist of the following:

		December 31, 2016	December 31, 2015
Note payable, individual	(a)	\$ —	\$ 110,000
Equipment notes	(b)	348,799	207,541
Customer note	(c)	<u>—</u>	<u>137,992</u>
Total Notes Payable		348,799	455,533
Current Portion		<u>111,368</u>	<u>327,693</u>
Notes Payable, Long term		<u>\$ 237,431</u>	<u>\$ 127,840</u>

- (a) In August 1997, an individual loaned 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 the lender of \$300,000. The principal balance due under the note was \$110,000 on December 31, 2015. The Company repaid the entire remaining principal balance during 2016, and there was no remaining balance due as of December 31, 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 DC power 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 December 31, 2015, \$137,992 was due to the customer. The Company repaid the entire remaining principal balance during 2016, and there was no remaining balance due as of December 31, 2016.

Annual future principal payments under the outstanding note agreements as of December 31, 2016 are as follows:

Years ending December 31:	
2017	\$ 111,368
2018	108,937
2019	64,425
2020	50,383
2021	13,686
Total	<u>\$ 348,799</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 was to expire on September 1, 2017.

The balance due under the line of credit as of December 31, 2015 was \$965,150.

In December 2016, the Company repaid all outstanding balances and closed the credit facility. As such, there was no amount due as of December 31, 2016.

NOTE 5 – PAYABLE FOR ACQUIRED TECHNOLOGY

On July 7, 2012, the Company entered into an agreement to purchase intellectual property assets from its former Vice President of Engineering, Richard Ulinski. Under this agreement, as amended on December 30, 2014, Mr. Ulinski transferred to the Company the exclusive right, title and interest to 27 products and technologies developed for use in the Company's DC power systems from 2004 to 2012 for \$600,000 in cash, payable in monthly installments of \$15,000. As of December 31, 2015 \$131,215 was due under this agreement. As of December 31, 2016, the remaining balance had been paid in full.

NOTE 6 – SHAREHOLDERS' EQUITY

Common Stock

The Company is authorized to issue up to a total of 50,000,000 shares of common stock, \$0.0001 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 do not 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.

Shares issued for services

In February 2016, the Company issued 17,544 shares of its common stock valued at \$37,500 (\$2.14 per share) to an employee in exchange for \$37,500 in wages payables due to the employee. The Company's estimate of the fair value of the shares of \$2.14 per share was based on the cash price per-share paid by outside investors in a private placement conducted between July 2014 and September 2014.

Shares issues for cash, net offering costs

In December 2016 the Company completed an underwritten initial public offering of 2,400,000 shares of its common stock at a price of \$7.00 per share. In addition, the offering provided the underwriters a 45-day option to purchase up to an additional 360,000 shares of common stock from the Company at the same price of \$7.00 per share. The underwriters exercised the foregoing option to purchase additional shares in full. The net proceeds to the Company from the offering were \$16,957,334, after deducting underwriting discounts and commissions and offering expenses payable by the Company. The offering was made pursuant to a registration statement on Form S-1, which was filed with the SEC on September 9, 2016 and declared effective on December 6, 2016.

In connection with the offering, the Company also issued warrants to the underwriters to purchase up to 115,000 shares of its common stock with an exercise price of \$8.75 per share, which warrants expire five years from the date of issuance.

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 506,150 shares of the Company’s common stock at a price of approximately \$0.99 per share, for a total purchase price of \$500,000. Rajesh Masina, the Company’s Vice President of Operations, owns 40% of Smartgen, and 30% 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 share than the shares of common stock sold to prior investors for \$2.14 per share under a private placement between July and September 2014, recorded a compensation charge of \$581,895 on the Company’s December 31, 2015 income statement, representing the difference between the sales price to Smartgen and the price sold to other investors.

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 1,754,386 shares of common stock as incentives to employees and consultants to the Company with awards limited to a maximum of 350,877 shares in a given calendar year. As of December 31, 2016, there were no options issued or outstanding under the 2016 Plan.

Warrants

Between July 2014 and September 2014, the Company entered into a Securities Purchase Agreement with certain accredited investors identified in a private placement of an aggregate of 408,772 shares of the Company’s common stock, and warrants to purchase an additional 408,772 shares of the Company’s common stock at a price of \$2.85 per unit of one share of common stock and warrant to purchase one share of common stock, resulting in aggregate gross proceeds of \$1,165,000. The warrants to purchase the additional shares of common stock had an exercise price of \$2.85 each and expired on May 30, 2015 without having been exercised.

On December 7, 2016, subsequent to the Company’s initial public offering, the Company issued warrants to purchase up to 115,000 shares of its common stock to the representatives of the underwriters. The warrants have an exercise price of \$8.75 per share and expire five years from the date of issuance.

The following table summarizes warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2013	—	—
Issued	408,772	\$ 2.85
Exercised	—	—
Expired	—	—
Outstanding, December 31, 2014	408,772	\$ 2.85
Exercised	—	—
Expired	(408,772)	\$ 2.85
Outstanding, December 31, 2015	—	—
Issued	115,000	\$ 8.75
Exercised	—	—
Outstanding, December 31, 2016	115,000	\$ 8.75

There was no intrinsic value of the outstanding and exercisable warrants at December 31, 2016.

NOTE 7 – DISTRIBUTION AGREEMENT WITH A RELATED ENTITY

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

During the years ended December 31, 2016 and 2015, Smartgen performed \$111,684, and \$96,590 in field services.

During the year ended December 31, 2015, Smartgen purchased \$17,650 in goods, parts and services from the Company and \$0 in goods, parts and services during the year ended December 31, 2016.

NOTE 8 – INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31, 2016 and 2015:

	Years Ended December 31,	
	2016	2015
Current		
Federal	\$ 2,242,984	\$ 219,496
State	573,700	69,073
Deferred		
Federal	35,913	(10,540)
State	8,450	(4,460)
Provision for income tax expense	<u>\$ 2,861,047</u>	<u>\$ 273,569</u>

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

	Years Ended December 31,	
	2016	2015
Federal income tax rate	34%	34%
State tax, net of federal benefit	8%	6%
Permanent differences	—%	84%
Change in accrued liabilities	6%	15%
Change in valuation allowances	(9)%	(22)%
Other	—%	(3)%
Effective income tax rate	<u>39%</u>	<u>114%</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 December 31, 2016 and 2015 are as follows:

	December 31,	December 31,
	2016	2015
Deferred tax assets:		
Inventory reserves	\$ 105,000	136,995
Accrued liabilities	209,084	136,723
Other	—	4,427
Total deferred tax assets	<u>314,084</u>	<u>278,145</u>
Deferred tax liability		
Accumulated depreciation	<u>(153,447)</u>	<u>(73,145)</u>
Net deferred tax assets	<u>\$ 160,637</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, the Company 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 December 31, 2016 and 2015, the Company did not have a liability for unrecognized tax benefits, and no adjustment was required at adoption.

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 December 31, 2016 and 2015, the Company has no accrued interest or penalties related to uncertain tax positions. Additionally, tax years 2010 through 2016 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. During the year ended December 31, 2016, Mr. Sams received a bonus of \$120,000. During the year ended December 31, 2015, Mr. Sams received a bonus of \$7,500.

In 2016, the Company also entered into four (4) at-will employment agreements with four (4) executive and management personnel, each of which have an annual base salary of \$120,000. Each of the four (4) executive and management personnel are eligible to receive either an annual discretionary cash bonus based upon performance criteria set by the Company's Board of Directors' Compensation Committee or sales incentives for revenue generated by sales of products to assigned customers.

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 at the commencement date was \$29,648 per month, which annually increases by 3%. Rent expense for the years ended December 31, 2016 and 2015 was \$321,598 and \$352,145, respectively.

The future minimum annual rental payments required under the non-cancelable operating leases described above as of January 1, 2017 are as follows:

Years ending December 31	
2017	\$ 377,443
2018	388,766
2019	66,738
Total	<u>\$ 832,947</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 December 31, 2016, the Company had a backlog of \$3,142,513. 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 94% in purchases of its DC power systems by telecommunications customers, of which 93% is from the Company's single largest telecommunications customer. In addition, the Company's backlog includes 6.4% in purchases from military contractors, 0.8% from 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 10th day of March, 2017.

POLAR POWER, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Arthur D. Sams</u> Arthur D. Sams	Chief Executive Officer, President, Secretary and Chairman of the Board of Directors (principal executive officer)	March 10, 2017
<u>/s/ Luis Zavala</u> Luis Zavala	Vice President Finance and Acting Chief Financial Officer (principal financial and accounting officer)	March 10, 2017
<u>/s/ Matthew Goldman</u> Matthew Goldman	Director	March 10, 2017
<u>/s/ Keith Albrecht</u> Keith Albrecht	Director	March 10, 2017

INDEX TO EXHIBITS

Exhibit Number	Description*	Where Located				
		Form	File Number	Exhibit Number	Filing Date	Filed Herewith
3.1	Certificate of Incorporation					X
3.2	Bylaws					X
10.1	Polar Power, Inc. 2016 Omnibus Incentive Plan and forms of agreements thereunder#	S-1	333-213572	10.1	9/9/2016	
10.2	Amended and Restated Executive Employment Agreement dated July 8, 2016 between the Registrant and Arthur D. Sams#	S-1	333-213572	10.2	9/9/2016	
10.3	Amended and Restated Executive Employment Agreement dated July 8, 2016 between the Registrant and Rajesh Masina#	S-1	333-213572	10.3	9/9/2016	
10.4	Amended and Restated Executive Employment Agreement dated July 8, 2016 between the Registrant and Luis Zavala#	S-1	333-213572	10.4	9/9/2016	
10.5	Form of Indemnification Agreement between the Registrant and each of its Executive Officers and Directors#	S-1	333-213572	10.5	11/18/2016	
10.6	Loan and Security Agreement dated as of August 14, 2015 between the Registrant and Gibraltar Business Capital	S-1	333-213572	10.6	9/9/2016	
10.7	Memorandum of Understanding dated as of December 30, 2014 between the Registrant and Richard J. Ulinski	S-1	333-213572	10.7	9/9/2016	
10.8	Lease Agreement dated November 7, 2014 between the Registrant and Two Bros L.P.	S-1	333-213572	10.8	9/9/2016	
10.9	Form of Representative's Warrant					X
14.1	Code of Ethics					X
21.1	Subsidiaries of the Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm					X
31.1	Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X

Exhibit Number	Description*	Where Located				
		Form	File Number	Exhibit Number	Filing Date	Filed Herewith
31.2	Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

(#) A contract, compensatory plan or arrangement to which a director or executive officer is a party or in which one or more directors or executive officers are eligible to participate.

