

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**ADOMANI, INC.**

**Form: 10-K**

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

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: 001-38078

**ADOMANI, INC.**

(Name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**46-0774222**

(I.R.S. Employer  
Identification No.)

**4740 Green River Road, Suite 106  
Corona, California 92880**

(Address of principal executive offices, including zip code)

Registrant's telephone number including area code: **(951) 407-9860**

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

**Common Stock, \$0.00001 par value**

Title of class

**OTC Markets Group Inc.**

Name of exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing price reported by the Nasdaq Capital Market on June 28, 2019, was approximately \$21.1 million.

As of March 2, 2020, 73,230,362 shares of the registrant's common stock were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information that is required to be included in Part III of this Annual Report on Form 10-K is incorporated by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed by the registrant within 120 days of December 31, 2019. Only those portions of any such definitive proxy statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Annual Report”), contains “forward-looking statements” that involve substantial risks and uncertainties. Forward-looking statements relate to future events or our future financial performance or condition and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievement to differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “should,” “will” and “would” or the negatives of these terms or other comparable terminology.

You should not place undue reliance on forward-looking statements. The cautionary statements set forth in this Annual Report, including in “Risk Factors” and elsewhere, identify important factors which you should consider in evaluating our forward-looking statements. These factors include, among other things:

- Our ability to generate demand for our zero-emission commercial fleet vehicles, re-power conversion kits, and drivetrain systems in order to generate revenue.
- Our dependence upon external sources for the financing of our operations.
- Our ability to effectively execute our business plan.
- Our ability and our suppliers’ ability to scale our zero-emission products assembling and converting processes effectively and quickly from low volume production to high volume production.
- Our ability to manage our expansion, growth and operating expenses and reduce and adequately control the costs and expenses associated with operating our business.
- Our ability to obtain, retain and grow our customers.
- Our ability to enter into, sustain and renew strategic relationships on favorable terms.
- Our ability to achieve and sustain profitability.
- Our ability to evaluate and measure our current business and future prospects.
- Our ability to compete and succeed in a highly competitive and evolving industry.
- Our ability to respond and adapt to changes in electric vehicle technology; and
- Our ability to protect our intellectual property and to develop, maintain and enhance a strong brand.

You should read this Annual Report and the documents that we reference elsewhere in this Annual Report completely and with the understanding that our actual results may differ materially from what we expect as expressed or implied by our forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 1 (Business) and Item 1A (Risk Factors) of Part I and Item 7 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) of Part II of this Annual Report. In light of the significant risks and uncertainties to which our forward-looking statements are subject, you should not place undue reliance on or regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all. These forward-looking statements represent our estimates and assumptions only as of the date of this Annual Report regardless of the time of delivery of this Annual Report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Annual Report.

Unless expressly indicated or the context requires otherwise, references in this Annual Report to “ADOMANI,” “the Company,” “we,” “our,” and “us” refer to ADOMANI, Inc. and our consolidated subsidiaries, unless the context indicates otherwise.

**Overview**

We are a provider of new purpose-built zero-emission electric vehicles focused on total cost of ownership. The vehicles are manufactured by outside, original equipment manufacturer (“OEM”) partners located in China, Malaysia and the Philippines that can be marketed, sold, warranted and serviced through our developing distribution and service network. We also are a provider of advanced zero-emission electric drivetrain systems for integration in new buses and medium to heavy-duty commercial fleet vehicles. We also provide re-power conversion kits to replace conventional drivetrain systems for combustion powered vehicles with zero-emission electric drivetrain systems. Our vehicles and drivetrain systems are designed to help fleet operators unlock the benefits of technology that reduces greenhouse gases (“GHG”), nitrous oxide (“NOx”), particulate matter (“PM”) and other pollutants, as well as to address the challenges of local, state and federal regulatory compliance and traditional-fuel price cost instability.

Our vehicles and drivetrain systems can include options for telematics for remote monitoring, electric power-export and various levels of grid-connectivity. Our zero-emission products may also grow to include automated charging infrastructure and “intelligent” stationary energy storage that enables fast vehicle charging, emergency back-up facility power, and access to the developing, grid-connected opportunities for the aggregate power available from groups of large battery packs.

For the years ended December 31, 2019 and 2018, our net losses were approximately \$5.2 million and \$11.0 million, respectively .

