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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2020**

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	**33-0479020**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
249 E. Gardena Blvd., Gardena, California	**90248**
(Address of principal executive offices)	(Zip Code)

(310) 830-9153
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	POLA	The NASDAQ Stock Market, LLC

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☒	Smaller Reporting Company ☒
	Emerging Growth Company ☒

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

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

The number of shares outstanding of the Registrant’s common stock, $0.0001 par value, as of June 29, 2020 was 10,125,681.

EXPLANATORY NOTE

As previously disclosed in the Current Report on Form 8-K filed by Polar Power, Inc (the "Company") on May 15, 2020, the Company delayed the filing of this Quarterly Report on Form 10-Q, originally due on May 15, 2020, due to circumstances related to the novel coronavirus ("COVID-19") pandemic and in reliance on the U.S. Securities and Exchange Commission's "Order under Section 36 of the Securities Exchange Act of 1934 Modifying Exemptions From the Reporting and Proxy Delivery Requirements for Public Companies" dated March 25, 2020 (Release No. 34-88465), which provides conditional relief to public companies that are unable to timely comply with a filing deadline due to circumstances related to the COVID-19 pandemic.

As previously disclosed, the Company has experienced substantial disruptions in its operations as a result of the COVID-19 pandemic. In particular, the various government mandates and orders, and resulting office closures, staffing limitations, and remote working arrangements severely limited access to Company facilities by its financial reporting and accounting staff, and additional time was needed to process and evaluate financial information and to prepare required disclosures. Furthermore, management spent considerable time and attention on matters related to the COVID-19 pandemic. Accordingly, the Company was not able to compile and review certain information required to be filed with this Quarterly Report on Form 10-Q prior to the original filing deadline and thus was unable to file on a timely basis.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

PART I – FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

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

	March 31, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 899	$ 2,840
Accounts receivable	938	934
Inventories, net	13,533	13,912
Prepaid expenses	1,464	1,265
Income tax receivable	1,715	231
Total current assets	18,549	19,182
Other assets:		
Operating lease right-of-use assets, net	2,033	2,187
Property and equipment, net	1,936	2,100
Deposits	93	94
Deferred tax assets	655	—
Total assets	$ 23,266	$ 23,563
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 573	$ 575
Customer deposits	288	197
Accrued liabilities and other current liabilities	1,075	1,031
Current portion of operating lease liabilities	633	618
Current portion of notes payable	327	328
Total current liabilities	2,896	2,749
Notes payable, net of current portion	698	778
Operating lease liabilities, net of current portion	1,497	1,660
Total liabilities	5,091	5,187
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.0001 par value, 50,000,000 shares authorized, 10,143,158 shares issued and 10,125,681 shares outstanding	1	1
Additional paid-in capital	19,657	19,657
Accumulated deficit	(1,443)	(1,242)
Treasury Stock, at cost (17,477 shares)	(40)	(40)
Total stockholders' equity	18,175	18,376
Total liabilities and stockholders' equity	$ 23,266	$ 23,563

See Accompanying Notes to the Condensed Financial Statements

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net sales	$ 2,860	$ 7,747
Cost of sales	3,020	5,355
Gross profit (loss)	(160)	2,392
Operating Expenses		
Sales and marketing	539	630
Research and development	451	562
General and administrative	1,170	1,121
Total operating expenses	2,160	2,313
Income (loss) from operations	(2,320)	79
Other income (expenses)		
Interest and finance costs	(21)	(11)
Other income (expense), net	2	3
Total other income (expenses), net	(19)	(8)
Income (loss) before income taxes	(2,339)	71
Income tax benefit		
Current	1,483	—
Deferred	655	—
Total income tax benefit	2,138	—
Net income (loss)	$ (201)	$ 71
Net income (loss) per share – basic and diluted	$ (0.02)	$ 0.01
Weighted average shares outstanding, basic and diluted	10,125,681	10,143,158

See Accompanying Notes to the Condensed Financial Statements

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

Three months ended March 31, 2020

	Common Stock, Number	Common Stock, Amount	Additional paid-in capital	(Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
Balances, December 31, 2019	10,143,158	$ 1	$ 19,657	$ (1,242)	$ (40)	$ 18,376
Net loss	—	—	—	(201)	—	(201)
Balances, March 31, 2020 (unaudited)	10,143,158	$ 1	$ 19,657	$ (1,443)	$ (40)	$ 18,175

Three months ended March 31, 2019

	Common Stock Number	Common Stock Amount	Additional paid-in capital	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 2018	10,143,158	$ 1	$ 19,578	$ 2,802	$ 22,382
Fair value of vested stock options	—	—	79	—	79
Net income	—	—	—	71	71
Balance, March 31, 2019 (unaudited)	10,143,158	$ 1	$ 19,657	$ 2,873	$ 22,532

See Accompanying Notes to the Condensed Financial Statements

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

	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net income (loss)	$ (201)	$ 71
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Fair value of vested stock options	—	79
Depreciation and amortization	157	143
Amortization of operating lease right-of-use assets	154	89
Deferred tax assts	(655)	—
Changes in operating assets and liabilities		
Accounts receivable	(4)	(1,490)
Inventories	379	(1,645)
Prepaid expenses	(199)	(899)
Deposits	1	—
Income tax receivable	(1,484)	484
Accounts payable	(2)	524
Customer deposits	91	289
Accrued expenses and other current liabilities	43	461
Decrease in lease liability	(147)	(84)
Net cash used in operating activities	(1,867)	(1,978)
Cash flows from investing activities:		
Acquisition of property and equipment	—	(79)
Proceeds from sales of property and equipment, including insurance proceeds	8	—
Net cash provided by (used in) investing activities	8	(79)
Cash flows from financing activities:		
Repayment of notes	(82)	(49)
Net cash used in financing activities	(82)	(49)
Decrease in cash and cash equivalents	(1,941)	(2,106)
Cash and cash equivalents, beginning of period	2,840	5,640
Cash and cash equivalents, end of period	$ 899	$ 3,534
Supplemental non-cash investing and financing activities:		
Initial recognition of operating lease right-of-use assets and operating lease obligations upon adoption of ASC Topic 842	$ —	$ 2,760
Reclassification of prepaid expenses to property and equipment	$ —	$ 114

See Accompanying Notes to the Condensed Financial Statements

POLAR POWER, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(In thousands, except for share and per share data and where otherwise noted)
(UNAUDITED)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