(*) Certain of the agreements filed as exhibits contain representations and warranties made by the parties thereto. The assertions embodied in such representations and warranties are not necessarily assertions of fact, but a mechanism for the parties to allocate risk. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts or for any other purpose at the time they were made or otherwise.

**CERTIFICATE OF INCORPORATION
OF POLAR POWER, INC.**

ARTICLE I

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

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 3500 South Dupont Highway in the city of Dover, County of Kent, Delaware 19901. The name of the registered agent of the Corporation at such address is GKL Registered Agents of DE, Inc.

ARTICLE III

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware ("DGCL").

ARTICLE IV

The name and mailing address of the incorporator is Loretta Smith, 5 Park Plaza, Suite 1400, Irvine, California 92614-2545.

ARTICLE V

Section 1. This Corporation is authorized to issue two classes of stock, to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of stock that the Corporation shall have authority to issue is 55,000,000 shares, of which 50,000,000 shares are Common Stock, \$0.0001 par value per share, and 5,000,000 shares are Preferred Stock, \$0.0001 par value per share.

Section 2. Each share of Common Stock shall entitle the holder thereof to one vote. Each share of Common Stock shall be equal in all respects to every other share of Common Stock. Each holder of record of issued and outstanding Common Stock shall be entitled to one vote on all matters for each share so held. Subject to the rights and preferences, if any, of the holders of Preferred Stock, each issued and outstanding share of Common Stock shall entitle the record holder thereof to receive dividends and distributions out of funds legally available therefor, when, as and if declared by the Board of Directors, in such amounts and at such times, if any, as the Board of Directors shall determine, ratably in proportion to the number of shares of Common Stock held by each such record holder. Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, after there shall have been paid to or set aside for the holders of any class of capital stock having preference over the Common Stock in such circumstances the full preferential amounts to which they are respectively entitled, the holders of the Common Stock, and of any class or series of capital stock entitled to participate in whole or in part therewith as to the distribution of assets, shall be entitled, after payment or provision for the payment of all debts and liabilities of the Corporation, to receive the remaining assets of the Corporation available for distribution, in cash or in kind, ratably in proportion to the number of shares of Common Stock held by each such holder.

Section 3. The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of any wholly unissued series of Preferred Stock, including, without limitation, authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing. The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in this Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series.

Section 4. The number of authorized shares of Preferred Stock or Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the DGCL (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of shares of the class or classes the number of authorized shares of which are being increased or decreased, unless a vote by any holders of one or more series of Preferred Stock is required by the express terms of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Section 3 of this Article V (or any certificate of designation with respect thereto). Except as otherwise required by law or provided in this Section 4, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon by law or pursuant to this Certificate of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock).

ARTICLE VI

Subject to the rights of holders of Preferred Stock, the number of directors that constitutes the entire Board of Directors of the Corporation shall be fixed solely by resolution of the majority of the Whole Board. For purposes of this Certificate of Incorporation, the term "Whole Board" shall mean the total number of authorized directors whether or not there exist any vacancies in the previously authorized directorships. At each annual meeting of stockholders, directors of the Corporation shall be elected to hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified or until their earlier resignation or removal; except that if any such meeting shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the DGCL or by written consent in lieu of an annual meeting pursuant to Section 211(b) of the DGCL and Article IX hereof.

ARTICLE VII

Except as otherwise provided for or fixed by or pursuant to the provisions of Article V hereof in relation to the rights of the holders of Preferred Stock to elect directors under specified circumstances or as provided by resolution of the Board of Directors, newly created directorships resulting from any increase in the number of directors, created in accordance with the Bylaws of the Corporation, and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director, and not by the stockholders. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen until his or her successor shall have been duly elected and qualified, or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VIII

Section 1. The Corporation is to have perpetual existence.

Section 2. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by statute or by this Certificate of Incorporation or the Bylaws of the Corporation, the Board of Directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section 3. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, alter, amend or repeal the Bylaws of the Corporation. The affirmative vote of at least a majority of the Whole Board shall be required in order for the Board of Directors to adopt, amend, alter or repeal the Corporation's Bylaws. The Corporation's Bylaws may also be adopted, amended, altered or repealed by the stockholders of the Corporation. Notwithstanding the above or any other provision of this Certificate of Incorporation, the Bylaws of the Corporation may not be amended, altered or repealed except in accordance with Article X of the Bylaws. No Bylaw hereafter legally adopted, amended, altered or repealed shall invalidate any prior act of the directors or officers of the Corporation that would have been valid if such Bylaw had not been adopted, amended, altered or repealed.

Section 4. The election of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

Section 5. No stockholder will be permitted to cumulate votes at any election of directors.

ARTICLE IX

Section 1. Any action required or permitted to be taken at an annual or special meeting of stockholders may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by holders of record on the record date (established in the manner provided in Section 2 of this Article IX) of outstanding shares of the Corporation 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, but only if such action is taken in accordance with the provisions of this Article IX, the Bylaws of the Corporation and applicable law; provided, however, that in the case of the election or removal of directors by written consent, such consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors.

Section 2. In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the attention of the Secretary of the Corporation, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten days after the date on which such a request is received, adopt a resolution fixing the record date (unless a record date has previously been fixed by the Board of Directors pursuant to the first sentence of this Section 2 of Article IX). If no record date has been fixed by the Board of Directors within ten days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

ARTICLE X

Section 1. Special meetings of stockholders of the Corporation may be called only by the Board of Directors acting pursuant to a resolution adopted by a majority of the Whole Board, and any power of stockholders to call a special meeting of stockholders is specifically denied. Only such business shall be considered at a special meeting of stockholders as shall have been stated in the notice for such meeting.

Section 2. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner and to the extent provided in the Bylaws of the Corporation.

ARTICLE XI

Section 1. To the fullest extent permitted by the DGCL as the same exists or as may hereafter be amended from time to time, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Section 2. The Corporation shall indemnify, to the fullest extent permitted by applicable law, any director or officer of the Corporation 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 (a "Proceeding") by reason of the fact that he or she 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 corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. The Corporation shall be required to indemnify a person in connection with a Proceeding (or part thereof) initiated by such person only if the Proceeding (or part thereof) was authorized by the Board of Directors.

Section 3. The Corporation shall have the power to indemnify, to the extent permitted by applicable law, any employee or agent of the Corporation who was or is a party or is threatened to be made a party to any Proceeding by reason of the fact that he or she 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 corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding.

Section 4. Neither any amendment nor repeal of any Section of this Article XI, nor the adoption of any provision of this Certificate of Incorporation or the Bylaws of the Corporation inconsistent with this Article XI, shall eliminate or reduce the effect of this Article XI in respect of any matter occurring, or any cause of action, suit, claim or proceeding accruing or arising or that, but for this Article XI, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE XII

Meetings of stockholders may be held within or outside of the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE XIII

Unless the Corporation consents in writing to the selection of an alternative forum and to the fullest extent permitted by law, the Court of Chancery of the State of Delaware (or, if such court lacks jurisdiction, any other state or federal court located within the State of Delaware) shall be the sole and exclusive forum for (A) any derivative action or proceeding brought on behalf of the Corporation, (B) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (C) any action or proceeding asserting a claim arising pursuant to any provision of the DGCL or the Corporation's Certificate of Incorporation or Bylaws, or (D) any action or proceeding asserting a claim governed by the internal affairs doctrine; in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants.

ARTICLE XIV

The Corporation shall not be governed by the provisions of Section 203 of the DGCL.

ARTICLE XV

The Corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation.

I, the undersigned, being the incorporator, for the purpose of forming a corporation pursuant to the DGCL, do make this Certificate of Incorporation, hereby acknowledging, declaring, and certifying that the foregoing Certificate of Incorporation is my act and deed and that the facts herein stated are true, and have accordingly hereunto set my hand this 6th day of December, 2016.

/s/ Loretta Smith
Loretta Smith, Incorporator

BYLAWS OF POLAR POWER, INC.**ARTICLE I — CORPORATE OFFICES****1.1 REGISTERED OFFICE**

The registered office of Polar Power, Inc. (the “**Corporation**”) shall be fixed in the Corporation’s Certificate of Incorporation (the “**Certificate of Incorporation**”). References in these Bylaws (the “**Bylaws**”) to the Certificate of Incorporation shall mean the Certificate of Incorporation of the Corporation, as amended from time to time, including the terms of any certificates of designation of any series of Preferred Stock.

1.2 OTHER OFFICES

The Corporation may at any time establish other offices at any place or places.

ARTICLE II — MEETINGS OF STOCKHOLDERS**2.1 PLACE OF MEETINGS**

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Corporation’s Board of Directors (the “**Board of Directors**”). The Board of Directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of the State of Delaware (the “**DGCL**”). In the absence of any such designation or determination, stockholders’ meetings shall be held at the Corporation’s principal executive office.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held on such date, at such time, and at such place (if any) within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the Corporation’s notice of the meeting. At the annual meeting, directors shall be elected and any other proper business, brought in accordance with Section 2.4 of these Bylaws, may be transacted.