**Market Overview**

Concerns regarding climate change and other environmental considerations have led to the implementation of laws and regulations that restrict, cap, or tax emissions in the automotive industry and throughout other industries. In particular, Environmental Protection Agency (“EPA”) Tier 4 emission standards, California Air Resources Board (“CARB”) regulations, and recently implemented policies in Europe, generally referred to as Stage I, II, III and IV regulations, require a significant reduction in the level of emissions and particulate matter produced by diesel power systems and are increasing the costs associated with producing carbon-intensive fuels. In December 2019, the Verkhovna Rada of Ukraine decreed a number of changes to current law, including, among others, that the transition to electric road transport must be accomplished by January 1, 2030. They also introduced a measure to consider lending and insurance assistance for implementing the transition from combustion-fueled vehicles to electric vehicles. On June 28, 2018, China officially released the China VI emission standard for new heavy-duty vehicles, which is equivalent to, or in some respects even more stringent than, the Euro VI emission standard. The China VI standard intends to force diesel particulate filters on all new diesel heavy-duty vehicles introduced to the market after July 2021. If effectively implemented, it will transition all new heavy-duty vehicles in China to soot-free emission levels. In February 2018, the Mexican government announced a new policy that focused on reducing air pollution, improving public health and ultimately saving lives. This policy included the first soot-free standard adopted in Latin America, which required that all heavy-duty vehicles sold in Mexico meet the highest filter-based standards that are currently in place in other countries like the United States, Canada and much of the European Union.

These regulations are expected to increase both the cost and size of emission-compliant diesel power products, primarily due to the need to incorporate additional combustion and after-treatment components. A variety of market factors are contributing to the increased use of alternative fuels and growth of alternative fuel technology, including economics, energy independence, environmental concerns, and the widespread availability of alternative fuels. As the price of crude oil remains volatile and the threats of climate change and air pollution increase as public concerns, we believe the search for more cost effective and cleaner fuels has become more important. Electricity has emerged as a cleaner-fuel solution to these challenges. The price of alternative fuels such as electricity is often substantially less than diesel or gasoline, and alternative fuels can result in the production of lower amounts of greenhouse gases and other air pollutants. In addition, several public utilities in California and elsewhere have applied to their states’ public utilities commissions (“PUCs”) for rate increases to be used for the purchase or leasing of electric vehicles and infrastructure. Additional requests have been made by the utilities to offer favorable costs for electric bus

charging. In fact, three states (California, New York and New Jersey) are expected to spend \$1.3 billion to build electric vehicle charging.

According to the International Energy Agency ("IEA"), the world's fleet of electric vehicles grew 54% to about 3.1 million in 2017, and the IEA forecasts electric vehicles will grow from 3 million to 125 million by 2030, with government policy being the linchpin for electric vehicle adoption.

Based on the IEA's view, we believe that existing policies will make China and Europe the biggest adopters. In China, we anticipate that credits and subsidies will help electric vehicles grow to account for more than a quarter of the car market by 2030. Meanwhile, we believe that tightening emissions standards and high fuel taxes in Europe will result in substantial increases in the market share of electric vehicles. However, despite increasing market penetration in places like California and other states that have adopted zero-emission plans, reduced taxes on fuels and the current administration's stated intentions to scale back vehicle emissions standards could suppress growth. Notwithstanding, new electric car sales in China grew by 72%, or 580,000 units, in 2017, which increased total ownership to over 1 million vehicles. Further, according to the IEA, China is also driving growth in electric buses and two-wheeled vehicles, and accounts for about 99% of the world's stock of the fast-growing categories.

In the United States, through September 2019, 236,067 new electric vehicles were registered in the United States, compared to 234,745 for the corresponding period in 2018, an increase of 0.6%, and more than double the sales from just 4 years ago.

The overall market for electric vehicles consists of multiple, discrete markets for various vehicle types, including passenger cars, buses, two-wheelers and others. Passenger cars are the most prominent, but two-wheelers are far more prevalent, particularly in Asia, and buses and trucks, although smaller in number, are significantly higher in price and often purchased in bulk by major corporate customers or government or transit agencies. Because light duty passenger vehicles represent the largest potential market and have received the most attention from both analysts and policymakers, most global forecasts look at light duty electric vehicle sales.

Charging infrastructure is another important factor in electric vehicle adoption rates. As of May 2019, there were more than 68,800 Level 2 and DC fast charging units throughout the United States. Of that total, 16%, or approximately 10,860 units, were DC fast chargers that make long-distance travel more practical for electric vehicles (EV). A DC fast charger adds 60 to 80 miles of range per 20 minutes of charging, while a Level 2 charger adds 10 to 20 miles of range per one hour of charging. California has the most EV charging units of any state at 22,620, which represents about a third of the nationwide total; however, there are 18 other states that have more than 1,000 Level 2 and DC fast charging units, combined. Counts include both public and non-residential private charging units. A charging unit refers to a single charge point. An EV charging station may have multiple units.

