

REFINITIV

# DELTA REPORT

## 10-Q

POLA - POLAR POWER, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

**TOTAL DELTAS 965**

<span style="color: yellow;">█</span>	CHANGES	4
<span style="color: pink;">█</span>	DELETIONS	959
<span style="color: green;">█</span>	ADDITIONS	2

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended **September 30, 2023**

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)

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

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

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

Large Accelerated Filer

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

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, par value \$0.0001 per share

POLA

The NASDAQ Stock Market, LLC

The number of shares outstanding of the Registrant's common stock, \$0.0001 par value, as of November 14, 2023 was 12,961,612.

## TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>	1
<u>ITEM 1. Condensed Financial Statements</u>	1
<u>ITEM 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations</u>	15
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>ITEM 4. Controls and Procedures</u>	23
<u>PART II – OTHER INFORMATION</u>	24
<u>ITEM 1. Legal Proceedings</u>	24
<u>ITEM 1A. Risk Factors</u>	24
<u>ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	40
<u>ITEM 3. Defaults Upon Senior Securities</u>	40
<u>ITEM 4. Mine Safety Disclosure</u>	40
<u>ITEM 5. Other Information</u>	40
<u>ITEM 6. Exhibits</u>	40

i

---

## **FORWARD LOOKING AND CAUTIONARY STATEMENTS**

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q, other than statements or characterizations of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Examples of forward-looking statements include, but are not limited to, statements concerning projected net sales, costs and expenses and gross margins; our accounting estimates, assumptions and judgments; the demand for our products; the effect and consequences of the novel coronavirus, or COVID-19, pandemic on matters including U.S., local and foreign economies, wars and international conflicts including the current military actions involving the Russian Federation and Ukraine, our business operations, the ability of financing and the health and productivity of our employees; the competitive nature of and anticipated growth in our industry; production capacity and goals; our ability to consummate acquisitions and integrate their operations successfully; and our prospective needs for additional capital. These forward-looking statements are based on our current expectations, estimates, approximations and projections about our industry and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under "Risk Factors" in Part II, Item 1A, 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. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

## **FINANCIAL PRESENTATION**

All dollar amounts in this Quarterly Report on Form 10-Q are presented in thousands, except share and per share data and where otherwise noted.

**PART I – FINANCIAL INFORMATION****ITEM 1. Condensed Financial Statements**

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 296	\$ 211
Accounts receivable	1,582	2,230
Inventories, net	19,155	15,460
Prepaid expenses	942	2,629
Employee retention credit receivable	2,000	2,000
Income taxes receivable	787	787
Total current assets	<u>24,762</u>	<u>23,317</u>
Other assets:		
Operating lease right-of-use assets, net	3,103	240
Property and equipment, net	423	538
Deposits	108	93
Total assets	<u><u>\$ 28,396</u></u>	<u><u>\$ 24,188</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 1,988	\$ 230
Customer deposits	1,720	2,126
Accrued liabilities and other current liabilities	1,178	1,231
Operating lease liabilities, current portion	1,045	268
Notes payable-related party	233	—
Notes payable, current portion	88	211
Line of credit	5,194	1,884
Total current liabilities	<u>11,446</u>	<u>5,950</u>
Notes payable, net of current portion	—	57
Operating lease liabilities, net of current portion	<u>2,162</u>	—
Total liabilities	<u><u>13,608</u></u>	<u><u>6,007</u></u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—

Common stock, \$0.0001 par value, 50,000,000 shares authorized, 12,967,027 shares issued and 12,949,550 shares outstanding on September 30, 2023, and 12,967,027 shares issued and 12,949,550 shares outstanding on December 31, 2022	1	1
Additional paid-in capital	37,331	37,331
Accumulated deficit	(22,504)	(19,111)
Treasury Stock, at cost (17,477 shares)	(40)	(40)
Total stockholders' equity	<u>14,788</u>	<u>18,181</u>
 Total liabilities and stockholders' equity	 <u>\$ 28,396</u>	 <u>\$ 24,188</u>

See Accompanying Notes to the Condensed Financial Statements

1

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
<b>Net Sales</b>	\$ 1,911	\$ 1,707	\$ 11,688	\$ 9,690
<b>Cost of Sales</b>	2,019	1,954	9,566	7,971
<b>Gross profit (loss)</b>	<u>(108)</u>	<u>(247)</u>	<u>2,122</u>	<u>1,719</u>
 <b>Operating Expenses</b>				
Sales and marketing	274	328	917	1,134
Research and development	299	319	983	1,145
General and administrative	992	1,482	3,240	3,648
<b>Total operating expenses</b>	<u>1,565</u>	<u>2,129</u>	<u>5,140</u>	<u>5,927</u>
 <b>Loss from operations</b>	<u>(1,673)</u>	<u>(2,376)</u>	<u>(3,018)</u>	<u>(4,208)</u>
 Other income (expenses)				
Interest expense and finance costs	(171)	(12)	(375)	(39)
Other income (expense), net	—	7	—	7
<b>Total other income (expenses), net</b>	<u>(171)</u>	<u>(5)</u>	<u>(375)</u>	<u>(32)</u>
 <b>Net loss</b>	<u>\$ (1,844)</u>	<u>\$ (2,381)</u>	<u>\$ (3,393)</u>	<u>\$ (4,240)</u>
 Net loss per share – basic and diluted	<u>\$ (0.14)</u>	<u>\$ (0.19)</u>	<u>\$ (0.26)</u>	<u>\$ (0.33)</u>
Weighted average shares outstanding, basic and diluted	<u>12,949,550</u>	<u>12,848,466</u>	<u>12,949,550</u>	<u>12,967,027</u>

See Accompanying Notes to the Condensed Financial Statements

**POLAR POWER, INC.**  
**UNAUDITED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)  
Three months Ended September 30, 2023

	Common Stock		Additional paid-in capital	(Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
	Number	Amount				
Balance, June 30, 2023 (unaudited)	12,967,027	\$ 1	\$ 37,331	\$ (20,660)	\$ (40)	\$ 16,632
Net loss	—	—	—	(1,844)	—	(1,844)
Balance, September 30, 2023 (unaudited)	12,967,027	\$ 1	\$ 37,331	\$ (22,504)	\$ (40)	\$ 14,788

Nine months ended September 30, 2023

	Common Stock		Additional paid-in capital	(Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
	Number	Amount				
Balance, December 31, 2022	12,967,027	\$ 1	\$ 37,331	\$ (19,111)	\$ (40)	\$ 18,181
Net loss	—	—	—	(3,393)	—	(3,393)
Balance, September 30, 2023 (unaudited)	12,967,027	\$ 1	\$ 37,331	\$ (22,504)	\$ (40)	\$ 14,788

Three months Ended September 30, 2022

	Common Stock		Additional paid-in capital	(Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
	Number	Amount				
Balance, June 30, 2022 (unaudited)	12,805,680	\$ 1	\$ 36,816	\$ (15,386)	\$ (40)	\$ 21,391
Stock-based compensation	161,347	—	515	—	—	515
Net loss	—	—	—	(2,381)	—	(2,381)
Balance, September 30, 2022 (unaudited)	12,967,027	\$ 1	\$ 37,331	\$ (17,767)	\$ (40)	\$ 19,525

Nine months ended September 30, 2022

	Common Stock		Additional paid-in capital	(Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
	Number	Amount				
Balance, December 31, 2021	12,805,680	\$ 1	\$ 36,816	\$ (13,527)	\$ (40)	\$ 23,250
Stock-based compensation	161,347	—	515	—	—	515
Net loss	—	—	—	(4,240)	—	(4,240)
Balance, September 30, 2022 (unaudited)	12,967,027	\$ 1	\$ 37,331	\$ (17,767)	\$ (40)	\$ 19,525

See Accompanying Notes to the Condensed Financial Statements

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

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (3,393)	\$ (4,240)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	309	387
Stock-based compensation to officers, employees and consultants	—	515
Changes in operating assets and liabilities		
Accounts receivable	648	3,027
Inventories	(3,695)	(6,608)
Prepaid expenses	1,687	(322)
Deposits	(15)	—
Operating lease right-of-use asset	(2,863)	503
Accounts payable	1,758	97
Customer deposits	(406)	2,672
Accrued expenses and other current liabilities	(53)	(27)
Operating lease liability	2,939	(536)
Net cash used in operating activities	<u>(3,084)</u>	<u>(4,532)</u>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(194)	(25)
Net cash used in investing activities	<u>(194)</u>	<u>(25)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from advances from credit facility	3,310	—
Proceeds from notes payable, related party	233	—
Repayment of notes payable	(180)	(181)
Net cash provided by (used in) financing activities	<u>3,363</u>	<u>(181)</u>
Increase (decrease) in cash and cash equivalents	85	(4,738)
Cash and cash equivalents, beginning of period	211	5,101
<b>Cash and cash equivalents, end of period</b>	<b>\$ 296</b>	<b>\$ 363</b>

See Accompanying Notes to the Condensed Financial Statements

## POLAR POWER, INC.

### NOTES TO CONDENSED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(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”, “we” or “us”). The Company designs, manufactures and sells direct current, or DC, power systems to supply reliable and low-cost energy to off-grid, bad-grid and backup power, electric vehicle (“EV”) charging, and nano-grid applications. The Company’s products integrate DC generator, proprietary electronic control systems, lithium batteries and solar photovoltaic (“PV”) technologies to provide low operating cost and emissions for telecommunications, defense, automotive, nano-grid, EV charging and industrial markets.