Going Concern

The Company's consolidated financial statements have been prepared on the going concern basis, which presumes the Company will continue realization of its assets and settlement of its liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continued operations, or, in the absence of adequate cash flows from operations, obtaining additional financing. The Company has reported losses from operations for the three months ended March 31, 2020, the years ended December 31, 2019 and 2018 and used cash in operations during the three months ended March 31, 2020. Its U.S. telecommunications customers, which represented 95% of the Company's net sales as of December 31, 2019, and 89% for the three months ended March 31, 2020, have postponed shipments and orders to prioritize expansion of 5G and cell site edge computing networks. In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease pandemic, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the pandemic and its effects on the Company's business or ability to raise funds. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2019 financial statements, has expressed substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

At March 31, 2020, the Company had cash on hand in the amount of $899. On May 4, 2020, the Company entered into a loan with Citibank, N.A. in an aggregate principal amount of $1,715 pursuant to the Paycheck Protection Program (see Note 11). At June 29, 2020, the Company Management estimates that the current funds on hand will be sufficient to continue operations through December 31, 2020. The continuation of the Company as a going concern is dependent upon its ability to obtain necessary debt or equity financing to continue operations until it begins generating positive cash flow. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on its operations, in the case of debt financing or cause substantial dilution for its stockholders, in case or equity financing. Management continues to review operations in order to identify additional strategies designed to generate cash flow, improve the Company's financial position, and enable the timely discharge of the Company's obligations. If management is unable to identify sources of additional cash flow in the short term, it may be required to further reduce or limit operations.

Basis of Presentation of Unaudited Financial Information

The unaudited condensed financial statements of the Company for the three months ended March 31, 2020 and 2019 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K for scaled disclosures for smaller reporting companies. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the Company's financial position and results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year. The balance sheet information as of December 31, 2019 was derived from the audited financial statements included in the Company's financial statements as of and for the years ended December 31, 2019 and 2018 contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on May 14, 2020. These financial statements should be read in conjunction with that report.

Estimates

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

Revenue Recognition

The Company recognizes revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606), (ASC 606). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) or agreement(s) with a customer, (2) identifying our performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. Under ASC 606, revenue is recognized when performance obligations under the terms of a contract are satisfied, which occurs for us upon shipment or delivery of products or services to our customers based on written sales terms, which is also when control is transferred. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring the products or services to a customer.

We determine whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the customer, which usually occurs when we place the product with the customer's carrier or deliver the product to a customer's location. We regularly review our customers' financial positions to ensure that collectability is reasonably assured.

We recognize revenues from rental equipment on a straight-line basis over the rental period. Our rental contracts are fixed price contracts for fixed durations of time and include freight and delivery charges. Our rental revenues have not been significant to date and accounted for less than one percent of our total revenues for the three months ended March 31, 2020 and 2019.

Disaggregation of Net Sales

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

	Three months ended March 31,	
	2020 (Unaudited)	2019 (Unaudited)
DC power systems	$ 2,713	$ 7,605
Accessories	147	142
Total net sales	$ 2,860	$ 7,747

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

	Three months ended March 31,	
	2020 (Unaudited)	2019 (Unaudited)
Telecom	$ 2,717	$ 7,313
Government/Military	4	372
Marine	1	62
Other (backup DC power to various industries)	138	—
Total net sales	$ 2,860	$ 7,747

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 March 31, 2020 and December 31, 2019, the Company has established inventory reserves of $600 for obsolete and slow-moving inventory. As of March 31, 2020 and December 31, 2019, the components of inventories were as follows:

	March 31, 2020 (unaudited)	December 31, 2019
Raw materials	$ 8,552	$ 8,651
Finished goods	5,581	5,861
	14,133	14,512
Less: Inventory reserve	(600)	(600)
Total Inventories, net	**$ 13,533**	$ 13,912

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. The Company's warranties are of an assurance-type and come standard with all Company products to cover repair or replacement should product not perform as expected. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and recovery from suppliers. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty costs. The Company estimates the actual historical warranty claims coupled with an analysis of unfulfilled claims to record a liability for specific warranty purposes. The Company's product warranty obligations are included in other accrued liabilities in the balance sheets. As of March 31, 2020 and December 31, 2019, the Company had accrued a liability for warranty reserve of $375 and $375, 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:

Changes in estimates for warranties	March 31, 2020 (unaudited)	December 31, 2019
Balance at beginning of the period	$ 375	$ 175
Payments	(120)	(530)
Provision for warranties	120	730
Balance at end of the period	**$ 375**	**$ 375**

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 approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

Segments

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

Concentrations

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

Cash denominated in Australian Dollars with a U.S. Dollar equivalent of $7 and $18 at March 31, 2020 and December 31, 2019, respectively, was held in an account at a financial institution located in Australia. Cash denominated in Romanian Leu with a U.S. Dollar equivalent of $27 and $4 at March 31, 2020 and December 31, 2019, respectively, was held in an account at a financial institution located in Romania

Revenues. For the three months ended March 31, 2020, 69% and 15% of revenue were generated from the company's two largest customers, which are Tier-1 telecommunications wireless carriers. For the same period in 2019, 60% and 27% of revenue were generated from the Company's two largest customers, both Tier-1 telecommunication wireless carriers. For the three months ended March 31, 2020 and March 31, 2019, sales to telecommunications customers accounted for 95% and 94% of total revenue, respectively. For the quarter ending March 31, 2020 and March 31, 2019, sales to international customers accounted for 6% and 3%, of total revenue, respectively.

Accounts receivable. At March 31, 2020, 48% and 41% of the Company's accounts receivable were from the Company's two largest customers. At December 31, 2019, 70% and 6% of the Company's accounts receivable were from the Company's two largest customers.

Accounts payable. At March 31, 2020, accounts payable to the Company's largest vendor represented 9% while the other two largest vendors represented 7% and 6% each. At December 31, 2019, accounts payable to the Company's largest vendor represented 11% while the other two largest vendors represented 10% each.

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 stockholders 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.

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

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Options	140,000	360,000
Warrants	115,000	115,000
Total	255,000	475,000

Recent Accounting Pronouncements

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

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

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31, 2020 (Unaudited)	December 31, 2019
Production tooling, jigs, fixtures	$ 71	$ 71
Shop equipment and machinery	3,264	3,264
Vehicles	180	188
Leasehold improvements	390	390
Office equipment	172	172
Software	103	103
Total property and equipment, cost	4,180	4,188
Less: accumulated depreciation and amortization	(2,245)	(2,088)
Property and equipment, net	$ 1,935	$ 2,100

Depreciation and amortization expense on property and equipment for the three months ended March 31, 2020 and March 31, 2019 was $157 and $143, respectively. During the three months ended March 31, 2020 and March 31, 2019, $153 and $134, respectively, of the depreciation expense was included in the cost of sales for the three-month period ended.