2.3 SPECIAL MEETING

(i) A special meeting of the stockholders, other than those required by statute, may be called at any time only by the affirmative vote of a majority of the Whole Board. A special meeting of the stockholders may not be called by any other person or persons. The Board of Directors, by the affirmative vote of a majority of the Whole Board, may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders. For purposes of these Bylaws, the term “**Whole Board**” shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships.

(ii) The notice of a special meeting shall include the purpose for which the meeting is called. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the Board of Directors. Nothing contained in this Section 2.3(ii) shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

2.4 ADVANCE NOTICE PROCEDURES

(i) Advance Notice of Stockholder Business. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be brought: (A) pursuant to the Corporation's proxy materials with respect to such meeting, (B) by or at the direction of the Board of Directors, or (C) by a stockholder of the Corporation who (1) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(i) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has timely complied in proper written form with the notice procedures set forth in this Section 2.4(i). In addition, for business to be properly brought before an annual meeting by a stockholder, such business must be a proper matter for stockholder action pursuant to these Bylaws and applicable law. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "**1934 Act**"), clause (C) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders.

(a) To comply with clause (C) of Section 2.4(i), a stockholder's notice must set forth all information required under this Section 2.4(i) and must be timely received by the chief executive officer of the Corporation. To be timely, a stockholder's notice must be received by the secretary at the principal executive offices of the Corporation not later than the 45th day nor earlier than the 75th day before the one-year anniversary of the date on which the Corporation first mailed its proxy materials or a notice of availability of proxy materials (whichever is earlier) for the preceding year's annual meeting; *provided, however*, that in the event that no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of the previous year's annual meeting, then, for notice by the stockholder to be timely, it must be so received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the tenth day following the day on which Public Announcement (as defined below) of the date of such annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described in this Section 2.4(i)(a). "**Public Announcement**" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the 1934 Act.

(b) To be in proper written form, a stockholder's notice to the secretary must set forth as to each matter of business the stockholder intends to bring before the annual meeting: (1) a brief description of the business intended to be brought before the annual meeting, the text of the proposed business (including the text of any resolutions proposed for consideration) and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any Stockholder Associated Person (as defined below), (3) the class and number of shares of the Corporation that are held of record or are beneficially owned by the stockholder or any Stockholder Associated Person and any derivative positions held or beneficially held by the stockholder or any Stockholder Associated Person as of the date of delivery of such notice, (4) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the Corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the Corporation, (5) any material interest of the stockholder or a Stockholder Associated Person in such business, and (6) a statement whether either such stockholder or any Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the voting power of the Corporation's voting shares required under applicable law to carry the proposal (such information provided and statements made as required by clauses (1) through (6) above, a "**Business Solicitation Statement**"). In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten days following the record date for notice of the meeting to disclose the information contained in clauses (3) and (4) above as of the record date for notice of the meeting. For purposes of this Section 2.4, a "**Stockholder Associated Person**" of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii).

(c) Without exception, no business shall be conducted at any annual meeting except in accordance with the provisions set forth in this Section 2.4(i) and, if applicable, Section 2.4(ii). In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that business was not properly brought before the annual meeting and in accordance with the provisions of this Section 2.4(i), and, if the chairperson should so determine, he or she shall so declare at the annual meeting that any such business not properly brought before the annual meeting shall not be conducted.

(ii) Advance Notice of Director Nominations at Annual Meetings. Notwithstanding anything in these Bylaws to the contrary, only persons who are nominated in accordance with the procedures set forth in this Section 2.4(ii) shall be eligible for election or re-election as directors at an annual meeting of stockholders. Nominations of persons for election or re-election to the Board of Directors of the Corporation shall be made at an annual meeting of stockholders only (A) by or at the direction of the Board of Directors or (B) by a stockholder of the Corporation who (1) was a stockholder of record at the time of the giving of the notice required by this Section 2.4(ii) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has complied with the notice procedures set forth in this Section 2.4(ii). In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the Corporation.

(a) To comply with clause (B) of Section 2.4(ii), a nomination to be made by a stockholder must set forth all information required under this Section 2.4(ii) and must be received by the secretary of the Corporation at the principal executive offices of the Corporation at the time set forth in, and in accordance with, the final three sentences of Section 2.4(i)(a); *provided, however*, that in the event the number of directors to be elected to the Board of Directors is increased and there is no Public Announcement naming all of the nominees for director or specifying the size of the increased board made by the Corporation at least ten (10) days before the last day a stockholder may deliver notice of nomination pursuant to the foregoing provisions, a stockholder's notice required by this Section 2.4(ii) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the date on which such Public Announcement is first made by the Corporation.

(b) To be in proper written form, such stockholder's notice to the secretary must set forth:

(1) as to each person (a "**nominee**") whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of the nominee, (B) the principal occupation or employment of the nominee, (C) the class and number of shares of the Corporation that are held of record or are beneficially owned by the nominee and any derivative positions held or beneficially held by the nominee, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the nominee with respect to any securities of the Corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the nominee, (E) a description of all arrangements or understandings between or among the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder or concerning the nominee's potential service on the Board of Directors, (F) a written statement executed by the nominee acknowledging that as a director of the Corporation, the nominee will owe fiduciary duties under Delaware law with respect to the Corporation and its stockholders, and (G) any other information relating to the nominee that would be required to be disclosed about such nominee if proxies were being solicited for the election or re-election of the nominee as a director, or that is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation the nominee's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected or re-elected, as the case may be); and

(2) as to such stockholder giving notice, (A) the information required to be provided pursuant to clauses (2) through (5) of Section 2.4(i)(b), and the supplement referenced in the second sentence of Section 2.4(i)(b) (except that the references to "business" in such clauses shall instead refer to nominations of directors for purposes of this paragraph), and (B) a statement whether either such stockholder or Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of voting power of the Corporation's voting shares reasonably believed by such stockholder or Stockholder Associated Person to be necessary to elect or re-elect such nominee(s) (such information provided and statements made as required by clauses (A) and (B) above, a "**Nominee Solicitation Statement**").

(c) At the request of the Board of Directors, any person nominated by a stockholder for election or re-election as a director must furnish to the secretary of the Corporation (1) that information required to be set forth in the stockholder's notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person's nomination was given, (2) such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director or audit committee financial expert of the Corporation under applicable law, securities exchange rule or regulation, or any publicly disclosed corporate governance guideline or committee charter of the Corporation and (3) such other information that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of any such information of the kind specified in this Section 2.4(ii)(c) if requested, such stockholder's nomination shall not be considered in proper form pursuant to this Section 2.4(ii).

(d) Without exception, no person shall be eligible for election or re-election as a director of the Corporation at an annual meeting of stockholders unless nominated in accordance with the provisions set forth in this Section 2.4(ii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that a nomination was not made in accordance with the provisions prescribed by these Bylaws, and if the chairperson should so determine, he or she shall so declare at the annual meeting, and the defective nomination shall be disregarded.

(iii) Advance Notice of Director Nominations for Special Meetings.

(a) If the Board of Directors has authorized in the specific case that stockholders may fill a vacancy or newly created directorship at a special meeting of stockholders, and a special meeting has been properly called for such purpose, nominations of persons for election or appointment to the Board of Directors at such special meeting shall be made only (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation who (A) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(iii) and on the record date for the determination of stockholders entitled to vote at the special meeting and (B) delivers a timely written notice of the nomination to the secretary of the Corporation that includes the information set forth in Sections 2.4(ii)(b) and (ii)(c). To be timely, such notice must be received by the secretary at the principal executive offices of the Corporation not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected or appointed at such meeting. A person shall not be eligible for election or appointment as a director at a special meeting unless the person is nominated (i) by or at the direction of the Board of Directors or (ii) by a stockholder in accordance with the notice procedures set forth in this Section 2.4(iii). In addition, a nominee shall not be eligible for election or appointment if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. Any person nominated in accordance with this Section 2.4(iii) is subject to, and must comply with, the provisions of Section 2.4(ii)(c).

(b) The chairperson of such special meeting shall, if the facts warrant, determine and declare at the meeting that a nomination or business was not made in accordance with the procedures prescribed by these Bylaws, and if the chairperson should so determine, he or she shall so declare at the meeting, and the defective nomination or business shall be disregarded.

(iv) Other Requirements and Rights. In addition to the foregoing provisions of this Section 2.4, a stockholder must also comply with all applicable requirements of state law and of the 1934 Act with respect to the matters set forth in this Section 2.4. Nothing in this Section 2.4 shall be deemed to affect any rights of:

(a) a stockholder to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act; or

(b) the Corporation to omit a proposal from the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act.

2.5 NOTICE OF STOCKHOLDERS' MEETINGS

Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise provided in the DGCL, the Certificate of Incorporation or these Bylaws, the written notice of any meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting.

2.6 QUORUM

The holders of a majority of the voting power of the stock issued, outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders, unless otherwise required by law, the Certificate of Incorporation, these Bylaws or the rules of any applicable stock exchange. Where a separate vote by a class or series or classes or series is required, a majority of the voting power of the then-issued and outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter, except as otherwise required by law, the Certificate of Incorporation, these Bylaws or the rules of any applicable stock exchange.

If a quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. The chairperson of the meeting shall have the authority to adjourn a meeting of the stockholders in all other events. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these Bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL and Section 2.11 of these Bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

2.8 CONDUCT OF BUSINESS

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business. The chairperson of any meeting of stockholders shall be designated by the Board of Directors; in the absence of such designation, the chairperson of the Board of Directors, if any, the chief executive officer (in the absence of the chairperson) or the president (in the absence of the chairperson of the Board of Directors and the chief executive officer), or in their absence any other executive officer of the Corporation, shall serve as chairperson of the stockholder meeting.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these Bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the Certificate of Incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Except as otherwise provided by law, the Certificate of Incorporation, these Bylaws or the rules of any applicable stock exchange, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise required by law, the Certificate of Incorporation, these Bylaws or the rules of any applicable stock exchange, directors shall be elected by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, in all matters other than the election of directors, the affirmative vote of the majority of the voting power of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series, except as otherwise provided by law, the Certificate of Incorporation, these Bylaws or the rules of any applicable stock exchange.