##### Liquidity

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. For the nine months ended September 30, 2023, the Company recorded a net loss of \$3,393 and used cash in operations of \$3,084. The Company’s management evaluated whether there are conditions or events considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the financial statements are issued.

Notwithstanding the net loss for the nine-month period ended September 30, 2023, management concluded that the Company will have adequate cash flow from operations and available line of credit in 2023 and 2024 so that it is probable that the Company will be able to fund its current operating plan and satisfy its liquidity requirements within one year from the date the Company’s September 30, 2023 financial statements are issued.

As of September 30, 2023, the Company had a cash balance of \$296, with borrowing capacity of \$119, stockholders’ equity of \$14,788, and working capital of \$13,316. The long-term continuation of the Company’s business plan is dependent upon the generation of sufficient revenues from its products to offset expenses. In the event that the Company does not generate sufficient cash flows from operations and is unable to obtain funding, the Company will be forced to delay, reduce, or eliminate some or all of its discretionary spending, which could adversely affect the Company’s business prospects, ability to meet long-term liquidity needs or ability to continue operations.

##### Impact of COVID-19 and Inflation

**COVID-19.** The COVID-19 pandemic has negatively impacted business and industries all over the world since March 2020. The pandemic has had a significant negative impact on our overall operations including revenues, productivity, gross margins and liquidity. The pandemic has resulted in labor shortages, disruptions in the chain of supply, and higher material costs. During the three and nine months ended September 30, 2023, supply chain constraints that affected timely delivery of raw materials required to complete our DC power systems negatively affected our manufacturing productivity levels. Labor shortages resulted in excess overtime for the existing labor force and a reduction in engineering projects. We believe that Covid-19 will be an ongoing challenge for years to come and to adapt will require us to further globalize our vendors, engineering, and customers.

**Inflation.** The continuing impact of the COVID-19 pandemic, higher inflation, the actions by the Federal Reserve to address inflation, most notably sustained increases in interest rates, and rising energy prices create uncertainty about the future economic environment which will continue to evolve and, we believe, has impacted the Company’s business in 2022 and may continue to impact its business in 2023. The implications of higher government deficits and debt, tighter monetary policy, and potentially higher long-term interest rates may drive a higher cost of capital for the business and an increase in the Company’s operating expenses.

##### Basis of Presentation of Unaudited Financial Information

The unaudited condensed financial statements of the Company for the three and nine months ended September 30, 2023 and 2022 have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K for scaled disclosures for smaller reporting companies. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the Company’s financial position and results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year. The balance sheet information as of December 31, 2022 was derived from the audited financial statements included in the Company’s financial statements as of and for the years ended December 31, 2022 and 2021 contained in the Company’s Annual Report on Form 10-K.

filed with the Securities and Exchange Commission, or the SEC, on March 31, 2023. These financial statements should be read in conjunction with that report.

In accordance with the “Segment Reporting” Topic of the Accounting Standards Codification, the Company’s chief operating decision maker (the Company’s Chief Executive Officer) determined that the Company has only one reporting unit.

## 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 net realizable value, impairment analysis of long-term assets, valuation allowance on deferred tax assets, accruals for potential liabilities, accruals for warranty reserves, assumptions made in valuing equity instruments issued for services, and assumptions used in the determination of the Company's liquidity. Actual results may differ from those estimates.

## Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606").

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

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

### Disaggregation of Net Sales

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

	<b>Three months ended September 30,</b>	
	<b>2023 (Unaudited)</b>	<b>2022 (Unaudited)</b>
DC power systems	\$ 1,611	\$ 1,659
Engineering & Tech Support Services	200	28
Accessories	100	20
<b>Total net sales</b>	<b>\$ 1,911</b>	<b>\$ 1,707</b>

  

	<b>Nine months ended September 30,</b>	
	<b>2023 (Unaudited)</b>	<b>2022 (Unaudited)</b>
DC power systems	\$ 11,131	\$ 9,474
Engineering & Tech Support Services	254	105
Accessories	303	111
<b>Total net sales</b>	<b>\$ 11,688</b>	<b>\$ 9,690</b>

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

	<b>Three months ended September 30,</b>	
	<b>2023 (Unaudited)</b>	<b>2022 (Unaudited)</b>
Telecom	\$ 1,827	\$ 1,538
Government/Military	2	2
Marine	60	140
Other (backup DC power to various industries)	22	27
<b>Total net sales</b>	<b>\$ 1,911</b>	<b>\$ 1,707</b>

  

	<b>Nine months ended September 30,</b>	
	<b>2023 (Unaudited)</b>	<b>2022 (Unaudited)</b>
Telecommunications	\$ 11,222	\$ 9,435
Government/Military	330	31
Marine	88	157
Other (backup DC power to various industries)	48	67
<b>Total net sales</b>	<b>\$ 11,688</b>	<b>\$ 9,690</b>

The following tables shows the Company's net sales by the respective geographical regions of our customers:

	<b>Three months ended September 30,</b>	
	<b>2023 (Unaudited)</b>	<b>2022 (Unaudited)</b>
United States	\$ 1,883	\$ 1,590
Canada	16	35
South Pacific Islands	8	—
Other Asia Pacific	4	—

Europe and Middle East	—	82
Total net sales	\$ 1,911	\$ 1,707
<b>Nine months ended</b>		
<b>September 30,</b>		
	<b>2023</b>	<b>2022</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
United States	\$ 8,894	\$ 9,460
Canada	178	49
South Pacific Islands	2,582	49
Japan	—	10
Other Asia Pacific	8	24
Europe and Middle East	—	98
Africa	26	—
Total net sales	\$ 11,688	\$ 9,690

For the three-months ended September 30, 2023 and 2022, international sales totaled \$28 and \$117 respectively. For the nine-months ended September 30, 2023 and 2022, international sales totaled \$2,794 and \$230 respectively.

## Inventories

As of September 30, 2023 and December 31, 2022, inventories consisted of the following:

	<b>September 30, 2023 (unaudited)</b>	<b>December 31, 2022</b>
Raw materials	\$ 15,580	\$ 12,277
Finished goods	3,575	3,183
<b>Total Inventories</b>	<b>\$ 19,155</b>	<b>\$ 15,460</b>

Inventories are stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out ("FIFO") basis. For the nine-months ended September 30, 2023 and 2022, there were no write-downs of inventory.

## Product Warranties

The Company provides limited warranties for parts and labor at no cost to its customers within a specified time period after the sale. As of September 30, 2023 and December 31, 2022, the Company had accrued a liability for warranty reserve of \$600 and \$600, respectively, which are included in other accrued liabilities in the accompanying condensed balance sheets. The following is a tabular reconciliation of the product warranty liability, excluding the deferred revenue related to the Company's warranty coverage:

	<b>September 30, 2023 (unaudited)</b>	<b>December 31, 2022</b>
Changes in estimates for warranties		
Balance at beginning of the period	\$ 600	\$ 600
Payments	(384)	(508)
Provision for warranties	384	508
<b>Balance at end of the period</b>	<b>\$ 600</b>	<b>\$ 600</b>

## Stock-Based Compensation

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

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

## Financial Assets and Liabilities Measured at Fair Value

The Company uses various inputs in determining the fair value of its 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 certain 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 and notes payable approximate their fair values since the interest rates on these obligations are based on prevailing market interest rates.

## Concentrations

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

Cash denominated in Australian Dollars with a U.S. Dollar equivalent of \$14 and \$8 at September 30, 2023 and December 31, 2022, 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 \$1 and \$23 at September 30, 2023 and December 31, 2022, respectively, was held in an account at a financial institution located in Romania.