NOTE 3 – NOTES PAYABLE

Notes payable consist of the following:

	March 31, 2020 Unaudited)	December 31, 2019
Total Equipment Notes Payable	$ 1,025	$ 1,106
Less Current Portion	327	328
Notes Payable, long term	$ 698	$ 778

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.

As of December 31, 2019, the balance of notes payable was $1,106. During the three months ended March 31, 2020, the Company made repayments on the notes payable totaling about $82. The Company did not acquire additional equipment under financing agreements during the three-month period. As of March 31, 2020, the balance of notes payable was $1,025. The aggregate monthly payments of principal and interest of the outstanding notes payable as of March 31, 2020 of approximately $32 are due through 2024.

NOTE 4 – LINE OF CREDIT

Supplier Agreement

Effective June 4, 2019, the Company executed a Supplier Agreement with Citibank, N.A. Under the terms of the Supplier Agreement, the Company may from time to time offer to sell to Citibank, without recourse, certain of the Company's accounts receivable relating to invoiced sales made to AT&T. Once AT&T approves the invoice, AT&T sends payment instructions to Citibank. The sale price is equal to the face amount of the receivable less the applicable discount charge calculated by multiplying the face amount of the receivable by (i) the annual discount rate (which is equal to the 90-day London Inter-bank Offered Rate plus 1.00%) and (ii) the discount acceptance period (which is equal the number of days in the payment terms less the number of days necessary to approve the invoice) divided by 360.

Citibank may change the pricing terms at any time in its sole discretion upon at least thirty days prior written notice to the Company. In addition, either party may terminate the Supplier Agreement upon thirty business days prior written notice to the other party, provided that either party may terminate the agreement upon five business days prior written notice if the other party is in breach of, or fails to perform any of its material obligations under the Supplier Agreement. For the three months ended March 31, 2020, a total of $2,246 of accounts receivables were sold to Citibank by the Company, and the Company incurred fees of approximately $9 during the three-month period then ended.

NOTE 5 – STOCKHOLDERS' EQUITY

Treasury Stock

The Company entered into a 10b-18 Stock Repurchase Agreement on November 6, 2019 authorizing ThinkEquity, a division of Fordham Financial Management, Inc. to repurchase up to $500 of the Company's common stock par value $0.0001. As of December 31, 2019, the Company purchased of 17,477 shares and held them as treasury stock at cost of $40. There were no purchases during 2020 and on January 20, 2020, the Company terminated the Stock Repurchase Agreement. As of March 31, 2020 and December 31, 2019, the Company funds of $155 were due back from ThinkEquity and are included in the prepaid expenses as of those dates.

NOTE 6 – STOCK OPTIONS

The following table summarizes stock option activity:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2019	140,000	$ 5.22
Granted	—	—
Exercised	—	—
Outstanding, March 31, 2020 (unaudited)	140,000	$ 5.22
Exercisable, March 31, 2020 (unaudited)	—	—

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

In April 2018, the Company granted options to purchase an aggregate of 330,000 shares of the Company's common stock to three of its executive officers, with exercise prices ranging from $5.09 to $5.60 per share, that expire ten years from the date of grant, and with one-third of the total options granted vesting on each of the first, second, and third anniversaries of the grant date. The fair value of each of the option award was estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions: (i) volatility rate of 57.71%, (ii) discount rate of 2.42%, (iii) zero expected dividend yield, and (iv) expected life of 6.5 years, which is the average of the term of the options and their vesting periods. The total fair value of these options at their grant dates was approximately $948.

During the three months ended March 31, 2020 and 2019, the Company recorded stock-based compensation costs of nil and $79 related to the vesting of these options. As of March 31, 2020, there was no unamortized cost compensation costs remaining.

There was no intrinsic value of the outstanding and exercisable options at March 31, 2020.

NOTE 7 – WARRANTS

At March 31, 2020, warrant shares outstanding were as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding December 31, 2019	115,000	$ 8.75
Issued	—	—
Exercised	—	—
Outstanding, March 31, 2020 (unaudited)	115,000	$ 8.75
Exercisable, March 31, 2020 (unaudited)	115,000	$ 8.75

In connection with the Company's underwritten initial public offering in December 2016, the Company 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 December 2021.

There was no intrinsic value of the outstanding and exercisable warrants at March 31, 2020.

NOTE 8 – DISTRIBUTION AGREEMENT WITH A RELATED ENTITY

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

During the three months ended March 31, 2020 and 2019, Smartgen performed $31 and $25 in field services, respectively, the cost of which is included in cost of goods sold.

NOTE 9 – INCOME TAXES

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted by the United States Congress. As a result of the enactment of the CARES Act, net operating losses (NOL's) can now be carried back for five years, among other provisions. For the three months ended March 31, 2020, this resulted in the Company recognizing $1,483 of income tax receivable, $655 of deferred tax assets, and a tax benefit of $2,138.

NOTE 10 – LEASES

Leases

The Company has two operating lease agreements for its warehouse and office spaces both with remaining lease terms of 3 years. The Company also has another storage facility on a twelve-month lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company accounts for the lease and non-lease components of its leases as a single lease component. Rent expense is recognized on a straight-line basis over the lease term.

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Lease Cost		
Operating lease cost (of which $25 is included in general and administration and $150 is included in cost of sales in the Company's statement of operations for the three months ended March 31, 2020, and $8 and $88, respectively, for the three months ended March 31, 2019)	$ 175	$ 195
Other Information		
Weighted average remaining lease term – operating leases (in years)	3.2	4.2
Average discount rate – operating leases	3.75%	3.75%

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

Operating leases	At March 31, 2020	At March 31, 2019
Long-term right-of-use assets, net of amortization of $134	$ 2,019	$ 2,641
Short-term operating lease liabilities	$ 633	$ 543
Long-term operating lease liabilities	1,497	2,133
Total operating lease liabilities	$ 2,130	$ 2,676

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

Year Ending	**Operating Leases**
2020	518
2021	721
2022	747
2023	272
Total lease payments	2,258
Less: Imputed interest/present value discount	(128)
Present value of lease liabilities	$ 2,130

Rent expense for the three months ended March 31, 2020 and 2019 was $226 and $196, respectively.

NOTE 11 – SUBSEQUENT EVENTS

Loan under the Paycheck Protection Program

On May 4, 2020, the Company entered into a loan with Citibank, N.A. in an aggregate principal amount of $1,715 (the "Loan"), pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act.

The Loan is evidenced by a promissory note (the "Note") dated May 4, 2020. The Loan matures two years from the disbursement date and bears interest at a rate of 1.000% per annum, with the first six months of interest deferred. Principal and interest are payable monthly commencing six months after the disbursement date and may be prepaid by the Company at any time prior to maturity with no prepayment penalties.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Loan is subject to forgiveness to the extent proceeds are used for payroll costs, including payments required to continue group health care benefits, and certain rent, utility, and mortgage interest expenses (collectively, "Qualifying Expenses"), pursuant to the terms and limitations of the PPP. The Company intends to use a significant majority of the Loan amount for Qualifying Expenses. However, no assurance is provided that the Company will obtain forgiveness of the Loan in whole or in part.