As of May 2019, the United States Department of Energy ("DOE") reported that the U.S. now has over 20,000 electric car charging stations with more than 68,800 Level 2 and DC Fast Charging connectors. Of the 68,800 connectors, approximately 10,860 units were DC Fast Chargers designed to make long-distance travel more practical for EV's. They define a "station" as a non-residential address where Electric Vehicle Supply Equipment ("EVSE") is located, including both public and private stations, some of which may include several charging outlets per station. Over 60% of those charging stations are maintained by four networks: ChargePoint, Tesla, Blink, and SemaCharge. Level 2 charging stations can be used residentially or commercially to provide electricity faster than a standard 120-volt outlet. ChargePoint has the largest number of non-residential Level 2 charging stations, followed by Tesla. DC Fast Charging stations allow for long distance travel of electric vehicles by providing quick recharge rates along highways and well-traveled corridors between metropolitan areas. The eVgo Network has the largest number of DC Fast Charging stations, followed by Tesla with its SuperCharger network. Some geographic areas have considerably more charging stations than others, contributing to greater electric vehicle usage in those regions.

### **Commercial Vehicles**

As relatively simple as the pricing analysis is for individual consumers, the purchase and deployment of heavy duty commercial vehicles involves consideration of many more variables. Here, the type of customer is a major determinant, whether it is a commercial customer buying trucks for a fleet, a school district, or a municipal entity purchasing buses for public use. Navigant Research forecasts global sales of electric drive and electric-assisted medium and heavy duty commercial vehicles (over 10,000 gross vehicle weight rating ("GVWR")) to grow from 16,000 in 2014 to almost 160,000 in 2023, for total sales of over 800,000 of such vehicles during the period. Navigant Research expects the electric vehicle market share to increase from 0.4% to 2.9% of all medium and heavy-duty commercial vehicle sales over the same period.

## *Environmental Benefits*

Because heavy-duty commercial vehicles consume considerably more fuel than light duty passenger vehicles, the environmental benefits of replacing conventionally fueled commercial vehicles with electric vehicles can also be substantial. Whereas an electric passenger car may reduce greenhouse gas ("GHG") emissions by 3 tons per year as compared to a conventional car, replacing a conventional Class 8 port drayage truck with an electric equivalent can bring an 18 metric ton annual reduction in GHG emissions. Replacing a conventional diesel bus with an all-electric bus can achieve a 78 metric ton (approximately 171,961 pounds) reduction in GHG emissions. Electric buses can also reduce nitrous oxide emissions by 47 kg (approximately 104 pounds) per year compared to a diesel bus and 19 kg (approximately 42 pounds) compared to a clean natural gas ("CNG") bus. As discussed below, we believe these pollution reductions have had the greatest impact in the electric bus market, where municipalities are the principal purchasers.

A first-of-kind, comprehensive study was released in December 2019 assessing the environmental benefits and economics of various alternative fuel truck technologies. The study, conducted by the international research firm ICF, demonstrates that electric trucks and buses are a triple-win in terms of helping meet California's climate and air quality targets; the least cost to own and operate across nearly all truck and bus classes by 2030; and provide the greatest job and economic benefits to the state. The study was commissioned by NRDC and the California Electric Transportation Coalition (an industry group representing utilities and vehicle manufacturers) and was sponsored by the Union of Concerned Scientists, Earthjustice, BYD, Ceres, and NextGen Climate America. Advisory support was provided by East Yard Communities for Environmental Justice and University of California, Davis.

## *Electricity Cost Considerations*

Despite the higher electricity consumption of electric trucks, more widespread adoption could lead to more efficient utilization of utility and power generation assets and thus not necessarily lead to higher rates. At this point, deployment of electric trucks and buses is still too small to assess their full impact on electricity prices. As a study by the clean transportation nonprofit CALSTART emphasizes, evaluating this impact will involve weighing potential efficiency benefits, the impact on utility distribution grids, including the cost of potential upgrades, and the need for additional infrastructure. In this regard, several public utilities have applied to their state's PUCs for rate increases to be used for the purchase or leasing of electric vehicles and infrastructure. Additional requests have been made by the utilities to offer favorable costs for electric school bus charging.

## *Trucks*

Some of the main markets for electric trucks include delivery vans, shuttle buses, and utility or work trucks, each of which has its own set of challenges. Where PHEVs (Plug-In Hybrid Electric Vehicle) have greater operational flexibility, and require less charging infrastructure, BEVs (Battery Electric Vehicle) can be either short range, which can charge quickly and operate with limited interruption, or long range, requiring longer charging times but more intraday operational flexibility.

Because of charging needs and restrictions, we believe short-haul fleet vehicles that operate in a limited geographic area and return to central locations, such as delivery vans and shuttle buses, are the best candidates for electrification.

## *Transit Buses*

Some public transportation operators are facing pressure to purchase and operate low-emissions vehicles. For public entities, cleaner transportation systems can provide benefits beyond reduced operating costs, in the form of less pollution and lower abatement and cleanup costs. Electric transit buses are likely to have lower fuel and maintenance costs, typically a large cost area for transit operators, compared to conventional diesel buses. Electric buses generally have smoother, faster acceleration and provide a quieter ride, benefiting both passengers and the surrounding urban environment.