**Revenues.** For the three months ended September 30, 2023, 65% of revenues were generated from the Company's largest customer, a Tier-1 telecommunications wireless carrier in the U.S. For the three months ended September 30, 2022, 87% of revenues were generated from the Company's largest customer, a Tier-1 telecommunications wireless carrier in the U.S. There was no other revenue from customers in excess of 10% of revenues in either period. For the three months ended September 30, 2023 and September 30, 2022, sales to telecommunications customers accounted for 96% and 90% of total revenues, respectively. For the three months ended September 30, 2023 and September 30, 2022, sales to international customers accounted for 1% and 7%, of total revenue, respectively.

For the nine months ended September 30, 2023, sales to the Company's largest customer, a Tier-1 telecommunications wireless carrier in the U.S., accounted for 52% of total revenues, and 22% of revenue was generated from the Company's second largest customer, a telecommunications customer outside the U.S. For the same period in 2022, sales to the Company's largest customer, a Tier-1 telecommunications wireless carrier in the U.S., accounted for 88%. There was no other revenue from customers in excess of 10% of revenues in either period. For the nine months ended September 30, 2023 and September 30, 2022, sales to telecommunications customers accounted for 96% and 97% of total revenues, respectively. For the nine months ended September 30, 2023 and September 30, 2022, sales to international customers accounted for 24% and 2%, of total revenue, respectively.

**Accounts receivable.** At September 30, 2023, the two largest accounts receivable from the Company's customers represented 79% and 10%, of the Company's total accounts receivable. At December 31, 2022, the Company's two largest receivable accounts represented 74% and 15% of the Company's total accounts receivable. There was no other customer that accounted for more than 10% of the Company's accounts receivable as of September 30, 2023 or December 31, 2022.

**Accounts payable.** At September 30, 2023, accounts payable to the Company's three largest vendors represented 34%, 13% and 6%, of the Company's accounts payable. On December 31, 2022, the three largest accounts payable accounts to the Company's vendors represented 51%, 3%, and 3%, respectively.

#### Net Loss Per Share

Basic net loss per share is computed by dividing net 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:

	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Options	140,000	140,000
Warrants	24,122	24,122
Total	164,122	164,122

## Recent Accounting Pronouncements

In September 2016, the FASB issued ASU No. 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments (“ASC 326”). The standard significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today’s “incurred loss” approach with an “expected loss” model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for the Company for interim and annual reporting periods beginning after December 15, 2022. Effective January 1, 2023, the Company adopted ASU 2016-13 and that adoption did not 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:

	<b>September 30, 2023 (Unaudited)</b>	<b>December 31, 2022</b>
Production tooling, jigs, fixtures	\$ 71	\$ 71
Shop equipment and machinery	3,565	3,371
Vehicles	177	177
Leasehold improvements	390	390
Office equipment	185	185
Software	106	106
<b>Total property and equipment, cost</b>	<b>4,494</b>	<b>4,300</b>
Less: accumulated depreciation and amortization	(4,071)	(3,762)
<b>Property and equipment, net</b>	<b>\$ 423</b>	<b>\$ 538</b>

Depreciation and amortization expense on property and equipment for the three months ended September 30, 2023 and 2022 was \$82 and \$124, respectively. During the three months ended September 30, 2023 and 2022, \$79 and \$119, respectively, of the depreciation expense was included in cost of sales.

Depreciation and amortization expense on property and equipment for the nine months ended September 30, 2023 and 2022 was \$309 and \$387, respectively. During the nine months ended September 30, 2023 and 2022, \$298 and \$374, respectively, of the depreciation expense was included in cost of sales.

## NOTE 3 – NOTES PAYABLE, RELATED PARTY

In May 2023, the Company issued a note payable to its Chief Executive Officer for \$160. The note is unsecured, due April 25, 2024, and bears interest at 1% per annum. In August 2023, the Company issued another note payable to its Chief Executive Officer in the amount of \$73, bearing interest at 1% per annum, due July 17, 2024. Both notes were made to support operations during periods when funding from other sources reached low levels.

## NOTE 4 – NOTES PAYABLE

Notes payable consist of the following:

	<b>September 30, 2023 (Unaudited)</b>	<b>December 31, 2022</b>
Notes payable	\$ 88	\$ 268
Less current portion	(88)	(211)
<b>Notes payable, long term</b>	<b>\$ —</b>	<b>\$ 57</b>

In 2018 and 2019, the Company entered into five financing agreements for the purchase of equipment. The financing arrangements are for a term of 2 years to 5 years, with interest rates ranging from 3.4% to 5.0% per annum and secured by the purchased equipment. The aggregate monthly payments of principal and interest of the outstanding notes payable as of September 30, 2023 is approximately \$8 and are due through June 2024.

#### **NOTE 5 – LINE OF CREDIT**

##### Credit Facility

Effective September 30, 2020, the Company entered into a Loan and Security Agreement (as amended from time to time, the “Loan Agreement”) with Pinnacle Bank (“Pinnacle”). At September 30, 2023, the outstanding balance under the line of credit was \$5,194 and the Company had availability under the line of credit of \$119. The Loan Agreement initially expired on September 30, 2022, and on November 3, 2022, the Loan Agreement was amended to expire on September 30, 2024.

The Loan Agreement, provides for a revolving credit facility under which Pinnacle may make advances to the Company, subject to certain limitations and adjustments, of up to (a) 85% of the aggregate net face amount of the Company’s accounts receivable and other contract rights and receivables, plus (b) the lesser of (i) 35% of the lower of cost or wholesale market value of certain inventory of the Company or (ii) \$2,500.

Borrowings based on receivables bears an interest on the daily balance at a rate of 1.25% above the prime rate, but in no event less than 3.75% per annum (9.75% at September 30, 2023 and 8.75% at December 31, 2022). Interest on the portion of the daily balance consisting of advances against inventory accrues interest at a rate of 2.25% above the prime rate, but in no event less than 4.75% per annum (10.75% at September 30, 2023 and 9.75% at December 31, 2022).

On April 13, 2023, the Company entered into a Third Modification to the Loan Agreement under which the Company and Pinnacle agreed to add a new section which provides for Pinnacle to lend the Company up to \$146 collateralized by certain equipment. At September 30, 2023, the outstanding balance under this section of the Loan Agreement was \$122 and is included in the total outstanding balance of \$5,194.

On May 25, 2023, the Company entered into a Fourth Modification to the Loan Agreement under which the parties (a) agreed to amend the amount of available advances under the Loan Agreement such that the aggregate amount of the outstanding advances under the revolving credit facility may not be greater than \$6 million, and (b) raised the concentration percentage applicable to certain Tier-1 telecommunication customers from 50% to 75% in the definition of eligible accounts.

On September 5, 2023, the Company entered into a Fifth Modification to the Loan Agreement under which the parties (a) extend the 90-day period on AT&T accounts receivable to 120 days; (b) increase the lesser of (i) 35% of the lower of cost or wholesale market value of certain inventory of the Company or (ii) \$2.5 million to the lesser of (i) 40% of the aggregate eligible inventory value of eligible inventory or (ii) \$4.0 million; (c) increase the aggregate advance limit under the credit facility from \$6.0 million to \$7.5 million; and (e) among other items, charge a fee of \$23, 1.5% of the \$1.5 million increase in the inventory advance limit, plus a \$1 document fee, to Pinnacle, as conditions precedent to the Fifth Modification.

Pinnacle may terminate the Loan Agreement at any time upon ninety days prior written notice and immediately upon the occurrence of an event of default. Under the Loan Agreement, the Company granted Pinnacle a security interest in all presently existing and thereafter acquired or arising assets of the Company. The Loan Agreement also contains a financial covenant requiring the Company to attain an effective tangible net worth, as defined, which the Company attained as of September 30, 2023.

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

#### **NOTE 6 – STOCK OPTIONS**

The following table summarizes stock options:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding, December 31, 2022	140,000	\$ 5.22
Granted	—	—
Exercised/Forfeited/Expired	—	—
Outstanding, September 30, 2023 (unaudited)	140,000	\$ 5.22
Exercisable, September 30, 2023 (unaudited)	140,000	\$ 5.22

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

At September 30, 2023, and December 31, 2022, the Company had total outstanding options exercisable into 140,000 shares of the Company’s common stock. The options are fully vested, with exercise prices ranging from \$4.84 to \$5.60. 30,000

options expire in December 2027 and the remaining 110,000 options expire in April 2028.