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

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

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

Overview

We design, manufacture and sell DC power generators, renewable energy and cooling systems for applications primarily in the telecommunications market and, to a lesser extent, in other markets, including military, electric vehicle charging, marine and industrial.

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 32 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, LPG / propane and renewable formats, with diesel, natural gas and propane gas being the predominate formats.

During the three months ended March 31, 2020 and 2019, 95% and 94%, respectively, of our total net sales were within the telecommunications market. In 2020, 84% of our total net sales were derived from our two largest customers, of which 69% were derived from AT&T, 15% from Verizon Wireless. In 2019, we had 87% of our total net sales derived from our two largest customers, of which 60% were derived from AT&T, and 27% from Verizon Wireless. During those periods, the majority of our sales were of our DC base powers systems.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, and, in the following weeks, many U.S. states and foreign countries issued lockdown orders negatively impacting the operations of our manufacturing facilities and customer demand for our products. Since then, the COVID-19 situation within the U.S. and foreign countries has rapidly escalated. In March 2020, we furloughed approximately 65% of our workforce. Although many U.S. states that had previously issued lockdown orders have gradually begun to reopen since April 2020, our business continues to be negatively impacted by COVID-19 and the full scope and duration of the lockdown, including California's "stay at home" order, remains unknown. However, we continue to monitor the situation closely and it is possible that we may be required to implement further measures.

Recent Business Events

With an average of over 90% of our sales generated through U.S. based Tier-1 telecommunications customers, the recent slowdown in purchases from these customers has significantly impacted our revenues. During the three months ended March 31, 2020 our revenues declined by 63% when compared to same three month period ended March 31, 2019. However, during the three months ended March 31, 2020 we reported net sales of $2,860, a $1,981 increase over the $878 in net sales for the three month period ended December 31, 2019. We believe that this slowdown in the purchases of our backup generators is a result of, among other things, the following:

- a shift in the allocation of their capital expenditure budgets from backup power solutions to the transition of their 3G and 4G networks to 5G networks which we believe to be temporary given the ever increasing federal and state laws requiring backup power on cell sites;

- delays experienced by our customers in determining the future power requirements associated with new 5G networks where macro cell sites are connected to numerous small cell sites; and

- a trend by some of our customers of divesting tower assets to invest capital into the acquisition of wireless communication spectrum.

Although are beginning to see an improvement in activity from our telecommunications customers globally, actual purchases have shown only modest improvement. We believe that the COVID-19 pandemic has resulted in an increased need for expansion of telecommunication networks on a global basis in order to support growing demand in data and streaming services. We believe this increase in demand will, in turn, result in the overall expansion of the market for backup power generators in telecommunication tower applications globally. We also believe that as a result of the COVID-19 pandemic, many developed and developing nations will undertake major investments in the development of telecommunications infrastructure to support tele-education, tele-medicine, and IoT related initiatives for both urban and rural areas.

During the first quarter of 2020, we adopted certain targeted austerity measures to rationalize our investments in sales, R&D and manufacturing to help improve liquidity. During the same period, we were also affected by the spread of COVID-19 which required us to further reassess our objectives and investments. During the first quarter of 2020, we successfully increased revenues by 226% as compared to the fourth quarter of 2019 while reducing our workforce to levels that matche corresponding labor hour requirements. During the same period we were also able to reduced inventory by approximately $350 to improve liquidity.

During the first quarter of 2020, we entered into a contract with a defense contractor to develop a 50kW generator for military application. We believe this configuration will provide a complete range of solutions, from 10kW to 50kW, for diverse power requirements in the global telecommunications marketplace. We plan to deliver the first unit to our customer during the fourth quarter of 2020, and then further enhance the military configuration towards a commercially viable product.

During the first quarter of 2020 we completed the development of our natural gas and LPG product line which utilizes a higher efficiency Toyota engine. We believe, that as a result of the COVID-19 pandemic, many nations will be required to reduce the network divide between rural and urban centers, where the presence of a reliable network becomes a deciding factor in the economic outcome of various population groups. However, implementation of these programs will require environmental constraint and stewardship from local leaders. We believe that the introduction of our natural gas and LPG product line later this year for both off-grid and on-grid market applications in standalone and hybrid configurations, will help expand our sales in developing nations. We plan to launch this low emission product line for both residential and commercial markets in the U.S. during the fourth quarter of 2020. Meanwhile, we have received an initial order for 50 units from a large telecommunication company located in East Asia, and we began delivery of these units in March 2020.

In order to effectively manage our liquidity during this period of uncertainty caused by the spread of COVID-19, we have successfully secured a $1.7 million low interest loan under the Paycheck Protection Program, or the PPP, and we have identified a tax benefit of $1.7 million payable to use later in 2020 resulting from recent changes in tax laws. We believe these combined initiatives strengthen our liquidity and balance sheet and provide us with the opportunity to grow sales during the remainder of 2020 and beyond without diluting the interest of our stockholders.

In addition, during 2020, we expect to be able to use our current inventory assets, which were in excess of $15.0 million at March 31, 2020, to satisfy current and future purchase orders. Conversion of these inventory assets is expected to yield additional liquidity, further strengthening our balance sheet. With an average of 44% in material costs, our current inventory can support more than $35 million in revenues.

Critical Accounting Policies

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

Revenue Recognition. We recognize revenue in accordance with ASC 2014-09, Revenue from Contracts with Customers (Topic 606), (ASC 606). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (i) identifying the contract(s) or agreement(s) with a customer, (ii) identifying our performance obligations in the contract or agreement, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. Under ASC 606, revenue is recognized when performance obligations under the terms of a contract are satisfied, which occurs for us upon shipment or delivery of products or services to our customers based on written sales terms, which is also when control is transferred. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring the products or services to a customer.

We determine whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the customer, which usually occurs when we place the product with the customer's carrier or deliver the product to a customer's location. We regularly review our customers' financial positions to ensure that collectability is reasonably assured.

Under ASC 606, revenue is recognized when performance obligations under the terms of a contract are satisfied, which occurs for us upon shipment or delivery of products or services to our customers based on written sales terms, which is also when control is transferred. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring the products or services to a customer.