2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise provided in the Certificate of Incorporation, any action required by statute to be taken at any annual or special of the stockholders, or any action which may be taken at an annual or special meeting of stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be (i) signed by the holders of record on the record date (established in the manner set forth in Section 2.11 below and Article VIII of the Corporation's Certificate of Incorporation) of outstanding shares of the Corporation 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; *provided, however*, that in the case of the election or removal of directors by written consent, such consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors, and (ii) delivered to the Corporation in accordance with Section 228 of the DGCL.

2.11 RECORD DATES

In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination.

If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board of Directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the provisions of Section 213 of the DGCL and this Section 2.11 at the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

2.12 PROXIES

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL. A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the stockholder.

2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; *provided, however*, if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date. The stockholder list shall be arranged in alphabetical order and show the address of each stockholder and the number of shares registered in the name of each stockholder. The Corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the Corporation's principal place of business. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place (as opposed to solely by means of remote communication), then a list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then a list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. The stock ledger of the Corporation shall be the only evidence as to the identity of the stockholders entitled to examine the stock list and vote at the meeting and the number of shares held by each of them.

2.14 INSPECTORS OF ELECTION

Before any meeting of stockholders, the Board of Directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one or three. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting shall appoint a person to fill that vacancy.

Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed and designated shall (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each share, (ii) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and such inspector or inspectors' count of all votes and ballots.

In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Corporation, the inspector or inspectors may consider such information as is permitted by applicable law. If there are three 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

3.1 POWERS

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided in the DGCL or the Certificate of Incorporation.

3.2 NUMBER OF DIRECTORS

The Board of Directors shall consist of one or more members, each of whom shall be a natural person. Unless the Certificate of Incorporation fixes the number of directors, the number of directors shall be determined from time to time solely by resolution of the Whole Board. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these Bylaws, each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal. Directors need not be stockholders unless so required by the Certificate of Incorporation or these Bylaws. The Certificate of Incorporation or these Bylaws may prescribe other qualifications for directors.

Notwithstanding anything in these Bylaws to the contrary, 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 by the Board of Directors.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon notice given in writing or by electronic transmission to the Corporation; *provided, however,* that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the director. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. Unless otherwise specified in the notice of resignation, acceptance of such resignation shall not be necessary to make it effective. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, when one or more directors resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Unless otherwise provided in the Certificate of Incorporation or these Bylaws or if authorized by resolution of the Board of Directors, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class shall be filled only by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, and not by the stockholders. If the directors are divided into classes, a person so elected by the directors then in office to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole Board of Directors (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting power of the capital stock of the Corporation at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The Board of Directors may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the chairperson of the Board of Directors, the chief executive officer, the president, the secretary or a majority of the authorized number of directors, at such times and places as he or she or they shall designate.

Notice of the time and place of special meetings shall be:

- (i) delivered personally by hand, by courier or by telephone;
- (ii) sent by United States first-class mail, postage prepaid;
- (iii) sent by facsimile; or
- (iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the Corporation's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the Corporation's principal executive office) nor the purpose of the meeting.

3.8 QUORUM; VOTING

At all meetings of the Board of Directors, a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the Board of Directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

The affirmative vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute, the Certificate of Incorporation or these Bylaws.

If the Certificate of Incorporation provides that one or more directors shall have more or less than one vote per director on any matter, every reference in these Bylaws to a majority or other proportion of the directors shall refer to a majority or other proportion of the votes of the directors.

3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the Certificate of Incorporation, these Bylaws or statute, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Any person (whether or not then a director) may provide, whether through instruction to an agent or otherwise, that a consent to action will be effective at a future time (including a time determined upon the happening of an event), no later than 60 days after such instruction is given or such provision is made and such consent shall be deemed to have been given for purposes of this Section 3.9 at such effective time so long as such person is then a director and did not revoke the consent prior to such time. Any such consent shall be revocable prior to its becoming effective.

3.10 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the Certificate of Incorporation, these Bylaws or statute, the Board of Directors shall have the authority to fix the compensation of directors.

3.11 REMOVAL OF DIRECTORS

A director may be removed from office by the stockholders of the Corporation with or without cause.

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

ARTICLE IV — COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors or in these Bylaws, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the Corporation.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

- (i) Section 3.5 (place of meetings and meetings by telephone);
- (ii) Section 3.6 (regular meetings);
- (iii) Section 3.7 (special meetings; notice);
- (iv) Section 3.8 (quorum; voting);
- (v) Section 3.9 (action without a meeting); and
- (vi) Section 7.5 (waiver of notice)

with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members. However:

- (i) the time of regular meetings of committees may be determined by resolution of the committee;
- (ii) special meetings of committees may also be called by resolution of the committee; and
- (iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors or a committee may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

Any provision in the Certificate of Incorporation providing that one or more directors shall have more or less than one vote per director on any matter shall apply to voting in any committee or subcommittee, unless otherwise provided in the Certificate of Incorporation or these Bylaws.

4.4 SUBCOMMITTEES

Unless otherwise provided in the Certificate of Incorporation, these Bylaws or the resolutions of the Board of Directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE V — OFFICERS

5.1 OFFICERS

The officers of the Corporation shall be a president and a secretary. The Corporation may also have, at the discretion of the Board of Directors, a chairperson of the Board of Directors, a vice chairperson of the Board of Directors, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these Bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

The Board of Directors shall appoint the officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 of these Bylaws, subject to the rights, if any, of an officer under any contract of employment. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in this Article V for the regular election to such office.

5.3 SUBORDINATE OFFICERS

The Board of Directors may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the Corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board of Directors or by any officer upon whom such power of removal may be conferred by the Board of Directors, except that, unless specifically approved by the Board of Directors, officers may not remove other officers chosen by the Board of Directors.

Any officer may resign at any time by giving written or electronic notice to the Corporation; *provided, however*, that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the officer. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors or as provided in Section 5.3.

5.6 REPRESENTATION OF SHARES OR INTERESTS OF OTHER CORPORATIONS OR ENTITIES

The chairperson of the Board of Directors, the president, any vice president, the treasurer, the secretary or any assistant secretary of this Corporation, or any other person authorized by the Board of Directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this Corporation all rights incident to any and all shares or equity interests of any other corporation or corporations or entity or entities standing in the name of this Corporation, including the right to act by written consent. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.7 AUTHORITY AND DUTIES OF OFFICERS

All officers of the Corporation shall respectively have such authority and perform such duties in the management of the business of the Corporation as may be designated from time to time by the Board of Directors and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the Board of Directors.

ARTICLE VI — STOCK

6.1 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the Corporation by the chairperson of the Board of Directors or vice-chairperson of the Board of Directors, or the president or a vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has 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 such officer, transfer agent or registrar at the date of issue. The Corporation shall not have power to issue a certificate in bearer form.

The Corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly-paid shares, or upon the books and records of the Corporation in the case of uncertificated partly-paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully-paid shares, the Corporation shall declare a dividend upon partly-paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

6.2 SPECIAL DESIGNATION ON CERTIFICATES

If the Corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock; *provided, however*, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section 6.2 or Sections 151, 156, 202(a) or 218(a) of the DGCL or with respect to this Section 6.2 a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

6.3 LOST, STOLEN OR DESTROYED CERTIFICATES

Except as provided in this Section 6.3, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the Corporation and cancelled at the same time. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

6.4 DIVIDENDS

The Board of Directors, subject to any restrictions contained in the Certificate of Incorporation or applicable law, may declare and pay dividends upon the shares of the Corporation's capital stock. Dividends may be paid in cash, in property, or in shares of the Corporation's capital stock, subject to the provisions of the Certificate of Incorporation.

The Board of Directors may set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve.

6.5 TRANSFER OF STOCK

Transfers of record of shares of stock of the Corporation shall be made only upon its books by the holders thereof, in person or by an attorney duly authorized, and, if such stock is certificated, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer; *provided, however*, that such succession, assignment or authority to transfer is not prohibited by the Certificate of Incorporation, these Bylaws, applicable law or contract.

6.6 STOCK TRANSFER AGREEMENTS

The Corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

6.7 REGISTERED STOCKHOLDERS

The Corporation:

(i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;

(ii) shall be entitled (to the fullest extent permitted by law) to hold liable for calls and assessments the person registered on its books as the owner of shares; and

(iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII — MANNER OF GIVING NOTICE AND WAIVER

7.1 NOTICE OF STOCKHOLDERS' MEETINGS

Notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the Corporation's records. An affidavit of the secretary or an assistant secretary of the Corporation or of the transfer agent or other agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

7.2 NOTICE BY ELECTRONIC TRANSMISSION

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the Certificate of Incorporation or these Bylaws, any notice to stockholders given by the Corporation under any provision of the DGCL, the Certificate of Incorporation or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if:

(i) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

(i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;

(ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and

(iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the Corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

An “**electronic transmission**” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

7.3 NOTICE TO STOCKHOLDERS SHARING AN ADDRESS

Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under the provisions of the DGCL, the Certificate of Incorporation or these Bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any stockholder who fails to object in writing to the Corporation, within 60 days of having been given written notice by the Corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

7.4 NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL

Whenever notice is required to be given, under the DGCL, the Certificate of Incorporation or these Bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the Corporation is such as to require the filing of a certificate under the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

7.5 WAIVER OF NOTICE

Whenever notice is required to be given to stockholders, directors or other persons under any provision of the DGCL, the Certificate of Incorporation or these Bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders or the Board of Directors, as the case may be, need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws.