The outstanding options had no intrinsic value at September 30, 2023.

**NOTE 7 – STOCK WARRANTS**

At September 30, 2023, warrant shares outstanding were as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Outstanding December 31, 2022	24,122	\$ 3.13
Issued	—	—
Exercised/Forfeited/Expired	—	—
Outstanding, September 30, 2023 (unaudited)	<u>24,122</u>	<u>\$ 3.13</u>
Exercisable, September 30, 2023 (unaudited)	<u>24,122</u>	<u>\$ 3.13</u>

At September 30, 2023, and December 31, 2022, the Company had outstanding warrants exercisable into 24,122 shares of the Company's common stock. The warrants were issued in connection with a July 2020 private placement of shares of the Company's common stock. The warrants have an exercise price of \$3.13 per share and expire in July 2025.

There was no intrinsic value of the outstanding and exercisable warrants at September 30, 2023.

**NOTE 8 – OPERATING LEASES**

The Company has two operating lease agreements for its warehouse and office facilities. The first lease, originally signed in 2019, expired in February 2023. In January 2023, the Company signed an amendment to the first lease and extended the first lease for three years commencing March 1, 2023 to February 28, 2026. Lease payments for the amended first lease total \$2,596, with monthly lease payments ranging from \$58 beginning in March 2023, to \$74 beginning in March 2024, to \$84 from March 2025 to February 2026. The lease amendment to the first operating lease was considered a new lease agreement and as a result, the Company recognized an operating lease right-of-use asset and related operating lease liability of \$2,392.

The Company's second operating lease, originally signed in 2018, expired in August 2023. In May 2023, the Company signed an amendment to the second lease and extended the second lease for three years commencing September 1, 2023 to August 31, 2026. Lease payments for the amended second lease will total \$1,300, with monthly lease payments ranging from \$31 beginning in September 2023, to \$37 beginning in September 2024, to \$41 from September 2025 to August 2026. The lease amendment to the second operating lease is also considered a new lease agreement and as a result, the Company recognized an operating lease right-of-use asset and related operating lease liability of approximately \$1,184 upon commencement of the new term.

The Company also has a third lease on a month-to-month basis and is charged \$25 per month.

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

	<b>Nine Months Ended September 30, 2023</b>	<b>Nine Months Ended September 30, 2022</b>
<b>Lease Cost</b>		
Operating lease cost (of which \$327 is included in general and administration and \$686 is included in cost of sales in the Company's statement of operations for the nine months ended September 30, 2023, and \$275 and \$451 for the same period in 2022, respectively)	\$ 1,013	\$ 726
<b>Other Information</b>		
Weighted average remaining lease term – operating leases (in years)	2.7	0.7
Average discount rate – operating leases	5.13 %	3.75 %

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

	<b>At September 30, 2023</b>	<b>At September 30, 2022</b>
<b>Operating leases</b>		
Long-term operating right-of-use assets, net of accumulated amortization of \$409 and \$2,406, respectively	\$ 3,103	\$ 411
Short-term operating lease liabilities	\$ 1,045	\$ 453
Long-term operating lease liabilities	2,162	—
Total operating lease liabilities	<u>\$ 3,207</u>	<u>\$ 453</u>

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

<b>Year Ending</b>	<b>Operating Leases</b>
2023 (remaining 3 months)	\$ 267
2024	1,250
2025	1,446
2026	496
Total lease payments	3,459
Less: Imputed interest/present value discount	(252)
Present value of lease liabilities	<u>\$ 3,207</u>

Rent expense for the nine months ended September 30, 2023 and 2022 was \$1,023 and \$726, respectively.

#### **NOTE 9 - EMPLOYEE RETENTION CREDITS**

The Consolidated Appropriations Act, passed in December 2021, expanded the employee retention credit ("ERC") program through December 2021. The credits cover 70% of qualified wages, plus the cost to continue providing health benefits to our employees, subject to a \$7 cap per employee per quarter. Due to revenue declines the Company experienced, it qualified for approximately \$2,000 of ERC during the year ended December 31, 2021. The Company believes that it has complied with the ERC eligibility requirements, and as of December 31, 2022 and September 30, 2023, the balance of \$2,000 is presented as ERC receivable in the accompanying balance sheets.

## **NOTE 10 – SUBSEQUENT EVENTS**

On November 3, 2023, the Company entered into a Warrant Exchange Agreement (the “Agreement”) with entities affiliated with Empery Asset Management, LP (the “Empery Entities”), who are holders of the Company’s outstanding warrants (the “Warrants”) to purchase an aggregate of 24,122 shares of the Company’s common stock, par value \$0.0001 per share (the “Common Stock”), which Warrants were originally issued on July 8, 2020. Pursuant to the Agreement, the Company issued an aggregate of 12,062 shares of Common Stock to the Empery Entities in exchange for the surrender and cancellation of the Warrants held by the Empery Entities (which Warrants represent all outstanding Warrants of the Company) on November 9, 2023. Upon issuance of such shares and cancellation of the Warrants, the Company no longer has any Warrants outstanding.

Exhibit 31.1

On November 1, 2023, the Company issued another note payable to its Chief Executive Officer in the amount of \$28, bearing interest at 1% per annum, due October 31, 2024. The note was made to support operations during periods when funding from other sources reached low levels.

14

---

## 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.

References to the "Company," "Polar," "our," "us" or "we" refer to Polar Power, Inc. 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, marine and industrial. We are continuously diversifying our customer base and are selling our products into non-telecommunication markets and applications at an increasing rate. The changes in customer diversity are reported in the financial section.

Within the various markets we service, 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 and mobile applications) or have critical power needs and cannot be without power in the event of utility grid failure (i.e., back-up power applications).

We believe it's more efficient to build power systems around the DC generator because it's simpler to integrate with battery storage and solar photovoltaics which also operate on DC. Many applications in communications, water pumping, lighting, vehicle and vessel propulsion, security systems operate on DC power only. Many micro-grids and energy storage are DC based and use inverters to convert the DC to AC.

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

- **Base power systems.** These stationary systems integrate a DC generator and automated controls with remote monitoring, which are typically contained within an environmentally regulated enclosure.
- **Hybrid power systems.** These systems incorporate lithium-ion batteries (or other advanced battery chemistries) with our proprietary battery management system into our standard DC power systems.
- **DC solar hybrid power systems.** These stationary systems incorporate photovoltaic and other sources of renewable energy into our DC hybrid power systems.
- **Mobile power systems.** These are very light weight and compact power systems used for EV charging, robotics, communications, security.

Sales of our DC generators to the telecommunications market continues to be the largest contributor to our net sales representing 96% of total net sales for the three months ended September 30, 2023, as compared to 90% for the same period in 2022. Sales to customers in the telecommunications market represented 96% and 97% for the nine months ended September 30, 2023 and 2022, respectively. Our DC generators are primarily used as backup power for cellular sites. Our hybrid and DC solar hybrid power systems offer prime power for sites that have bad-grid or are off-grid. Our systems are available in diesel, natural gas, LPG / propane and renewable fuel formats, with diesel, natural gas and propane gas being the predominant formats.

We continued to make progress on numerous growth objectives including diversification of our customer base and markets. This strategy has provided us with 21% growth this year and as a result reduced our losses due to improved overhead absorption. This year we experienced an increase in the number of customers purchasing our DC generators and an increase in net sales to customers in international markets. During the three months ended September 30, 2023, we sold DC generators to 17 customers, as compared to 6 during the same period in 2022. During the nine-month period ending September 30, 2023, we sold DC generators to 31 customers, as compared to 14 during the same period in 2022. Year-to-date, sales to customers in international markets represented 24% of the total sales compared to 2% for the same period in 2022.

We launched our prime power DC generators incorporating the Toyota 1KS engines optimized for propane, natural gas, and extremely long operational life. We believe that with the increasing installation restrictions on small diesel engines along with their limited availability due to stringent EPA regulations will force a change to natural gas and propane (LPG) generators. LPG and natural gas are lower in cost than diesel fuel in many areas throughout the world. Our new LPG and natural gas generators will provide strong opportunities for growth and diversification in line with our long-term plan.

We also started deliveries of our Summit Series, 27 kW diesel fuel DC generators to the U.S. 5G telecommunications market. Our US Tier-1 telecommunications customers are in the process of upgrading 15 kW and 20 kW generators to the 27 kW to meet the increased power requirements for 5G.