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. Our warranties are of an assurance-type and come standard with all our products to cover repair or replacement should a product not perform as expected. Our warranties are not a separate performance obligation and no transaction price is allocated to it. 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 March 31, 2020, and December 31, 2019, we had accrued a liability for warranty reserve of $375 and $375, respectively. Management believes that the warranty accrual is appropriate; however, actual claims incurred could differ from original estimates, requiring adjustments to the accrual. We do not provide any service warranties to its customers that require to be accounted for as a separate performance obligation.

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.

Stock-Based Compensation. We account for share-based awards to employees and nonemployees directors and consultants in accordance with the provisions of ASC 718, *Compensation—Stock Compensation.*, and under the recently issued guidance following FASB's pronouncement, ASU 2018-07,*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. Under ASC 718, and applicable updates adopted, share-based awards are valued at fair value on the date of grant and that fair value is recognized over the requisite service, or vesting, period. We value our equity awards using the Black-Scholes option pricing model, and account for forfeitures when they occur. Use of the Black-Scholes option pricing model requires the input of subjective assumptions including expected volatility, expected term, and a risk-free interest rate. We estimate volatility using a blend of our own historical stock price volatility as well as that of market comparable entities since our common stock has a limited trading history and limited observable volatility of its own. The expected term of the options is estimated by using the SEC Staff Bulletin No. 107's *Simplified Method for Estimate Expected Term.* The risk-free interest rate is estimated using comparable published federal funds rates.

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

Effects of Inflation

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

Impact of New Accounting Pronouncements

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

Jumpstart Our Business Startups Act of 2012

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

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an "emerging growth company" we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply until we no longer meet the requirements of being an "emerging growth company." We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more; (ii) December 31, 2021; (iii) the date on which we have issued more than $1.07 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Financial Performance Summary and Outlook

Our net sales for the three months ended March 31, 2020 were $2,860. This represents a 63% decrease in net sales as compared to $7,747 for the three months ended March 31, 2019. The decrease is primarily a result of a slowdown in purchases from our Tier-1 telecommunication customers. We believe these product order and shipment delays are temporary and are a result of a combination of factors including, among others, the transition from 3G and 4G to 5G networks in the U.S. markets by all major Tier-1 wireless providers resulting in a slowdown in sales of our backup generators. We believe that our wireless customers are focusing their financial resources into deployment of their 5G networks rather than on back-up power solutions, especially because of delays experienced by network providers in determining the future power requirements for macro cells sites connected to hundreds of small cells in a 5G network. In addition, we have observed a trend where Tier-1 network operators are divesting their tower assets to invest capital into the acquisition of wireless communication spectrum.

Our sales backlog as of March 31, 2020 was $2,900, with 59% of that amount being attributable to U.S. Tier-1 telecommunications customers, 26% to telecommunications customers overseas, 9% to military customers, and 6% to other customers.

We anticipate that our future sales will improve as the U.S. economy recovers from the impact of the COVID-19 pandemic and our U.S. telecommunications customers return to their backup power programs. We believe future sales will primarily 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 Three-Month Periods Ended March 31, 2020 and 2019

	Three Months Ended March 31, 2020 (unaudited)	Three Months Ended March 31, 2019 (unaudited)	Dollar Variance Favorable (Unfavorable)	Percentage Variance Favorable (Unfavorable)	Results as a Percentage of Net Sales for the Period Ended March 31, 2020	Results as a Percentage of Net Sales for the Period Ended March 31, 2019
Net sales	$ 2,860	$ 7,747	$ (4,887)	(63)%	100%	100%
Cost of sales	3,020	5,355	2,335	44%	106%	69%
Gross profit (loss)	(160)	2,392	(2,552)	(107)%	(6)%	31%
Sales and marketing expenses	539	630	91	14%	19%	8%
Research and development expenses	451	562	111	20%	16%	7%
General and administrative expenses	1,170	1,121	(49)	(4)%	41%	14%
Total operating expenses	2,160	2,313	153	7%	76%	30%
Income (loss) from operations	(2,320)	79	(2,399)	(3,037)%	(81)%	—%
Interest and finance costs	(21)	(11)	(10)	(91)%	(1)%	—%
Other income (expense), net	2	3	(1)	(33)%	—%	—%
Income (loss) before income taxes	(2,339)	71	(2,410)	(3,394)%	(82)%	1%
Income tax benefit	(2,138)	—	2,138	213,956%	(75)%	—%
Net income (loss)	$ (201)	$ 71	$ (272)	(384)%	(7)%	1%

Net Sales. Net sales decreased $4,887, or 63%, to $2,860 for the three months ended March 31, 2020, as compared to $7,747 for the same period in 2019. The decrease in net sales was primarily due to a slowdown in sales of our DC power systems to Tier-1 telecommunications customers in the U.S as a result of our customers' transition to 5G systems. Sales to our two largest customers accounted for 69% and 15%, respectively, of our total net sales during the three months ended March 31, 2020, as compared to 60% and 27%, respectively, of total net sales during the same period in 2019.

We believe this recent decline in revenues is a result of investments in 5G infrastructure which temporarily reduced investments into upgrade of current tower infrastructure with back-up power generators. We also believe that many of our major customers have held off purchasing our products as they continue to evaluate the impact of 5G on their future power requirements and attempt to define the correct power output for future 5G sites. We estimate sales will improve during the second half of 2020 once the telecommunications industry determines the power requirements for 5G systems. Our sales have also been negatively impacted by the spread of COVID-19, which has slowed down our customers' ability to deploy new systems due to a slowdown in wireless tower construction activity. This has resulted in higher than anticipated inventory of our backup systems at customer warehouses, resulting in a slowdown of new orders. The inability of our telecommunications customers to accurately forecast future construction activity for the remainder of 2020 has negatively impacted our ability to estimate the full effects that the COVID-19 pandemic may have on our revenues during the remainder of 2020 and beyond.

Cost of Sales. Due to lower sales during the first quarter our cost of sales during the three months ended March 31, 2020 decreased by $2,335 or 44%, to $3,020, as compared to $5,355 during the same period in 2019. Our cost of sales as a percentage of net sales during the three months ended March 31, 2020 increased to 106%, as compared to 69% in the same period in 2019. Due to lower net sales, our fixed and semi-fixed costs, including factory rent, utilities, insurance, and depreciation, increased from 4% in three months ended March 31, 2019 to 14% during three months ended March 31, 2020. Similarly, our after-market service costs increased from 2% during the three months ended March 31, 2019 to 6.8% during the three months ended March 31, 2020. These percentage increases are a result of a decrease in manufacturing overhead absorption of fixed and semi-fixed costs. During the first quarter of 2020, we reduced our direct labor workforce by 25% and implemented subsequent reductions in March 2020 after the State of California issued a stay-at home order in attempts to slow the spread of COVID-19. As a result of the stay-at-home order, 65% of our employees are currently on furlough. We believe the steps taken to reduce our direct labor force, combined with targeted austerity measures across our company, will provide improvements in manufacturing costs during remainder of the 2020.