ARTICLE VIII — INDEMNIFICATION

8.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN THIRD PARTY PROCEEDINGS

Subject to the other provisions of this Article VIII, the Corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person 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 (a “**Proceeding**”) (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director of the Corporation or an officer of the Corporation, or while a director of the Corporation or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding 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 Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person’s conduct 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 such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person’s conduct was unlawful.

8.2 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

Subject to the other provisions of this Article VIII, the Corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, 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 or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit 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 Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the 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 person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

8.3 SUCCESSFUL DEFENSE

To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in Section 8.1 or Section 8.2, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

8.4 INDEMNIFICATION OF OTHERS; ADVANCE PAYMENT TO OTHERS

Subject to the other provisions of this Article VIII, the Corporation shall have power to advance expenses to and indemnify its employees and its agents to the extent not prohibited by the DGCL or other applicable law. The Board of Directors shall have the power to delegate the determination of whether employees or agents shall be indemnified or receive an advancement of expenses to such person or persons as the Board of Directors determines.

8.5 ADVANCE PAYMENT OF EXPENSES

Expenses (including attorneys' fees) incurred by an officer or director of the Corporation in defending any Proceeding shall be paid by the Corporation in advance of the final disposition of such Proceeding upon receipt of a written request therefor (together with documentation reasonably evidencing such expenses) and an undertaking by or on behalf of the person to repay such amounts if it shall ultimately be determined that the person is not entitled to be indemnified under this Article VIII or the DGCL. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Corporation deems reasonably appropriate and shall be subject to the Corporation's expense guidelines. The right to advancement of expenses shall not apply to any claim for which indemnity is excluded pursuant to these Bylaws, but shall apply to any Proceeding referenced in Section 8.6(ii) or 8.6(iii) of these Bylaws prior to a determination that the person is not entitled to be indemnified by the Corporation.

8.6 LIMITATION ON INDEMNIFICATION

Subject to the requirements in Section 8.3 and the DGCL, the Corporation shall not be obligated to indemnify any person pursuant to this Article VIII in connection with any Proceeding (or any part of any Proceeding):

(i) for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(ii) for an accounting or disgorgement of profits pursuant to Section 16(b) of the 1934 Act, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements);

(iii) for any reimbursement of the Corporation by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the Corporation, as required in each case under the 1934 Act (including any such reimbursements that arise from an accounting restatement of the Corporation pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the “**Sarbanes-Oxley Act**”), or the payment to the Corporation of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements);

(iv) initiated by such person against the Corporation or its directors, officers, employees, agents or other indemnitees, unless (a) the Board of Directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the Corporation provides the indemnification, in its sole discretion, pursuant to the powers vested in the Corporation under applicable law, (c) otherwise required to be made under Section 8.7 of these Bylaws or (d) otherwise required by applicable law; or

(v) if prohibited by applicable law; *provided, however*, that if any provision or provisions of this Article VIII shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Article VIII (including, without limitation, each portion of any paragraph or clause containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Article VIII (including, without limitation, each such portion of any paragraph or clause containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

8.7 DETERMINATION; CLAIM

If a claim for indemnification or advancement of expenses under this Article VIII is not paid in full within 90 days after receipt by the Corporation of the written request therefor, the claimant shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of expenses. The Corporation shall indemnify such person against any and all expenses that are incurred by such person in connection with any action for indemnification or advancement of expenses from the Corporation under this Article VIII, to the extent such person is successful in such action, and to the extent not prohibited by law. In any such suit, the Corporation shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of expenses.

8.8 NON-EXCLUSIVITY OF RIGHTS

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Certificate of Incorporation or any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. The Corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advancement of expenses, to the fullest extent not prohibited by the DGCL or other applicable law.

8.9 INSURANCE

The Corporation may purchase and maintain insurance on behalf of any person who 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 Corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of the DGCL.

8.10 SURVIVAL

The rights to indemnification and advancement of expenses conferred by this Article VIII 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 such a person.

8.11 EFFECT OF REPEAL OR MODIFICATION

Any amendment, alteration or repeal of this Article VIII shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to such amendment, alteration or repeal.

8.12 CERTAIN DEFINITIONS

For purposes of this Article VIII, references to the "**Corporation**" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "**other enterprises**" shall include employee benefit plans; references to "**finances**" shall include any excise taxes assessed on a person with respect to an employee benefit plan (excluding any "parachute payments" within the meanings of Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended); and references to "**servicing at the request of the Corporation**" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "**not opposed to the best interests of the Corporation**" as referred to in this Article VIII.

ARTICLE IX — GENERAL MATTERS

9.1 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the Board of Directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute any document or instrument in the name of and on behalf of the Corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, 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 for any amount.

9.2 FISCAL YEAR

The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors and may be changed by the Board of Directors.

9.3 SEAL

The Corporation may adopt a corporate seal, which shall be adopted and which may be altered by the Board of Directors. The Corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

9.4 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “**person**” includes both an entity and a natural person.

ARTICLE X — AMENDMENTS

These Bylaws may be adopted, amended or repealed by the stockholders entitled to vote; *provided, however*, that the affirmative vote of the holders of at least a majority of the total voting power of all outstanding shares of capital stock of the Corporation entitled to vote thereon, voting together as a single class, shall be required for the stockholders of the Corporation to alter, amend or repeal, or adopt any bylaw inconsistent with, the following provisions of these Bylaws: Article II, Sections 3.1, 3.2, 3.4 and 3.11 of Article III, Article VIII and this Article X (including, without limitation, any such Article or Section as renumbered as a result of any amendment, alteration, change, repeal, or adoption of any other Bylaw). The Board of Directors, acting by the affirmative vote of at least a majority of the Whole Board, shall also have the power to adopt, amend or repeal Bylaws; *provided, however*, that a bylaw amendment adopted by stockholders which specifies the votes that shall be necessary for the election of directors shall not be further amended or repealed by the Board of Directors.

FORM OF WARRANT TO PURCHASE COMMON STOCK

POLAR POWER, INC.

Warrant Shares: _____

Initial Exercise Date: December 6, 2017

THIS WARRANT TO PURCHASE COMMON STOCK (the "Warrant") certifies that, for value received, _____ or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after December 6, 2017 (the "Initial Exercise Date") and, in accordance with FINRA Rule 5110(f)(2)(G)(i), prior to at 5:00 p.m. (New York time) on the date that is five (5) years following the Effective Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Polar Power, Inc., a Delaware corporation (the "Company"), up to _____ shares of common stock, par value \$0.0001 per share (the "Common Stock"), of the Company (the "Warrant Shares"), as subject to adjustment hereunder. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated in this Section 1:

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"Commission" means the United States Securities and Exchange Commission.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Trading Day" means a day on which the New York Stock Exchange is open for trading.

"Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, or the New York Stock Exchange (or any successors to any of the foregoing).

“VWAP” means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if OTCQB or OTCQX is not a Trading Market, the volume weighted average price of a share of Common Stock for such date (or the nearest preceding date) on the OTCQB or OTCQX as applicable, (c) if Common Stock is not then listed or quoted for trading on the OTCQB or OTCQX and if prices for Common Stock are then reported in the “Pink Sheets” published by OTC Markets Group, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of Common Stock so reported, or (d) in all other cases, the fair market value of the Common Stock as determined by an independent appraiser selected in good faith by the Holder and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

Section 2. Exercise.

a) Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy (or e-mail attachment) of the Notice of Exercise Form annexed hereto. Within three (3) Trading Days following the date of exercise as aforesaid, the Holder shall deliver the aggregate Exercise Price for the shares specified in the applicable Notice of Exercise by wire transfer or cashier’s check drawn on a United States bank unless the cashless exercise procedure specified in Section 2(c) below is specified in the applicable Notice of Exercise. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within two (2) Business Days of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be \$8.75, subject to adjustment hereunder (the “Exercise Price”).

c) Cashless Exercise. If at any time after the 6 month anniversary of the Initial Exercise Date, there is no effective registration statement registering, or the prospectus contained therein is not available for the issuance of the Warrant Shares to the Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a “cashless exercise” in which the Holder shall be entitled to receive the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP on the Trading Day immediately preceding the date on which Holder elects to exercise this Warrant by means of a “cashless exercise,” as set forth in the applicable Notice of Exercise;

(B) = the Exercise Price of this Warrant, as adjusted hereunder; and

(X) = the number of Warrant Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

If Warrant Shares are issued in such a “cashless exercise,” the parties acknowledge and agree that in accordance with Section 3(a)(9) of the Securities Act, the Warrant Shares shall take on the registered characteristics of the Warrants being exercised, and the holding period of the Warrants being exercised may be tacked on to the holding period of the Warrant Shares. The Company agrees not to take any position contrary to this Section 2(c).