At the international level, we have several telecommunications customers in the south pacific region purchasing our DC generators to develop the telecommunications infrastructure in this region. We believe the implementation and ongoing development of 5G networks along with programs to develop the telecommunications infrastructure in rural and underdeveloped countries will continue to fuel our growth in the telecommunications market over the next five to ten years.

In May 2023, we announced plans to expand our mobile offerings by upgrading our mobile CHAdeMO EV chargers to the universal combined charging system standard to reach the mobile EV charging market. We are taking orders for our new line of EV charges and expect to have them available before the end of the first quarter of 2024. Mobile EV chargers are used for emergency roadside service providing a fast-charging solution for EVs that have run out of charge before reaching a stationary charging facility.

We also continue to market our DC generators for the military, advanced mobility and marine markets as part of our ongoing customer diversification strategy. The military's increasing use of robotics, drones, and computerization in the field is driving the demand for battery charging with DC generators. Military sales are advantageous because of their long-term contracts and they tend to cover the cost of product development. Marine sales interest have increased significantly both domestically and overseas due to the increased performance in comfort and fuel economy. Also, there are increasing restrictions on the use of diesel and gasoline engines in many lakes and waterways making way for our natural gas and propane operated generators. Using natural gas and propane for home and office charging for electric vehicle and forklifts is still a market under development. Same is true for diesel mobile chargers for emergency roadside assistance.

### Impact of COVID-19 and Inflation

*COVID-19.* The COVID-19 pandemic has negatively impacted business and industries all over the world since March 2020. The pandemic has had a significant negative impact on our overall operations including revenues, productivity, gross margins and liquidity. The pandemic has resulted in labor shortages, disruptions in the chain of supply, and higher material costs. During the three and nine months ended September 30, 2023, supply chain constraints that affected timely delivery of raw materials required to complete our DC power systems negatively affected our manufacturing productivity levels. Labor shortages during the first nine months of this year resulted in excess overtime for the existing labor force and a reduction in engineering projects. We believe that Covid-19 will be an ongoing challenge for years to come and to adapt will require us to further globalize our vendors, engineering, and customers.

*Inflation.* The continuing impact of the COVID-19 pandemic, higher inflation, the actions by the Federal Reserve to address inflation, most notably sustained increases in interest rates, and rising energy prices create uncertainty about the future economic environment which will continue to evolve and, we believe, has impacted the Company's business in 2022 and may continue to impact its business in 2023. The implications of higher government deficits and debt, tighter monetary policy, and potentially higher long-term interest rates may drive a higher cost of capital for the business and an increase in the Company's operating expenses.

### Recent Business Events

Our sales backlog as of September 30, 2023 was \$5,121, of which our telecommunications customers in the accounted for 90%, customers in military markets accounted for 7%, customers in the marine markets accounted for 2%, and customers in other markets accounted for 1%.

We continue to work on diversifying our customer base and are selling into non-telecommunication markets and applications at an increasing rate. In March 2022, we received EPA certification on our 4Y Toyota engine project aimed at expanding the power range to 35 kW on natural gas and LPG. Our EPA certification of 1KS and 4Y Toyota engines brings to the market (non-diesel) engines with very low maintenance and high fuel efficiency. In addition to meeting the telecommunications need for larger and more compact generators our larger models have high interest from micro-grids, peak power shaving, and EV charging.

We believe that Covid-19 will be an ongoing challenge for years to come and to adapt will require us to further globalize our vendors, engineering, and customers.

## Critical Accounting Policies and Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Some of those judgments can be subjective and complex, and therefore, actual results could differ materially from those estimates under different assumptions or conditions. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable in relation to the financial statements taken as a whole under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management regularly evaluates the key factors and assumptions used to develop the estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such evaluations, if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates. Significant estimates include those related to assumptions used in reserves for uncollectible receivables, inventory reserves and returns, impairment analysis of long-term assets, valuation allowance on deferred tax assets, income tax accruals, accruals for potential liabilities and warrant reserves and assumptions made in valuing equity instruments issued for services. There were no changes to our critical accounting policies described in the financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, that impacted our condensed financial statements and related notes included herein.

## 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.

## Financial Performance Summary and Outlook

Our net sales for the three months ended September 30, 2023 were \$1,911, which represents a 12% increase in net sales as compared to \$1,707 for the three months ended September 30, 2022. Our net sales for the nine months ended September 30, 2023 were \$11,688, which represents a 21% increase in net sales as compared to \$9,690 for the same period in 2022.

Our strategy to diversify our customer base continues to yield positive results. We continue to see an increase in the number of customers purchasing our DC generators and an increase in sales to customers in international markets. During the three months ended September 30, 2023, we sold DC generators to 17 customers, as compared to 6 during the same period in 2022. During the nine-month period ending September 30, 2023, we sold DC generators to 31 customers, as compared to 14 during the same period in 2022.

During the three months ended September 30, 2023, we experienced a decrease in revenue quarter-over quarter due to unanticipated rescheduling of \$2.8 million in deliveries to our largest telecommunications customers. These orders remain part of our backlog as of September 30, 2023, and are expected to be delivered to customers within the following two quarters.

Our total backlog as of September 30, 2023, was \$5,121, of which telecommunications customers in the U.S. represented 62%, telecommunications customers in international markets represented 28%, customers in the marine market represented 2%, customers in the military market represented 7%, and customers in other markets represented 1%.

For the remainder of this year, we plan to continue to expand our customer base in all market segments by promoting our DC power systems. We are scheduled to showcase our LPG and natural gas DC power systems at the 35<sup>th</sup> World LPG Forum held in Rome in November 2023. We also anticipate that our sales will increase as we overcome supply chain and labor issues. In anticipation, we have purchased a large number of engines to meet anticipated demand.

See "Risk Factors" commencing on page 24 of this Quarterly Report on Form 10-Q for additional considerations.

## Results of Operations

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

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

### Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

	Three Months Ended September 30,		Dollar Variance	Percentage Variance	Results as a Percentage of Net Sales for the Period Ended September 30,	
	2023 (unaudited)	2022 (unaudited)			2023	2022
			Favorable (Unfavorable)	Favorable (Unfavorable)		
Net sales	\$ 1,911	\$ 1,707	\$ 204	12 %	100.0 %	100.0 %
Cost of sales	2,019	1,954	(65)	(3)%	105.7 %	114.5 %
<b>Gross loss</b>	<b>(108)</b>	<b>(247)</b>	<b>139</b>	<b>56 %</b>	<b>(5.7)%</b>	<b>(14.5)%</b>
Sales and marketing expenses	274	328	54	16 %	14.3 %	19.2 %
Research and development expenses	299	319	20	6 %	15.6 %	18.7 %
General and Administrative expenses	992	1,482	490	33 %	51.9 %	86.8 %
<b>Total operating expenses</b>	<b>1,565</b>	<b>2,129</b>	<b>564</b>	<b>26 %</b>	<b>81.9 %</b>	<b>124.7 %</b>
<b>Loss from operations</b>	<b>(1,673)</b>	<b>(2,376)</b>	<b>703</b>	<b>30 %</b>	<b>(87.5)%</b>	<b>(139.2)%</b>
Interest and finance costs	(171)	(12)	(159)	(1,325)%	(8.9)%	(0.7)%
Other income (expense), net	—	7	(7)	100 %	— %	0.4 %
<b>Net loss</b>	<b>\$ (1,844)</b>	<b>\$ (2,381)</b>	<b>\$ 537</b>	<b>23 %</b>	<b>(96.5)%</b>	<b>(139.5)%</b>

**Net Sales.** Net sales increased \$204, or 12%, to \$1,911 for the three months ended September 30, 2023, as compared to \$1,707 for the same period in 2022. The increase in sales was primarily due to an increase in customers purchasing our DC generators and increase in sales of our DC generators to domestic telecommunications customers. For the three months ended September 30, 2023, sales to our largest telecommunication customers in the U.S. accounted for 65% of our total net sales. For the same period in 2022, 87% of our total net sales were generated from our largest U.S. telecommunications customer. There was no other revenue from customers in excess of 10% of total net sales in either period.

**Net sales to telecommunications customers in the U.S.** accounted for 95% of our total net sales for the three months ended September 30, 2023, as compared to 90% for the same period in 2022. Our international sales represented 1% of our total net sales for the three months ended September 30, 2023, as compared to 7% in international sales in the same period in 2022.

**Cost of Sales.** Cost of sales during the three months ended September 30, 2023 increased by \$65, or 3%, to \$2,019, as compared to \$1,954 during the same period in 2022. The increase is primarily attributed to a slight increase in rent and labor expense when compared to the same period a year ago. Cost of sales as a percentage of net sales during the three months ended September 30, 2023 decreased to 105.7% as compared to 114.5% in the same period in 2022 primarily as a result of improvements in labor efficiencies gained on standard products.