Gross Profit (loss). Gross profit during the three months ended March 31, 2020 decreased by $2,552, or 107%, to $(160), as compared to $2,392 during the same period in 2019. Our gross profit as a percentage of net sales was (6)% for the three months ended March 31, 2020, as compared to 31% during the same period in 2019. The decrease in gross profit margin was attributable to a decrease in factory overhead absorption resulting from lower sales and resulting underutilization of our production facilities.

Sales and Marketing Expenses. During the three months ended March 31, 2020, sales and marketing expenses decreased by $91, or 14%, to $539, as compared to $630 during the same period in 2019. The decrease was attributable to a decrease in marketing, tradeshows and promotions costs in the U.S. and international markets. Due to COVID-19 global spread during the three months period ended March 31, 2020 we decreased our travel expenses by $145 to $43 as compared to $188 for the same period in 2019. During the first quarter of 2020, we reduced our sales force through reorganizing our international sales footprint and reducing redundant efforts. We expect to realize the positive effect of these reductions beginning in the second quarter of 2020. We anticipate our sales and marketing expenses to increase slightly over the upcoming quarters as travel restrictions are lifted.

Research and Development Expenses. During the three months ended March 31, 2020, research and development expenses decreased by $111, or 20%, to $451, as compared to $562 during the same period in 2019. The decrease was primarily due to a reduction in costs associated with development of multiple customized configurations targeting new markets and applications. During the first quarter of 2020, we focused our efforts on the development of our new natural gas and LPG product lines that will be targeted to both the residential and commercial markets in the U.S. as well as internationally. As a result of the COVID-19 pandemic, we are seeing increased interest in both the U.S. and international markets for environmentally friendly generators for telecommunications towers in both on-grid and off-grid applications. During the remainder of 2020, we plan to further enhance our low emission product line through offering of hybrid systems that integrate solar and storage batteries for remote off-grid applications.

General and Administrative Expenses. General and administrative expenses increased by $49, or 4%, to $1,170 during the three months ended March 31, 2020, as compared to $1,121 during same period in 2019. Due to lower sales and impact of spread of COVID-19 on future sales, we have undertaken certain targeted austerity measures which included cancellation stock incentives that were issued, reductions in fringe benefits, reduction in travel expenses etc. We anticipate our general and administrative costs to remain flat or slightly lower during 2020.

Interest and Finance Costs. Interest expense for the three months ended March 31, 2020 was $21, as compared to $11 during the same period in 2019, an increase of $10. Our interest expense included approximately $9 in fees in connection with selling $2,246 of receivables to Citibank under our Supplier Agreement. Another $12 is primarily attributable to interest paid for financing of production equipment.

Income Tax. We had an income tax benefit of $2,138 for the three months ended March 31, 2020, and nil for the same period in 2019.

Net Income (Loss). As a result of the factors identified above, we earned a net loss of $201, or ($0.02) per basic and diluted share, for three months ended March 31, 2020, as compared to net income of $71, or $0.01 per basic and diluted share, for the same period in 2019.

Liquidity and Capital Resources

Sources of Liquidity

During the three months ended March 31, 2020, we funded our operations primarily from cash on hand. These funds were also used to make capital expenditures and to increase inventory to support a higher level of production. As of March 31, 2020, we had working capital of $15,653, as compared to working capital of $16,433 at December 31, 2019. This $780 decrease in working capital is primarily attributable to a $1,941 decrease in cash and cash equivalents resulting from net cash of $1,867 used in operating activities, net cash of $8 from disposal of Company property and equipment, and net cash of $82 used in payment of equipment financing.

On March 31, 2020 and December 31, 2019, our net trade receivables totaled $938 and $934, respectively. On March 31, 2020, $448 (48%) and $383 (41%) represented customer account balances of our two largest customers, as compared to $652 (70%) and $183 (20%) represented customer account balances of our two largest customers on December 31, 2019.

Our available capital resources on March 31, 2020 consisted primarily of $899 in cash and cash equivalents, as compared to $2,840 as of December 31, 2019. 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. In light of the COVID-19 crisis, the U.S. Department of the Treasury enacted the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. On May 4, 2020, we entered into a loan agreement with Citibank, N.A. in the amount of $1,715 through the PPP. As of March 20, 2020, 65% of our U.S. labor force is in furlough status and the rest of our employees continue to support sales and essential business operations. We believe these programs will supplement our current and future available capital resources.

Supplier Agreement

Effective June 4, 2019, we entered into a Supplier Agreement with Citibank, N.A. Under the terms of the Supplier Agreement, we may from time to time offer to sell to Citibank, without recourse, certain of our accounts receivable relating to invoiced sales made to AT&T. Once AT&T approves the invoice, AT&T sends payment instructions to Citibank. The sale price is equal to the face amount of the receivable less the applicable discount charge calculated by multiplying the face amount of the receivable by (i) the annual discount rate (which is equal to the 90-day London Inter-bank Offered Rate plus 1.00%) and (ii) the discount acceptance period (which is equal the number of days in the payment terms less the number of days necessary to approve the invoice) divided by 360.

Citibank may change the pricing terms at any time in its sole discretion upon at least thirty days prior written notice to us. In addition, either party may terminate the Supplier Agreement upon thirty business days prior written notice to the other party, provided that either party may terminate the agreement upon five business days prior written notice if the other party is in breach of, or fails to perform any of, its material obligations under the Supplier Agreement. During the three months ended March 31, 2020, we sold $2,246 of receivables to Citibank under our Supplier Agreement, and incurred fees of approximately $9 in connection with such sales.

Future Capital Requirements – Going Concern

Our independent registered public accounting firm indicated in its report on our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018 that there is substantial doubt about our ability to continue as a going concern. A “going concern” opinion indicates that the financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we do not continue as a going concern. We estimate that the current funds on hand will be sufficient to continue operations through approximately December 31, 2020. Our continuation as a going concern is dependent upon our ability to obtain necessary debt or equity financing to continue operations until sales increase and we begin generating positive cash flow. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to us. Even if we are able to obtain additional financing, such financing may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders, in the case of equity financing. We continue to review operations in order to identify additional strategies designed to generate cash flow, improve our financial position, and enable the timely discharge of our obligations. If we are unable to identify sources of additional cash flow in the short term, we may be required to further reduce or limit operations.