Notwithstanding anything herein to the contrary, on the Termination Date, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

d) Mechanics of Exercise.

i. Delivery of Warrant Shares Upon Exercise. The Company shall cause the Warrant Shares purchased hereunder to be transmitted by its transfer agent to the Holder by crediting the account of the Holder’s or its designee’s balance account with The Depository Trust Company through its Deposit or Withdrawal at Custodian system (“DWAC”) if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by Holder, or (B) the Warrant Shares are eligible for resale by the Holder without volume or manner-of-sale limitations pursuant to Rule 144 and, in either case, the Warrant Shares have been sold by the Holder prior to the Warrant Share Delivery Date (as defined below), and otherwise by physical delivery of a certificate, registered in the Company’s share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the address specified by the Holder in the Notice of Exercise by the date that is three (3) Trading Days after the delivery to the Company of the Notice of Exercise (such date, the “Warrant Share Delivery Date”). If the Warrant Shares can be delivered via DWAC, the transfer agent shall have received from the Company any legal opinions or other documentation required by it to deliver such Warrant Shares without legend (subject to receipt by the Company of reasonable back up documentation from the Holder, including with respect to affiliate status) and, if applicable and requested by the Company prior to the Warrant Share Delivery Date, the transfer agent shall have received from the Holder a confirmation of sale of the Warrant Shares (provided the requirement of the Holder to provide a confirmation as to the sale of Warrant Shares shall not be applicable to the issuance of unlegended Warrant Shares upon a cashless exercise of this Warrant if the Warrant Shares are then eligible for resale pursuant to Rule 144(b)(1)). The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(vi) prior to the issuance of such shares, having been paid. If the Company fails for any reason to deliver to the Holder the Warrant Shares subject to a Notice of Exercise by the second Trading Day following the Warrant Share Delivery Date, the Company shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of Warrant Shares subject to such exercise (based on the VWAP of the Common Stock on the date of the applicable Notice of Exercise), \$10 per Trading Day (increasing to \$20 per Trading Day on the fifth Trading Day after such liquidated damages begin to accrue) for each Trading Day after the second Trading Day following such Warrant Share Delivery Date until such Warrant Shares are delivered or Holder rescinds such exercise.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause its transfer agent to deliver to the Holder the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise; provided, however, that the Holder shall be required to return any Warrant Shares or Common Stock subject to any such rescinded exercise notice concurrently with the return to Holder of the aggregate Exercise Price paid to the Company for such Warrant Shares and the restoration of Holder's right to acquire such Warrant Shares pursuant to this Warrant (including, issuance of a replacement warrant certificate evidencing such restored right).

i v . Compensation for Buy-In on Failure to Timely Deliver Warrant Shares Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder the Warrant Shares pursuant to an exercise on or before the second Trading Day following the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of \$10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

v . No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

vi . Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event that Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all transfer agent fees required for same-day processing of any Notice of Exercise.

vii . Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

viii . Signature. This Section 2 and the exercise form attached hereto set forth the totality of the procedures required of the Holder in order to exercise this Purchase Warrant. Without limiting the preceding sentences, no ink-original exercise form shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any exercise form be required in order to exercise this Purchase Warrant. No additional legal opinion, other information or instructions shall be required of the Holder to exercise this Purchase Warrant. The Company shall honor exercises of this Purchase Warrant and shall deliver Shares underlying this Purchase Warrant in accordance with the terms, conditions and time periods set forth herein.

e) Holder's Exercise Limitations. The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Stock Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(e) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(e), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or the Company's transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Holder, upon notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 2(e), provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Holder and the provisions of this Section 2(e) shall continue to apply. Any increase in the Beneficial Ownership Limitation will not be effective until the 61st day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(e) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification. For the purposes of clarification, the Exercise Price of this Warrant will not be adjusted in the event that the Company or any future subsidiary of the Company sells or grants any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents, at an effective price per share less than the Exercise Price then in effect.

b) [RESERVED]

c) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 3(a) above, if at any time the Company grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of such shares of Common Stock as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

d) Pro Rata Distributions. During such time as this Warrant is outstanding, if the Company shall declare or make any dividend (other than cash dividends) or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of shares or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Warrant, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution (provided, however, to the extent that the Holder's right to participate in any such Distribution would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Distribution to such extent (or in the beneficial ownership of any shares of Common Stock as a result of such Distribution to such extent) and the portion of such Distribution shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation). To the extent that this Warrant has not been partially or completely exercised at the time of such Distribution, such portion of the Distribution shall be held in abeyance for the benefit of the Holder until the Holder has exercised this Warrant.

e) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a “Fundamental Transaction”), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder (without regard to any limitation in Section 2(e) on the exercise of this Warrant), the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the “Alternate Consideration”) receivable by holders of Common Stock as a result of such Fundamental Transaction for each share of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(e) on the exercise of this Warrant). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the “Successor Entity”) to assume in writing all of the obligations of the Company under this Warrant in accordance with the provisions of this Section 3(e) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the Holder, deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant which is exercisable for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the “Company” shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein.

f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

g) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed a notice to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to provide such notice or any defect therein shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any future subsidiaries of the Company, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 4. Transfer of Warrant.

a) Transferability. Pursuant to FINRA Rule 5110(g)(1), neither this Warrant nor any Warrant Shares issued upon exercise of this Warrant shall be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of the offering pursuant to which this Warrant is being issued, except the transfer of any security:

- i. by operation of law or by reason of reorganization of the Company;
- ii. to any FINRA member firm participating in the offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction in this Section 4(a) for the remainder of the time period;

iii. if the aggregate amount of securities of the Company held by the Holder or related person do not exceed 1% of the securities being offered;

iv. that is beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund, and participating members in the aggregate do not own more than 10% of the equity in the fund; or

v. the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction in this Section 4(a) for the remainder of the time period.

Subject to the foregoing restriction, any applicable securities laws and the conditions set forth in Section 4(d), this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the initial issuance date of this Warrant and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

Section 5. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i).

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the underwriting agreement, dated ___, 2016, by and between the Company, Joseph Gunnar & Co., LLC and Roth Capital Partners, LLC as representatives of the underwriters set forth therein (the "Underwriting Agreement").

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies. Without limiting any other provision of this Warrant or the Underwriting Agreement, if the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Underwriting Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

POLAR POWER, INC.

By: _____
Name: Arthur D. Sams
Title: President and Chief Executive Officer

NOTICE OF EXERCISE

TO: POLAR POWER, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

in lawful money of the United States; or

if permitted the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please register and issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

(4) Accredited Investor. If the Warrant is being exercised via cash exercise, the undersigned is an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933, as amended

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

Signature of Authorized Signatory of Investing Entity: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information. Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

POLAR POWER, INC.

CODE OF BUSINESS CONDUCT AND ETHICS

Dated: December 6, 2016

Introduction*Purpose*

This Code of Business Conduct and Ethics (the “**Code**”) contains general guidelines for conducting the business of Polar Power, Inc. (the “**Company**”) consistent with the highest standards of business ethics. To the extent this Code requires a higher standard than required by commercial practice or applicable laws, rules or regulations, the Company adheres to these higher standards.

This Code applies to all of our directors, officers and other employees. We refer to all officers and other employees covered by this Code as “Company employees” or simply “employees,” unless the context otherwise requires. In this Code, we refer to our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, as our “principal financial officers.”

Seeking Help and Information

This Code is not intended to be a comprehensive rulebook and cannot address every situation that you may face. If you feel uncomfortable about a situation or have any doubts about whether it is consistent with the Company’s ethical standards, seek help. We encourage you to contact your supervisor for help first. If your supervisor cannot answer your question or if you do not feel comfortable contacting your supervisor, contact the Company’s Chief Financial Officer (or the Company’s Acting Chief Financial Officer, as the case may be). The Company has also established an Ethics Hotline that is available 24 hours a day, 7 days a week by calling (424) 286-4122, or emailing the Chief Financial Officer. You may remain anonymous and will not be required to reveal your identity in calls to the Ethics Hotline, although providing your identity may assist the Company in addressing your questions or concerns.

Reporting Violations of the Code

All employees and directors have a duty to report any known or suspected violation of this Code, including violations of the laws, rules, regulations or policies that apply to the Company. If you know of or suspect a violation of this Code, immediately report the conduct to your supervisor or the Company’s Chief Financial Officer (or the Company’s Acting Chief Financial Officer, as the case may be). The Company’s Chief Financial Officer (or the Company’s Acting Chief Financial Officer, as the case may be) will work with you and your supervisor or other appropriate persons to investigate your concern. If you do not feel comfortable reporting the conduct to your supervisor or you do not get a satisfactory response, you may contact the Company’s Chief Financial Officer (or the Company’s Acting Chief Financial Officer, as the case may be) directly. You may also report known or suspected violations of the Code on the Ethics Hotline that is available 24 hours a day, 7 days a week by calling (424) 286-4122, or emailing Chief Financial Officer (or the Company’s Acting Chief Financial Officer, as the case may be). You may remain anonymous and will not be required to reveal your identity in calls to the Ethics Hotline, although providing your identity may assist the Company in investigating your concern. All reports of known or suspected violations of the law or this Code will be handled sensitively and with discretion. Your supervisor, the Company’s Chief Financial Officer (or the Company’s Acting Chief Financial Officer, as the case may be) and the Company will protect your confidentiality to the extent possible, consistent with applicable laws and the Company’s need to investigate your concern.

It is Company policy that any employee or director who violates this Code will be subject to appropriate discipline, which may include termination of employment or removal from the Board of Directors, as appropriate. This determination will be based upon the facts and circumstances of each particular situation. If you are accused of violating this Code, you will be given an opportunity to present your version of the events at issue prior to any determination of appropriate discipline. Employees and directors who violate the law or this Code may expose themselves to substantial civil damages, criminal fines and prison terms. The Company may also face substantial fines and penalties and may incur damage to its reputation and standing in the community. Your conduct as a representative of the Company, if it does not comply with the law or with this Code, can result in serious consequences for both you and the Company.

Policy Against Retaliation

The Company prohibits retaliation against an employee or director who, in good faith, seeks help or reports known or suspected violations. Any reprisal or retaliation against an employee because the employee, in good faith, sought help or filed a report will be subject to disciplinary action, including potential termination of employment.

Waivers of the Code

Any waiver of this Code for our directors, executive officers or other principal financial officers may be made only by our Board of Directors and will be disclosed to the public as required by law or the rules of The NASDAQ Stock Market, when applicable. Waivers of this Code for other employees may be made only by our Chief Executive Officer or Chief Financial Officer and will be reported to our Audit Committee.