**Gross Loss.** We had a gross loss of \$108 for the three months ended September 30, 2023, which is an improvement of \$139 or 56%, as compared to gross loss of \$247 during the same period in 2022. The gross loss as a percentage of net sales was 5.7% for the quarter ended September 30, 2023, as compared to a gross loss as a percentage of net sales of 14.5% in the same period in 2022. The increase in gross margin was attributable to improved labor efficiencies gained on standard products.

**Sales and Marketing Expenses.** During the three months ended September 30, 2023, sales and marketing expenses decreased by \$54, or 16%, to \$274, as compared to \$328 during the same period in 2022. The decrease was attributable to a decrease in sales support staff.

**Research and Development Expenses.** During the three months ended September 30, 2023, research and development expenses decreased by \$20, or 6%, to \$299, as compared to \$319 during the same period in 2022. The decrease was primarily due to a decrease in R&D support staff during the three months ended September 30, 2023 as compared to the same period in 2022. Our research and development efforts during the third quarter of 2023 primarily focused on developing our new 27 kW power system, new software for our new 4Y Toyota engine control system, and on product design and customization for our international customers including solar hybrid power systems and mobile EV chargers. We continue to search for qualified engineers to join our engineering team during the upcoming quarters to support our customer diversification efforts.

**General and Administrative Expenses.** General and administrative expenses decreased by \$490, or 33%, to \$992 during the three months ended September 30, 2023, as compared to \$1,482 during same period in 2022. The decrease in general and administrative expenses during the three months ended September 30, 2023 was primarily due to stock-based compensation expense of \$515 resulting from common stock awarded in August 2022 to its officers, employees and consultants as part of the Company's Employee Retention Program. The award was not repeated in 2023.

**Interest and Finance Costs.** Interest expense for the three months ended September 30, 2023 was \$171, as compared to \$12 during the same period in 2022. Our interest expense for the current period resulted primarily from an increase in borrowing from our line of credit with Pinnacle Bank.

**Net Loss.** As a result of the factors identified above, we reported net loss of \$1,844 or \$(0.14) per basic and diluted share, for the three months ended September 30, 2023, as compared to net loss of \$2,381, or \$(0.19) per basic and diluted share, for the same period in 2022.

**Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022**

	Nine Months Ended September 30,		Dollar Variance	Percentage Variance	Results as a Percentage of Net Sales for the Period Ended September 30,	
					2023	2022
	(unaudited)	(unaudited)	(Unfavorable)	Favorable		
Net sales	\$ 11,688	\$ 9,690	\$ 1,998	21%	100.0%	100.0%
Cost of sales	9,566	7,971	(1,595)	(20)%	81.8%	82.3%
<b>Gross profit</b>	<b>2,122</b>	<b>1,719</b>	<b>403</b>	<b>23%</b>	<b>18.2%</b>	<b>17.7%</b>
Sales and marketing expenses	917	1,134	217	19%	7.8%	11.7%
Research and development expenses	983	1,145	162	14%	8.4%	11.8%
General and Administrative expenses	3,240	3,648	408	11%	27.7%	37.6%
<b>Total operating expenses</b>	<b>5,140</b>	<b>5,927</b>	<b>787</b>	<b>13%</b>	<b>44.0%</b>	<b>61.2%</b>
<b>Loss from operations</b>	<b>(3,018)</b>	<b>(4,208)</b>	<b>1,190</b>	<b>28%</b>	<b>(25.8)%</b>	<b>(43.4)%</b>
Interest and finance costs	(375)	(39)	(336)	(862)%	(3.2)%	(0.4)%
Other income (expense), net	—	7	(7)	(100)%	0.0%	0.1%
<b>Net loss</b>	<b>\$ (3,393)</b>	<b>\$ (4,240)</b>	<b>\$ 847</b>	<b>20%</b>	<b>(29.0)%</b>	<b>(43.8)%</b>

**Net Sales.** Net sales increased \$1,998, or 21%, to \$11,688 for the nine months ended September 30, 2023, as compared to \$9,690 for the same period in 2022. The increase in sales was primarily due to an increase in the number of customers purchasing our DC generators and an increase in sales of our DC generators to international telecommunications customers during the first two quarters of 2023. For the nine months ended September 30, 2023, sales to our largest telecommunication customers in the U.S. accounted for 52% of our total net sales, and our second largest customer being a telecommunications customer in the South Pacific Islands represented 22% of our total net sales. For the same period in 2022, 88% of our total net sales were generated from our largest U.S. telecommunications customer. There was no other revenue from customers in excess of 10% of total net sales in either period.

Net sales to telecommunications customers in the U.S. accounted for 72% of our total net sales for the nine months ended September 30, 2023, as compared to 96% for the same period in 2022. Our international sales represented 24% of our net sales for the nine months ended September 30, 2023, as compared to 2% in international sales in the same period in 2022.

**Cost of Sales.** Cost of sales during the nine months ended September 30, 2023 increased by \$1,595, or 20%, to \$9,566, as compared to \$7,971 during the same period in 2022. Cost of sales as a percentage of net sales during the nine months ended September 30, 2023 decreased to 81.8%, as compared to 82.3% in the same period in 2022 as a result of a slight improvement in overhead absorption and labor efficiencies.

**Gross Profit.** Gross profit during the nine months ended September 30, 2023 increased by \$403, or 23%, to gross profit of \$2,122, as compared to gross profit of \$1,719 during the same period in 2022. Our gross profit as a percentage of net sales was 18.2% for the nine months ended September 30, 2023, as compared to 17.7% in the same period in 2022. The increase in gross profit was primarily a result of improved labor efficiencies in manufacturing and utilization of \$323 of previously written off obsolete inventory.

**Sales and Marketing Expenses.** During the nine months ended September 30, 2023, sales and marketing expenses decreased by \$217, or 19%, to \$917, as compared to \$1,134 during the same period in 2022. The decrease was attributable to a decrease in sales and sales support staff. We plan to expand our marketing efforts to support our diversification strategy and expand our customer base in all market segments.

**Research and Development Expenses.** During the nine months ended September 30, 2023, research and development expenses decreased by \$162, or 14%, to \$983, as compared to \$1,145 during the same period in 2022. The decrease was primarily due to a decrease in R&D support staff during the nine months ended September 30, 2023, as compared to the same period in 2022. Our research and development efforts during 2023 focused on developing our new 27 kW power system, new software for our new 4Y Toyota engine control system, and on product design and customization for our international customers including solar hybrid

power systems and mobile EV chargers. We plan to recruit additional engineers during the following quarters to support growth and our customer diversification efforts.

*General and Administrative Expenses.* General and administrative expenses decreased by \$408, or 11%, to \$3,240 during the nine months ended September 30, 2023, as compared to \$3,648 during same period in 2022. The decrease in general and administrative expenses during the nine months ended September 30, 2023 was primarily due to stock-based compensation expense of \$515 awarded in August 2022 to its officers, employees and consultants as part of the Company's Employee Retention Program. The award was not repeated in 2023.

*Interest and Finance Costs.* Interest and finance costs for the nine months ended September 30, 2023 was \$375, as compared to \$39 during the same period in 2022, an increase of \$336. Our interest expense for the current period resulted primarily from an increase in borrowing from our line of credit with Pinnacle Bank.

*Net Loss.* For the nine months ended September 30, 2023, we incurred net loss of \$3,393, or \$(0.26) per basic and diluted share, as compared to net loss of \$4,240, or \$(0.33) per basic and diluted share for the nine months ended September 30, 2022.

## Liquidity and Capital Resources

### Sources of Liquidity

During the nine months ended September 30, 2023, we funded our operations primarily from cash on hand. As of September 30, 2023, we had working capital of \$13,316, as compared to working capital of \$17,367 at December 31, 2022. This \$4,051 decrease in working capital is primarily attributable to \$85 increase in cash and cash equivalents resulting from net cash of \$3,085 used in operating activities, and net cash of \$194 used in investing activities, and net cash of \$3,364 from financing activities.

On September 30, 2023 and December 31, 2022, our net trade receivables totaled \$1,582 and \$2,230, respectively. On September 30, 2023, \$1,247 (79%), and \$158 (10%) represented the two largest open customer account balances, while \$2,006 (90%) and \$119 (5%) represented the two largest open customer account balances on December 31, 2022.