Cash Flow

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

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Net Cash Used In		
Operating Activities	$ (1,867)	$ (1,978)
Investing Activities	8	(79)
Financing Activities	(82)	(49)
Net decrease in cash	$ (1,941)	$ (2,106)

Operating Activities

Net cash used in operating activities for the three months ended March 31, 2020 was $1,867, as compared to net cash used by operating activities of $1,978 for the same period in 2019. This decrease in net cash used in 2020 was primarily due to a net loss of $201, an increase in inventory of $379, an increase in income tax benefit of $2,138, coupled with a decrease in prepaid expenses of $199 resulting from prepaid inventory received in January 2020.

Investing Activities

Net cash from investing activities for the three months ended March 31, 2020 totaled $8, as compared to $79 used during the same period in 2019, a decrease of $87 used in investing activities. This decrease was primarily due to not making property and equipment acquisitions during the first quarter of 2020.

Financing Activities

Net cash used by financing activities totaled $82 for the three months ended March 31, 2020, as compared to $49 for the same period in 2019. This increase was primarily due to securing additional equipment financing accounts after March 31, 2019.

Backlog

As of March 31, 2020, we had a backlog of $2,900. The amount of backlog represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. Backlog at March 31, 2020 was comprised of the following elements: 85% in purchases of DC power systems by telecommunications customers, 9% in purchases by military contractors; and 6% from other markets. We believe the majority of our backlog will be shipped within the next six months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected in our backlog.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of March 31, 2020, our disclosure controls and procedures were effective at the reasonable assurance level. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control Over Financial Reporting

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

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

As of March 31, 2020, our management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on this evaluation, our management concluded that, as of March 31, 2020, our internal control over financial reporting was effective.

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter or three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

Risks Related to Our Business and Industry

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

The COVID-19 pandemic has led to severe disruptions in general economic activities, as businesses and federal, state, and local governments continue to implement broad actions to mitigate this public health crisis. We have experienced significant disruption to our business, both in terms of disruption of our operations and the adverse effect on overall economic conditions. We have closed our manufacturing facilities since the beginning of the California “stay at home” order was implemented by the governor of California. Although California modified its “stay at home” order in May 2020 to permit certain retail, manufacturing and other businesses to gradually reopen with modifications, the ultimate scope and duration of this closure is not known at this time. We have also furloughed 79 employees in the U.S. and the remaining 42 employees continue to support essential business operations. These conditions will significantly negatively impact all aspects of our business. Our business is also dependent on the continued health and productivity of our employees, including our manufacturing employees, sales staff and corporate management team. Individually and collectively, the consequences of the COVID-19 pandemic could have a material adverse effect on our business, sales, results of operations and financial condition.

Additionally, our liquidity could be negatively impacted if these conditions continue for a significant period of time and we may be required to pursue additional sources of financing to obtain working capital, maintain appropriate inventory levels, and meet our financial obligations. Currently capital and credit markets have been disrupted by the crisis and our ability to obtain any required financing is not guaranteed and largely dependent upon evolving market conditions and other factors. Depending on the continued impact of the crisis, further actions may be required to improve our cash position and capital structure.

The extent to which the COVID-19 pandemic ultimately impacts our business, sales, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may continue to experience significant impacts to our business as a result of its global economic impact, including any economic downturn or recession that has occurred or may occur in the future.

Our independent registered public accounting firm's reports for the years ended December 31, 2019 and 2018 have raised substantial doubt as to our ability to continue as a "going concern."

Our independent registered public accounting firm indicated in its report on our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018 that there is substantial doubt about our ability to continue as a going concern. A "going concern" opinion indicates that the financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we do not continue as a going concern. Therefore, you should not rely on our consolidated balance sheet as an indication of the amount of proceeds that would be available to satisfy claims of creditors, and potentially be available for distribution to stockholders, in the event of liquidation. The presence of the going concern note to our financial statements may have an adverse impact on the relationships we are developing and plan to develop with third parties as we continue the commercialization of our products and could make it challenging and difficult for us to raise additional financing, all of which could have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment.

In addition, we estimate that the current funds on hand will be sufficient to continue operations through approximately December 31, 2020. Our continuation as a going concern is dependent upon our ability to obtain necessary debt or equity financing to continue operations until sales increase and we begin generating positive cash flow. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to us. Even if we are able to obtain additional financing, such financing may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders, in the case of equity financing. We continue to review operations in order to identify additional strategies designed to generate cash flow, improve our financial position, and enable the timely discharge of our obligations. If we are unable to identify sources of additional cash flow in the short term, we may be required to further reduce or limit operations.

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

We derive substantially all our revenues from sales of our DC base power systems to three customers within the telecommunications market, AT&T, Verizon Wireless, and T-Mobile. Any factor adversely affecting sales of these power systems to these customers or to other customers within this market, including market acceptance, product competition, performance and reliability, reputation, price competition and economic and market conditions, could adversely affect our business and results of operations. For example, during the fourth quarter of 2019, and extending into the first quarter of 2020, our U.S. Tier-1 telecommunications customers postponed orders and shipments to the latter part of 2020 which resulted in an 87% decline in net revenues during the fourth quarter of 2019 as compared to the third quarter of 2019.

In addition, any unfavorable change in our business relationship with our Tier-1 telecommunications wireless carrier customers, or delays in customer implementation and deployment of our products, could have a material adverse effect on our results of operation and financial condition. Our 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.

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 products from our competitors. Some of our larger competitors may be willing to reduce prices and accept lower margins in order to compete with us. In addition, we could face new competition from large international or domestic companies with established industrial brands and distribution networks that enter our end markets. Demand for our products may also be affected by our ability to respond to changes in design and functionality, to respond to downward pricing pressure, and to provide shorter lead times for our products than our competitors. If we are unable to respond successfully to these competitive pressures, we could lose market share, which could have an adverse impact on our results. We cannot assure that we will be able to compete successfully in our markets or compete effectively against current and new competitors as our industry continues to evolve.

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

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

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

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

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

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

- the impact of the COVID-19 pandemic on the global markets;
- the changing requirements and preferences of the potential customers in our markets;
- the accurate prediction of market requirements, including regulatory issues;
- the timely completion and introduction of new products and services to avoid obsolescence;
- the quality, price and performance of new products and services;
- the availability, quality, price and performance of competing products and services;
- our customer service and support capabilities and responsiveness;
- the successful development of our relationships with existing and potential customers; and
- changes in industry standards.