Conflicts of Interest

Employees, officers and directors must act in the best interests of the Company. You must refrain from engaging in any activity or having a personal interest that presents a “conflict of interest” and should seek to avoid even the appearance of a conflict of interest. A conflict of interest occurs when your personal interest interferes with the interests of the Company. A conflict of interest can arise whenever you, as an employee, officer or director, take action or have an interest that prevents you from performing your Company duties and responsibilities honestly, objectively and effectively.

The Company requires that employees and directors disclose any situation that reasonably would be expected to give rise to a conflict of interest. If you suspect that you have a situation that could give rise to a conflict of interest, or something that others could reasonably perceive as a conflict of interest, you must report it in writing to your supervisor or the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be), or if you are a director or executive officer, to the Board of Directors. The Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) or the Board of Directors, as applicable, will work with you to determine whether you have a conflict of interest and, if so, how best to address it. All transactions that would give rise to a conflict of interest involving a director, executive officer or principal financial officer must be approved by the Board of Directors, and any such approval will not be considered a waiver of this Code.

Identifying potential conflicts of interest may not always be clear-cut. The list below contains examples of situations that may be deemed to constitute a conflict of interest requiring disclosure:

- *Outside Employment.* An employee being employed by, serving as a director of, or providing any services to a company that the individual knows or suspects is a customer, supplier or competitor of the Company (other than services to be provided as part of an employee's job responsibilities for the Company).
- *Improper Personal Benefits.* An employee or director obtaining any material (as to him or her) personal benefits or favors because of his or her position with the Company. Please see "Gifts and Entertainment" below for additional guidelines in this area.
- *Financial Interests.* An employee having a "material interest" (ownership or otherwise) in any company that the individual knows or suspects is a customer, supplier or competitor of the Company and using his or her position to influence a transaction with such company. Whether an employee has a "material interest" will be determined by the Board of Directors in light of all of the circumstances, including consideration of the relationship of the employee to the customer, supplier or competitor, the relationship of the employee to the specific transaction and the importance of the interest to the employee having the interest.
- *Loans or Other Financial Transactions.* An employee or director obtaining loans or guarantees of personal obligations from, or entering into any other personal financial transaction with, any company that the individual knows or suspects is a customer, supplier or competitor of the Company. This guideline does not prohibit arms-length transactions with banks, brokerage firms or other financial institutions.
- *Service on Boards and Committees.* An employee or director serving on a board of directors or trustees or on a committee of any entity (whether profit or not-for-profit) whose interests reasonably would be expected to conflict with those of the Company.

Actions of Family Members. The actions of family members outside the workplace may also give rise to the conflicts of interest described above because they may influence an employee's or director's objectivity in making decisions on behalf of the Company. For purposes of this Code, "family members" include your spouse or life-partner, brothers, sisters, parents, in-laws and children whether such relationships are by blood or adoption.

Corporate Opportunities

As an employee or director of the Company, you have an obligation to advance the Company's interests when the opportunity to do so arises. If you discover or are presented with a business opportunity through the use of corporate property or information or because of your position with the Company, you should first present the business opportunity to the Company before pursuing the opportunity in your individual capacity. No employee may use corporate property, information or his or her position with the Company for personal gain or compete with the Company while employed by us.

You should disclose to your supervisor the terms and conditions of each business opportunity covered by this Code that you wish to pursue. Your supervisor will contact the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) and the appropriate management personnel to determine whether the Company wishes to pursue the business opportunity. If the Company waives its right to pursue the business opportunity, you may pursue the business opportunity on the same terms and conditions as originally proposed and consistent with the other ethical guidelines set forth in this Code.

Confidential Information

Employees and directors have access to a variety of confidential information regarding the Company. Confidential information includes all non-public information that might be of use to competitors, or, if disclosed, harmful to the Company or its customers or suppliers. Employees and directors have a duty to safeguard all confidential information of the Company or third parties with which the Company conducts business, except when disclosure is authorized or legally mandated. Unauthorized disclosure of any confidential information is prohibited. Additionally, employees and directors should take appropriate precautions to ensure that confidential or sensitive business information, whether it is proprietary to the Company or another company, is not communicated within the Company except to employees and directors who have a need to know such information to perform their responsibilities for the Company. An employee's and director's obligation to protect confidential information continues after he or she leaves the Company. Unauthorized disclosure of confidential information could cause competitive harm to the Company or its customers and could result in legal liability to you and the Company.

Any questions or concerns regarding whether disclosure of Company information is legally mandated should be promptly referred to the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be).

Competition and Fair Dealing

All employees should endeavor to deal fairly with fellow employees and with the Company's collaborators, licensors, customers, suppliers and competitors. Employees should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice. Employees should maintain and protect any intellectual property licensed from licensors with the same care as they employ with regard to Company-developed intellectual property. Employees should also handle the nonpublic information of our collaborators, licensors, suppliers and customers responsibly and in accordance with our agreements with them, including information regarding their technology and product pipelines.

Gifts and Entertainment

The giving and receiving of gifts is a common business practice. Appropriate business gifts and entertainment are welcome courtesies designed to build relationships and understanding among business partners. Gifts and entertainment, however, should not compromise, or appear to compromise, your ability to make objective and fair business decisions. In addition, it is important to note that the giving and receiving of gifts are subject to a variety of laws, rules and regulations applicable to the Company's operations. These include, without limitation, laws covering the marketing of products, bribery and kickbacks. You are expected to understand and comply with all laws, rules and regulations that apply to your job position.

It is your responsibility to use good judgment in this area. As a general rule, you may give or receive gifts or entertainment to or from collaborators, customers or suppliers only if the gift or entertainment is infrequent, modest, intended to further legitimate business goals, in compliance with applicable law, and provided the gift or entertainment would not be viewed as an inducement to or reward for any particular business decision. All gifts and entertainment expenses should be properly accounted for on expense reports.

You should make every effort to refuse or return a gift that is beyond these permissible guidelines. If it would be inappropriate to refuse a gift or you are unable to return a gift, you should promptly report the gift to your supervisor. Your supervisor will bring the gift to the attention of the Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be), who may require you to donate the gift to an appropriate community organization. If you have any questions about whether it is permissible to accept a gift or something else of value, contact your supervisor or a principal financial officer for additional guidance.

Note: Gifts and entertainment may not be offered or exchanged under any circumstances to or with any employees of the U.S. government or state or local governments. If you have any questions about this policy, contact your supervisor or the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) for additional guidance. For a more detailed discussion of special considerations applicable to dealing with the U.S., state and local governments, see "Interactions with Governments."

Company Records

Accurate and reliable records are crucial to our business. Our records are the basis of our earnings statements, financial reports, regulatory submissions and many other aspects of our business and guide our business decision-making and strategic planning. Company records include financial records, personnel records, records relating to our technology and product development, customer collaborations, regulatory submissions and all other records maintained in the ordinary course of our business.

All Company records must be complete, accurate and reliable in all material respects. Company records and communications often become public, and we should avoid exaggeration, derogatory remarks, guesswork or inappropriate characterizations of people and companies that can be misunderstood. This applies equally to e-mail, internal memos and formal reports. Each employee and director must follow any document retention policy of the Company with respect to Company records within such employee's or director's control.

Protection and Use of Company Assets

Employees should protect the Company's assets and ensure their efficient use for legitimate business purposes only and not for any personal benefit or the personal benefit of anyone else. Theft, carelessness and waste have a direct impact on the Company's financial performance. The use of Company funds or assets, whether or not for personal gain, for any unlawful or improper purpose is prohibited.

Employees should be aware that Company property includes all data and communications transmitted or received to or by, or contained in, the Company's electronic or telephonic systems. Company property also includes all written communications. Employees and other users of this property should have no expectation of privacy with respect to these communications and data. To the extent permitted by law, the Company has the ability, and reserves the right, to monitor all electronic and telephonic communication. These communications may also be subject to disclosure to law enforcement or government officials.

Accuracy of Financial Reports and Other Public Communications

As a public company we are subject to various securities laws, regulations and reporting obligations. Both federal law and our policies require the disclosure of accurate and complete information regarding the Company's business, financial condition and results of operations. Inaccurate, incomplete or untimely reporting will not be tolerated and can severely damage the Company and result in legal liability.

The Company's principal financial officers and other employees working in the finance department have a special responsibility to ensure that all of our financial disclosures are full, fair, accurate, timely and understandable. These employees must understand and strictly comply with generally accepted accounting principles and all standards, laws and regulations for accounting and financial reporting of transactions, estimates and forecasts. In addition, employees and directors are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead the Company's independent registered public accounting firm for the purpose of rendering the financial statements of the Company misleading.

Compliance with Laws and Regulations

Each employee and director has an obligation to comply with all laws, rules and regulations applicable to the Company's operations. These include, without limitation, laws covering bribery and kickbacks, the marketing and sale of our products and services, copyrights, trademarks and trade secrets, information privacy, insider trading, illegal political contributions, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, employment discrimination or harassment, occupational health and safety, false or misleading financial information or misuse of corporate assets. You are expected to understand and comply with all laws, rules and regulations that apply to your job position. If any doubt exists about whether a course of action is lawful, you should seek advice from your supervisor or the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be).

Interactions with the Government

The Company may conduct business with the U.S. government, state and local governments and the governments of other countries. The Company is committed to conducting its business with all governments and their representatives with the highest standards of business ethics and in compliance with all applicable laws and regulations, including the special requirements that apply to communications with governmental bodies that may have regulatory authority over our products and operations, such as government contracts and government transactions.

If your job responsibilities include interacting with the government, you are expected to understand and comply with the special laws, rules and regulations that apply to your job position as well as with any applicable standard operating procedures that the Company has implemented. If any doubt exists about whether a course of action is lawful, you should seek advice immediately from your supervisor and the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be).