At December 31, 2022, we recognized \$2,000 related to the ERC for salaries and benefits expenses incurred during 2022 resulting in a refundable tax credit. The ERC assist business owners and their employees by providing an incentive to keep workers on the payroll and eligible businesses received a tax credit for a percentage of each eligible employee's wage. As of September 30, 2023, the ERC is still being processed by the IRS.

Our available capital resources on September 30, 2023 consisted primarily of \$296 in cash and cash equivalents, as compared to \$211 as of December 31, 2022. We expect our future capital resources will consist primarily of cash on hand, cash generated by operations, if any, drawdowns on our credit facility with Pinnacle Bank and future debt or equity financings, if any.

### Credit Facility

Effective September 30, 2020, we entered into a Loan and Security Agreement (as amended from time to time, the "Loan Agreement") with Pinnacle. The Loan Agreement was amended by the First Modification to Loan and Security Agreement on October 7, 2020. The Loan Agreement's initial term ended on September 30, 2022. On November 3, 2022, we executed the Second Modification to Loan and Security Agreement with Pinnacle for a two-year term with an expiration date of September 30, 2024.

The Loan Agreement, provides for a revolving credit facility under which Pinnacle may, in its sole discretion upon our request, make advances to us in an amount, subject to certain limitations and adjustments, of up to (a) 85% of the aggregate net face amount of our accounts receivable and other contract rights and receivables, plus (b) the lesser of (i) 35% of the lower of cost or wholesale market value of certain of our inventory or (ii) \$2,500. The aggregate amount of the outstanding advances under the revolving credit facility were initially limited to \$4,000. On May 25, 2023, we executed the Fourth Modification to Loan and Security Agreement to amend the amount of available advances under the Loan Agreement such that the aggregate amount of the outstanding advances under the revolving credit facility may not be greater than \$6,000 and raised the concentration percentage applicable to certain Tier-1 telecommunication customers from 50% to 75% in the definition of eligible accounts.

On September 5, 2023, the Company entered into a Fifth Modification to the Loan Agreement under which the parties (a) agreed to amend the amount of available advances under the Loan Agreement such that the aggregate amount of the outstanding advances under the revolving credit facility may not be greater than seven and a half million dollars (\$7.5 million), (b) extended the standard of eligibility applicable to certain Tier-1 telecommunication customers from ninety (90) days to one hundred twenty (120) days of invoice date in the definition of eligible accounts, (c) increased the inventory advance rate from 35% to 40% of the aggregate eligible inventory value of eligible inventory, and (e) raised the inventory advance limit from two million dollars (\$2.0 million) to four million dollars (\$4.0 million).

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

We have an outstanding balance of \$5,194 under the Loan Agreement at September 30, 2023. As of September 30, 2023, we had availability under the Loan Agreement of \$119 and we believe that we are in compliance with the terms and conditions of the Loan Agreement.

### Cash Flow

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

	September 30, 2023 <u>(Unaudited)</u>	September 30, 2022 <u>(Unaudited)</u>
Net Cash Provided By (Used In)		

Operating Activities	\$ (3,084)	\$ (4,532)
Investing Activities	(194)	(25)
Financing Activities	3,363	(181)
Net increase (decrease) in cash	<u>\$ 85</u>	<u>\$ (4,738)</u>

22

---

#### ***Operating Activities***

Net cash used in operating activities for the nine months ended September 30, 2023 was \$3,084 as compared to net cash used in operating activities of \$4,532 for the same period in 2022. This decrease in net cash used in 2023 was primarily due to a net loss of \$3,393, a decrease in accounts receivable of \$648, a decrease in prepaid expenses of \$1,686, and an increase in accounts payable of \$1,758.

#### ***Investing Activities***

Net cash used in investing activities for the nine months ended September 30, 2023 was \$194, as compared to net cash used in investing activities of \$25 for the same period in 2022. Net cash used in investing activities was primarily due to acquisitions of property and equipment.

#### ***Financing Activities***

Net cash from financing activities totaled \$3,363 for the nine months ended September 30, 2023, as compared to \$181 used by financing activities during the same period in 2022. This cash provided was primarily borrowings from the line of credit with Pinnacle Bank.

#### ***Backlog***

As of September 30, 2023, we had a sales backlog of \$5,121. The amount of backlog represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. Backlog at September 30, 2023 was comprised of the following elements: 90% in purchases of DC power systems by telecommunications customers, 7% in purchases from customers in the military market, 2% in purchases from customers in the marine market, and 1% in purchases by customers from other markets. Of the total backlog, 72% of the purchases are from customers in the U.S. and 28% from customers in international markets. We believe the majority of our backlog will be shipped within the next twelve months. Due to overall shortage of commodities worldwide caused by COVID, our largest customers have placed orders with delivery dates up to nine months in the future. We believe this provides us better control on operational efficiencies and inventory management. We believe the majority of our backlog will be shipped within the next twelve months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected in our backlog.

#### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

#### **ITEM 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of September 30, 2023, 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.

##### ***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 three months ended September 30, 2023 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 us, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline, and you may lose all or part of your investment.*

#### Risks Related to Our Business and Industry

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

The COVID-19 pandemic has had a widespread and detrimental effect on the global economy, particularly in the U.S. since 2020, but to a lesser extent in 2023. The repercussions of COVID-19 is likely to continue to have, a material and substantial adverse impact on our results of operations, including a decrease in our sales and delays in sourcing raw materials from suppliers.

In addition, COVID-19 adversely affected the economies and financial markets of many countries, which may affect our level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in the agreements that govern our indebtedness. In the event of a sustained market deterioration and continued declines in net sales, and other repercussions of COVID-19, we may need additional liquidity. The need for additional liquidity may also be affected by the federal government's potential failure to raise the debt ceiling or correct a prolonged banking or financial crisis. Such disruptions may impact the broader capital markets, and in turn, may impact our ability to access those markets. We cannot provide any assurance that we will be able to obtain additional sources of financing or liquidity on acceptable terms, or at all.

The ultimate impact of the COVID-19 pandemic on our business and results of operations remains unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration and potential resurgence of COVID-19, repeat or cyclical outbreaks and any additional preventative and protective actions that governments, or we, or our customers, or our suppliers may direct, which may result in an extended period of continued business disruption and reduced operations. Any resulting financial impact cannot be reasonably estimated at this time, but we expect it will continue to have a material impact on our business, financial condition and results of operations.

***Rising inflation in the economies in which we operate may adversely affect our operating margins and our results of operation.***

In general, we believe that our results of operations are not dependent on moderate changes in the inflation rate. Historically, we have been able to manage the impacts of more significant changes in inflation rates through our customer relationships, customer agreements that may provide for price increases and continued focus on improvements of operational productivity. However, the current inflationary environment has, we believe, has impacted the Company's business in 2022 and may continue to impact its business in 2023, including as a result of increased energy costs, as well as increasing wages in the labor markets in which we compete. Inflation could continue to pressure our margins in future periods. In addition, in response to the concerns over inflation risk in the broader U.S. economy, the U.S. Federal Reserve has been steadily increasing its benchmark interest rate since March 2022 and has signaled that additional rate increases will continue in 2023. It is possible that increases in interest rates may ultimately result in an economic recession, which could have a material adverse impact on our business. Adverse economic conditions resulting from inflationary pressures, U.S. Federal Reserve actions, geopolitical issues or otherwise are difficult to predict and may have a material adverse impact on our business, results of operations and financial condition.

**Terrorist attacks and threats of war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways.**

The impacts of war and other geopolitical events, including but not limited to Russia's invasion of Ukraine and Hamas' attack on Israel and the resulting war, are difficult to predict. The resulting geopolitical uncertainty are likely to have a significant impact on the European Union, the United Kingdom and other countries, including the U.S. The threat that these military operations may expand beyond Ukraine, Israel, and the Gaza Strip may have a negative impact as well. Significant increases in the price of oil and natural gas have occurred and are likely to continue putting additional inflationary pressures on central banks, including Federal Reserve System (the "FRB"). It is expected that interest rate hikes already announced by the FRB will continue to occur in 2023, but the amount, timing, and frequency of such increases are not fully known at this time. As a result of these conflicts, the threat of cyberattacks has increased which could affect banks in the U.S. and their customers. Additionally, the United States and European nations have imposed very significant financial sanctions on the Russian Federation, including targeted sanctions on Russian banks and wealthy individuals as well as halting certification of the Nord Stream 2 gas pipeline. They have denied Russian banks access to the Society for Worldwide Interbank Financial Telecommunications or SWIFT which is expected to slow international trade and make such transactions costlier to accomplish which could also negatively affect banks in the U.S. and their customers. In response to the Russian military actions, many businesses headquartered in the Eurozone and the United States have stopped doing business with Russia, which may negatively affect the profitability of those companies. The international turmoil has already had and may continue to have a negative impact on the stock market generally and, in turn, on our stock price.