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

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

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

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

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

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

We have established relationships with third party engine suppliers and other key suppliers from which we source components for our power systems. We purchase standard configurations of engines for our DC power systems and are substantially dependent on timely supply from our three key engine suppliers, Yanmar Engines Company, Kubota Corporation, and Perkins Company. Purchases from Yanmar, Kubota, and Perkins represented approximately 32%, 5%, and 0% of our total cost of sales for the three months ended March 31, 2020, respectively, and represented approximately 37%, 3%, and 19% of our total cost of sales for the same period in 2019, respectively. In the fourth quarter of 2019, we received our certificate of conformity from the U.S. Environmental Protection Agency, or EPA, on small spark-ignition Toyota engines which will be used in our new LPG / propane generators. The new Toyota engine will replace most of our Kubota applications and serve as our primary engine in our new LPG products launched in 2020. We do not have any long-term contracts or commitments with any of these suppliers. If any of these engine suppliers were to fail to provide emissions certified engines in a timely manner or fail to supply engines that meet our quality, quantity or cost requirements, or were to discontinue manufacturing any engines we source from them or discontinue providing any of these engines to us, or the supply chain is interrupted or delayed as a result of the COVID-19 pandemic or unprecedented event, and we were unable to obtain substitute sources in a timely manner or on terms acceptable to us, our ability to manufacture our products could be materially adversely affected.

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

The prices of some of the key components of our DC power systems are subject to fluctuation due to market forces beyond our control, including changes in the costs of raw materials incorporated into these components. Such price increases occur from time to time due to spot shortages of commodities, increases in labor costs or longer-term shortages due to market forces. In particular, the prices of engines can fluctuate frequently and often significantly. We do not have any long-term contracts or commitments with our 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 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 including the COVID-19 pandemic. An increase in global economic outlook may result in significant price increases in the cost of our raw materials. In addition, we use Neodymium permanent magnets in our alternators, for which there are a limited number of global suppliers that can meet our standards. Increase in manufacturing of electric vehicles worldwide can have an adverse effect on the cost or supply of these magnets. At our current production volumes, we are unable to secure large quantities of these commodities at fixed prices; however, we do have multiple sources of supply for our raw materials to meet our near term forecasted needs. Various factors could reduce the availability of raw materials and components and shortages may occur from time to time in the future. An increase in lead times for the supply of raw materials due to a global increase in demand for commodities 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 two facilities. Any prolonged disruption in the operations of this facility would result in a decline in our sales and profitability.

We manufacture and assemble our DC power systems at our facilities located in Gardena, California. Any prolonged disruption in the operations of our manufacturing and assembly facilities, whether due to the COVID-19 pandemic, equipment or information technology infrastructure failure, labor difficulties, destruction of or damage to 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 facilities, we may be unable to shift manufacturing and assembly capabilities to alternate locations, accept materials from suppliers or meet customer shipment needs, among other severe consequences. Such an event could have a material and adverse impact on our financial condition and results of our operations.

Our business operations are subject to substantial government regulation.

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

Additionally, we are subject to laws, regulations and other governmental actions instituted in response to the COVID-19 pandemic.

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

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

Because certain of our products for customers in the telecommunications industry are used in critical communications networks, we may be subject to significant liability claims if our products do not work properly. We warrant to our 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 current and potential customers worldwide. In 2017, we established full-time sales executives and support staff in: Australia, Dubai, Singapore, Romania, Poland, Africa and the Dominican Republic. During the three months ended March 31, 2020, and 2019, our sales to international customers accounted for 6% and 3%, respectively, of total revenue. We expect that international sales will increase over time and 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. There are significant risks associated with conducting operations internationally, requiring significant financial commitments to support such operations. These operations present a number of challenges including oversight of daily operating practices in each location, handling employee benefits and employee behavior. In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the FCPA, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

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

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

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

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

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.

Risks Related to Our Intellectual Property

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

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

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

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

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

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

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

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

- stop selling, incorporating or using our products and services that use the infringed intellectual property;

- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or

- redesign the products and services that use the technology.

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

Risks Related to Our Common Stock

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

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

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

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

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

Our Chairman, President and Chief Executive Officer owns a 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 Quarterly Report on Form 10-Q, these factors include, without limitation:

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

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

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

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

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

Currently, our common stock is categorized as "penny stock," which may make it more difficult for investors to sell their shares of common stock due to suitability requirements.

Currently, our common stock is categorized as "penny stock." The SEC adopted Rule 15g-9, which generally defines "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. This designation imposes additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 jointly with his or her spouse. The penny stock rules require a broker-dealer buying our securities, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability and/or willingness of broker-dealers to trade our securities, either directly or on behalf of their clients, may discourage potential investor's from purchasing our securities, or may adversely affect the ability of our stockholders to sell their shares.

The Financial Industry Regulatory Authority, Inc., or FINRA, has adopted sales practice requirements that historically may have limited a stockholder's ability to buy and sell our common stock, which could depress the price of our common stock.

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that, in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. Thus, the FINRA requirements historically has made it more difficult for broker-dealers to recommend that their customers buy our common stock, which could limit your ability to buy and sell our common stock, have an adverse effect on the market for our shares, and thereby depress our price per share 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.

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 acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors and could also delay or impede a merger, tender offer or proxy contest involving 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.

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

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

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

We are an "emerging growth company," as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in this report, our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company until December 31, 2021, although circumstances could cause us to lose that status earlier, including if the market value of our shares of common stock held by non-affiliates exceeds $700 million as of any March 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 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 the date of this Quarterly Report on Form 10-Q, we had granted options to purchase an aggregate of 360,000 shares of our common stock under the 2016 Plan. We have registered 1,754,385 shares of common stock available for issuance under our 2016 Plan. Sales of shares issued upon exercise of options or granted under our 2016 Plan may result in 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.

Our ability to attract and retain qualified members of our board of directors may be impacted due to new state laws, including recently enacted gender quotas.

In September 2018, California enacted SB 826 requiring public companies headquartered in California to maintain minimum female representation on their boards of directors as follows: by the end of 2019, at least one woman on its board, by the end of 2021, public company boards with five members will be required to have at least two female directors, and public company boards with six or more members will be required to have at least three female directors. Failure to achieve designated minimum levels in a timely manner exposes such companies to costly financial penalties and reputational harm. Although we currently comply with the requirements of SB 826, we cannot assure that we can recruit, attract and/or retain qualified members of the board and meet gender quotas as a result of the California law (should is not be repealed before the compliance deadlines), which may cause certain investors to divert their holdings in our stock and expose us to penalties and/or reputational harm.

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

None.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosure.

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 29, 2020

POLAR POWER, INC.

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

Exhibit 31.1

CERTIFICATION

I, Arthur D. Sams, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: June 29, 2020

/s/ Arthur D. Sams

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

Exhibit 31.2

CERTIFICATION

I, Luis Zavala, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: June 29, 2020

/s/ Luis Zavala
Luis Zavala
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Polar Power, Inc. (the "Company") for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify in their capacities as the Chief Executive Officer and the Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: June 29, 2020

/s/ Arthur D. Sams	/s/ Luis Zavala
Arthur D. Sams	Luis Zavala
President and Chief Executive Officer	Chief Financial Officer
(Principal Executive 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.