In addition to the above, you must obtain approval from the Company's Chief Executive Officer or Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) for any work activity that requires communication with any member or employee of a legislative body or with any government official or employee. Work activities covered by this policy include meetings with legislators or members of their staffs or with senior executive branch officials on behalf of the Company. Preparation, research and other background activities that are done in support of lobbying communication are also covered by this policy even if the communication ultimately is not made. If any doubt exists about whether a given work activity would be considered covered by this provision, you should seek advice immediately from your supervisor and the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be).

Political Contributions and Volunteer Activities

The Company encourages its employees and directors to participate in the political process as individuals and on their own time. However, federal and state contribution and lobbying laws severely limit the contributions the Company can make to political parties or candidates. It is Company policy that Company funds or assets not be used to make a political contribution to any political party or candidate, unless prior approval has been given by the Company's Chief Executive Officer or the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be). The Company will not reimburse you for personal political contributions. When you participate in non-Company political affairs, you should be careful to make it clear that your views and actions are your own, and not made on behalf of the Company. Please contact the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) if you have any questions about this policy.

Compliance with Antitrust Laws

Antitrust laws of the United States and other countries are designed to protect consumers and competitors against unfair business practices and to promote and preserve competition. Our policy is to compete vigorously and ethically while complying with all antitrust, monopoly, competition or cartel laws in all countries, states or localities in which the Company conducts business. Violations of antitrust laws may result in severe penalties against the Company and its employees, including potentially substantial fines and criminal sanctions. You are expected to maintain basic familiarity with the antitrust principles applicable to your activities, and you should consult the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) with any questions you may have concerning compliance with these laws.

Meetings with Competitors

Employees should exercise caution in meetings with competitors. Any meeting with a competitor may give rise to the appearance of impropriety. As a result, if you are required to meet with a competitor for any reason, you should obtain the prior approval of an executive officer of the Company. You should try to meet with competitors in a closely monitored, controlled environment for a limited period of time. You should create and circulate agendas in advance of any such meetings, and the contents of your meeting should be fully documented.

Professional Organizations and Trade Associations

Employees should be cautious when attending meetings of professional organizations and trade associations at which competitors are present. Attending meetings of professional organizations and trade associations is both legal and proper, if such meetings have a legitimate business purpose and are conducted in an open fashion, adhering to a proper agenda. At such meetings, you should not discuss the Company's pricing policies or other competitive terms or any other proprietary, competitively sensitive information. You are required to notify your supervisor or the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) prior to attending any meeting of a professional organization or trade association.

Compliance with Insider Trading Laws

Consistent with the Company's Insider Trading Policy, the Company's employees and directors are prohibited from trading in the stock or other securities of the Company while in possession of material nonpublic information about the Company. In addition, Company employees and directors are prohibited from recommending, "tipping" or suggesting that anyone else buy or sell the Company's stock or other securities on the basis of material non-public information. Employees and directors who obtain material non-public information about another company in the course of their duties are prohibited from trading in the stock or securities of the other company while in possession of such information or "tipping" others to trade on the basis of such information. Violation of insider trading laws can result in severe fines and criminal penalties, as well as disciplinary action by the Company, up to and including termination of employment. You are required to read carefully and observe our Insider Trading Policy, as amended from time to time. Please contact the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) for a copy of the Insider Trading Policy or with any questions you may have about insider trading laws.

Public Communications and Regulation FD

The Company employees authorized to discuss the Company with the media are the Chief Executive Officer, Acting Chief Financial Officer, Vice President Operations and any persons delegated by such officers to do so. All other employees must refer all media, analyst and investor inquiries with respect to the Company to one of these authorized spokespersons. All Company communications shall comply with applicable law, including SEC Regulation FD. Authorized spokespersons may not provide material information to the media, analysts or investors unless such information has been, or is simultaneously, disclosed in a manner intended to provide broad, non-exclusionary distribution to the public. In the event of an inadvertent disclosure of non-public information that may be material, the disclosing spokesperson must immediately contact the Chief Executive Officer who, in consultation with the Company's outside counsel, will determine whether prompt public dissemination of such information is required. All employees, officers and directors shall read and be aware of any information included within any Company policies concerning public communications and compliance with SEC Regulation FD.

Environment, Health and Safety

The Company is committed to providing a safe and healthy working environment for its employees and to avoiding adverse impact and injury to the environment and the communities in which it does business. Company employees and directors must comply with all applicable environmental, health and safety laws, regulations and Company standards. It is your responsibility to understand and comply with the laws, regulations and policies that are relevant to your job. Failure to comply with environmental, health and safety laws and regulations can result in civil and criminal liability against you and the Company, as well as disciplinary action by the Company, up to and including termination of employment. You should contact the Company's Chief Executive Officer if you have any questions about the laws, regulations and policies that apply to you.

Environment

All Company employees and directors should strive to conserve resources and reduce waste and emissions through recycling and other energy conservation measures. You have a responsibility to promptly report any known or suspected violations of environmental laws or any events that may result in a discharge or emission of hazardous materials.

Health and Safety

The Company is committed not only to comply with all relevant health and safety laws, but also to conduct business in a manner that protects the safety of its employees. All employees and directors are required to comply with all applicable health and safety laws, regulations and policies relevant to their positions. If you have a concern about unsafe conditions or tasks that present a risk of injury to you, please report these concerns immediately to your supervisor or the Company's Chief Financial Officer (or Acting Chief Financial Officer, as the case may be).

Employment Practices

The Company pursues fair employment practices in every aspect of its business. Company employees must comply with all applicable labor and employment laws, including anti-discrimination laws and laws related to freedom of association and privacy. It is your responsibility to understand and comply with the laws, regulations and policies that are relevant to your job. Failure to comply with labor and employment laws can result in civil and criminal liability against you and the Company, as well as disciplinary action by the Company, up to and including termination of employment. You should contact the Company's Human Resources Department if you have any questions about the laws, regulations and policies that apply to you.

Harassment and Discrimination

The Company is committed to providing equal opportunity and fair treatment to all individuals on the basis of merit, without discrimination because of race, color, religion, national origin, sex (including pregnancy), sexual orientation, age, disability, veteran status or other characteristics protected by law. The Company also prohibits harassment based on these characteristics in any form, whether physical or verbal and whether committed by supervisors, non-supervisory personnel or non-employees. Harassment may include, but is not limited to, offensive sexual flirtations, unwanted sexual advances or propositions, verbal abuse, sexually or racially degrading words, or the display in the workplace of sexually suggestive or racially degrading objects or pictures.

If you have any complaints about discrimination or harassment, report such conduct to your supervisor or the Human Resources Department. All complaints will be treated with sensitivity and discretion. Your supervisor, the Human Resources Department and the Company will protect your confidentiality to the extent possible, consistent with law and the Company's need to investigate your concern. Where our investigation uncovers harassment or discrimination, we will take prompt corrective action, which may include disciplinary action by the Company, up to and including, termination of employment. The Company strictly prohibits retaliation against an employee who, in good faith, files a complaint.

Any member of management who has reason to believe that an employee has been the victim of harassment or discrimination or who receives a report of alleged harassment or discrimination is required to report it to the Human Resources Department immediately.

Alcohol and Drugs

The Company is committed to maintaining a drug-free work place. All Company employees must comply strictly with Company policies regarding the abuse of alcohol and the possession, sale and use of illegal substances. Drinking alcoholic beverages is prohibited while on duty or on the premises of the Company, except at specified Company-sanctioned events or as otherwise authorized by management. Possessing, using, selling or offering illegal drugs and other controlled substances is prohibited under all circumstances while on duty or on the premises of the Company. Likewise, you are prohibited from reporting for work, or driving a Company vehicle or any vehicle on Company business, while under the influence of alcohol or any illegal drug or controlled substance.

Violence Prevention and Weapons

The safety and security of Company employees is vitally important. The Company will not tolerate violence or threats of violence in, or related to, the workplace. If you experience, witness or otherwise become aware of a violent or potentially violent situation that occurs on the Company's property or affects the Company's business you must immediately report the situation to your supervisor or the Human Resources Department.

The Company does not permit any individual to have weapons of any kind on Company property or in vehicles, while on the job or off-site while on Company business. This is true even if you have obtained legal permits to carry weapons. The only exception to this policy applies to security personnel who are specifically authorized by Company management to carry weapons.

Conclusion

This Code contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics. If you have any questions about these guidelines, please contact your supervisor or the Company's Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be) or the Ethics Hotline by calling (424) 286-4122, or emailing Chief Financial Officer (or the Company's Acting Chief Financial Officer, as the case may be). The Company expects all of its employees and directors to adhere to these standards.

This Code, as applied to the Company's principal financial officers, shall be our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder.

This Code and the matters contained herein are neither a contract of employment nor a guarantee of continuing Company policy. The Company reserves the right to amend, supplement or discontinue this Code and the matters addressed herein, without prior notice, at any time.

Subsidiaries of the Registrant

None.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-215056) on Form S-8 of Polar Power, Inc. of our report dated March 10, 2017 relating to our audit of the financial statements of Polar Power, Inc., which appears in this Annual Report on Form 10-K of Polar Power, Inc. for the year ended December 31, 2016.

/s/ WEINBERG & COMPANY P.A.

Los Angeles, California
March 10, 2017

CERTIFICATION

I, Arthur D. Sams, certify that:

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

Date: March 9, 2017

/s/ ARTHUR D. SAMS

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

CERTIFICATION

I, Luis Zavala, certify that:

1. I have reviewed this Annual Report on Form 10-K of Polar Power, Inc.;

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

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

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

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

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

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

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

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

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

Date: March 9, 2017

/s/ LUIS ZAVALA

Luis Zavala

Vice President Finance and Acting Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Annual Report on Form 10-K of Polar Power, Inc. (the “Company”) for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify in their capacities as the Chief Executive Officer and the Acting Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: March 9, 2017

/s/ Arthur D. Sams

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

/s/ Luis Zavala

Luis Zavala
Acting Chief Financial Officer
(Principal Financial Officer)

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