The continuation or escalation of events like the war in Russia-Ukraine war or the Hamas-Israel conflict may also disrupt business operations of our suppliers and/or customers, causing supply chain constraints or delayed spending by our customers. The full impact of the such events are not known at this time, but they could have a material adverse impact on our business, financial condition, results of operations, and stock price.

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

We have incurred significant losses in the past. For the quarter ended September 30, 2023, we incurred net loss of approximately \$1,844. For the years ended December 31, 2022 and 2021, we incurred consolidated net losses of approximately \$5,584 and \$1,414, respectively. We may incur net and gross losses in the future. We expect to rely on cash on hand, cash, if any, generated from our operations, borrowing availability under our line of credit and proceeds from our future financing activities, if any, to fund all of the cash requirements of our business. Additional losses may hamper our operations and impede us from expanding our business.

**We are dependent on, and derive substantially all of our revenue from, sales of our DC base power systems to one customer 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 one customer within the telecommunications market, AT&T. The volume of sales to them may vary significantly from year to year. Any factor adversely affecting sales of these power systems to this customer 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.

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

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

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

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

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

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

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

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

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

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

COVID-19 caused significant supply chain disruptions delaying the availability of key components used in our production. The standard leadtimes to source certain materials extended significantly. For example, leadtimes on certain engines prior to the pandemic was six months. After the pandemic, the leadtime to source such engines extended to twelve months. We believe it is important to carry high levels of inventory to provide just-in-time delivery of our product to customers. Therefore, we maintain high levels of inventory. As a result, we face a high level of inventory risk and may be required to write-off inventory in the future if our estimates regarding net realizable value are inaccurate, including our estimates regarding our inventory, or changes in customer demand for our products in an unforeseen manner, we may experience additional write-downs of our inventory.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have established relationships with third party engine suppliers and other key suppliers from which we source components for our power systems. We purchase standard configurations of engines for our DC power systems and are substantially dependent on timely supply from our key engine suppliers, Yanmar Engines Company (“Yanmar”), Toyota Corporation (“Toyota”), and Perkins Engines Company Limited (“Perkins”). Engines from Yanmar, Toyota, and Perkins represented 84%, 5%, and 11% of our total engines sold as a component of our DC power systems during the three months ended September 30, 2023, respectively, and represented approximately 13%, nil, and 55% of our total engines sold as components of our DC power systems during the same period in 2022, respectively. Engines from Yanmar, Toyota, and Perkins represented 58%, 1%, and 32% of our total engines sold as a component of our DC power systems during the nine months ended September 30, 2023, respectively, and represented approximately 68%, nil, and 15% of our total engines sold as components of our DC power systems during the same period in 2022, respectively. We also use engines from Isuzu, Kubota and, to a lesser extent, Volvo Penta. In March 2022, we received EPA certification on our 4Y Toyota engine, which is a larger engine model for use on our 20 to 30 kW DC power systems. We do not have any long-term contracts or commitments with any of these suppliers. If any of these engine suppliers were to fail to provide emissions certified engines in a timely manner or fail to supply engines that meet our quality, quantity or cost requirements, or were to discontinue manufacturing any engines we source from them or discontinue providing any of these engines to us, or the supply chain is interrupted or delayed as a result of the COVID-19 pandemic or unprecedented event, and we were unable to obtain substitute sources in a timely manner or on terms acceptable to us, our ability to manufacture our products could be materially adversely affected.

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

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

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

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

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

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

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

Our operations require raw materials, such as aluminum, copper and permanent magnets. Commodities such as aluminum and copper are known to have significant price volatility based on global economic conditions. An increase in global economic outlook may result in significant price increases in the cost of our raw materials. In addition, we use Neodymium permanent magnets in our alternators, for which there are a limited number of global suppliers that can meet our standards. Increase in manufacturing of electric vehicles worldwide can have 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 two production facilities located in Gardena, California. Any prolonged disruption in the operations of our manufacturing and assembly facilities, whether due to the COVID-19 pandemic, equipment or information technology infrastructure failure, labor difficulties, destruction of or damage to one or both of these facilities as a result of an earthquake, fire, flood, other catastrophes, and other operational problems would result in a decline in our sales and profitability. In the event of a business interruption at our facilities, we may be unable to shift manufacturing and assembly capabilities to alternate locations, accept materials from suppliers or meet customer shipment needs, among other severe consequences. Such an event could have a material and adverse impact on our financial condition and results of our operations.

**Our business operations are subject to substantial government regulation.**

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

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

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

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

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

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

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

In addition to our sales to customers within the U.S., we may become increasingly dependent on sales to customers outside the U.S. as we pursue expanding our business with customers worldwide. During the three months ended September 30, 2023 and 2022, our sales to international customers accounted for 1% and 7%, respectively, of total revenue. During the nine months ended September 30, 2023 and 2022, our sales to international customers accounted for 24% and 2%, respectively, of total revenue. We continue to expect that a significant portion of our future revenues will be from international sales to customers in less developed or developing countries. As a result, the occurrence of any international, political, economic, or geographic event could result in a significant decline in revenue. There are significant risks associated with conducting operations internationally, requiring significant financial commitments to support such operations. These operations present a number of challenges including oversight of daily operating practices in each location, handling employee benefits and employee behavior. In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the FCPA, and other local laws prohibiting corrupt payments to governmental officials, and anti-competition regulations, among others.

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

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

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

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

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

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

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

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

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

**Risks Related to Our Intellectual Property**

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

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

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

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

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

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

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

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

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

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

#### **Risks Related to Our Common Stock**

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

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

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

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

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

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

Our Chairman, President, Chief Executive Officer and Secretary, Arthur D. Sams, beneficially owns approximately 43.4% of our outstanding shares of common stock. Mr. Sams therefore has significant influence over management and significant control over matters requiring stockholder approval, including the annual election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. This concentrated control may limit stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our common stock could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

We elected in our certificate of incorporation to not be subject to the provisions of Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns (or, in certain cases, within three years prior, did own) 15% or more of the corporation’s voting stock. Our decision not to be subject to Section 203 will allow, for example, Arthur D. Sams, our Chairman, President, Chief Executive Officer and Secretary (who beneficially owns approximately 43.4% 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 the Exchange Act. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

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

**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 a “non-accelerated filer” under SEC rules, 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. 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 or the exercise of rights to purchase common stock pursuant to our equity incentive plan could result in additional dilution of the percentage ownership of our stockholders, could cause our share price to fall and could restrict our operations.**

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

Under our 2016 Omnibus Stock Incentive Plan, as amended, or 2016 Plan, we may grant equity awards covering up to 1,754,385 shares of our common stock. As of September 30, 2023, we had granted options to purchase an aggregate of 140,000 shares of common stock and issued 161,347 shares of common stock as stock-based compensation to officers, employees and consultants under the 2016 Plan. We have registered 1,754,385 shares of common stock available for issuance under our 2016 Plan. Sales of shares issued upon exercise of options or granted under our 2016 Plan may result in material dilution to our existing stockholders, which could cause our share price to fall.

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

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

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

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

**ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

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.

40

---

## INDEX TO EXHIBITS

Exhibit Number	Description
31.1	<a href="#">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</a>
31.2	<a href="#">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</a>
32.1	<a href="#">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</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

41

## SIGNATURES

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

Date: November 14, 2023

**POLAR POWER, INC.**

By: /s/ Arthur D. Sams

Arthur D. Sams

President, Chief Executive Officer and Secretary

42

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: **November 14, 2023** May 15, 2024

*/s/ Arthur D. Sams*

Arthur D. Sams

President, Chief Executive Officer and Secretary  
(Principal Executive Officer)

---

**Exhibit 31.2**

**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: **November 14, 2023** May 15, 2024

*/s/ Luis Zavala*

Luis Zavala  
Chief Financial Officer  
(Principal Financial Officer)

---

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Polar Power, Inc. (the "Company") for the quarterly period ended **September 30, 2023** **March 31, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify in their capacities as the Chief Executive Officer and the Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: **November 14, 2023** May 15, 2024

*/s/ Arthur D. Sams*

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

*/s/ Luis Zavala*

Luis Zavala  
Chief Financial Officer  
(Principal Financial Officer)

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

---

## DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.