Similar to other commercial fleet electric vehicles, transit buses have a higher initial acquisition cost than their traditional-fueled counterparts, and the logistics of charging remains a challenge. Electric buses can be anywhere from two to nearly five times as expensive as conventional buses.

In addition to the public health and environmental benefits, school districts and transit agencies also see cost savings due to the reduced fuel and maintenance costs of electric buses. While electric transit buses cost approximately \$200,000 more than diesel buses (depending on battery pack size) before incentives, lifetime fuel and maintenance savings of electric transit buses are around \$400,000. And while electric school buses cost around \$120,000 more than diesel school buses before incentives, lifetime fuel and maintenance savings of electric school buses are around \$170,000 .

Electrification in the medium- and heavy-duty vehicle sector is increasing in the United States with California leading the way. Increasing investment in the sector from public and private sources, however, is expected to generate growth and significantly increase the number of electric trucks and buses on the road in the near term. Upfront costs associated with electric trucks and buses are expected to decline significantly through 2030 as battery prices fall, making them competitive on a total cost of ownership (TCO) basis.

#### *School Buses*

School buses present another significant potential market for electrification. The United States has approximately 480,000 school buses in service that are particularly suited to running solely on electricity. Traditional diesel school buses, which make up over half the total fleet, not only consume large amounts of fuel—more than 800 million gallons of diesel a year in the United States, at a fuel economy of only 4–5 mpg—but also directly impact children with tailpipe emissions. In response, a number of states have included school buses in clean transportation mandates, and some school districts, notably in California and Illinois, have begun to replace diesel buses with electric. Incentive programs to help fund the purchase of electric school buses in the United States are significant.

#### **Market Drivers**

A number of factors, including the general world-wide desire to improve the health of people, impact both the supply and demand for various types of electric vehicles and we believe that we are well positioned to benefit as a result of these driving forces. Except for energy storage technologies, discussed earlier, subsequent sections will address these market drivers in greater detail.

We believe prominent drivers of supply include:

- The declining cost and higher availability of energy storage technologies, specifically the cost and capacity of rechargeable lithium-ion batteries;
- Grants, loans, tax breaks, and other financial support available for energy storage and electric vehicle research and development;
- Requirements that a specific percentage of automakers' models be electric or other zero-emission vehicles; and
- Fuel economy standards that require automakers to meet certain fleet-wide miles per gallon benchmarks that effectively require them to sell electric zero-emission vehicles.

We believe prominent drivers of demand include:

- Mandates that government fleets purchase certain percentages of low emission, energy efficient, or other alternative fuel vehicles;
- Mandates for transport agencies, ports or school districts to purchase or convert to electric or other alternative fuel vehicles;
- Rebates, tax credits, and other incentives for purchasing or leasing electric or other alternative fuel vehicles;

- The availability of charging stations and other charging infrastructure, driven in turn by government funding, tax credits, rebates, and other incentives and regulatory initiatives aimed at increasing the number of charging stations;
- The desire of state agencies to deploy electric vehicles to reduce the effects of Climate Change and to reduce the impact of pollutants on the health and well-being of its population;
- The cost of electricity to recharge plug-in electric vehicles, impacted by special rates introduced by utilities;
- Preferential treatment in registration, emissions testing, and access to highways, city centers, and HOV lanes; and
- The cost of traditional petroleum-based fuels compared to the resultant incremental costs of owning and operating an electric vehicle.

### United States—Federal Laws and Incentives

As numerous as U.S. policies at the state and federal levels may at first appear, unlike in China and many European nations, few federal and state policies directly single out electric vehicles. More broadly, federal U.S. policies encourage greater use of vehicles that run on some kind of alternative fuel, whether electricity, natural gas, hydrogen, biodiesel or ethanol. In addition, the U.S. federal government has less of a comprehensive, coherent framework aimed at increasing electric vehicle use than do countries like China and many European nations.

### United States—State Laws and Incentives

Among U.S. states, California is notable for pioneering a number of measures that have encouraged electric vehicle production and adoption, often later copied by other jurisdictions. These include financial incentives like tax credits and rebates for both individual and fleet owners, HOV lane access, and various grant and loan programs. Besides setting the nation's most stringent tailpipe emissions standards, California has required automakers to produce increasing percentages of zero-emission vehicles, of which electric vehicles make up a significant portion, along with creating a market that allows manufacturers to buy and sell credits awarded for selling electric vehicles. California has also authorized funding for the purchase of new school buses or retrofit of existing buses to accomplish the primary goal of reducing children's exposure to both cancer-causing and smog-forming pollutants. The purchase of new buses is also permitted for fleet expansion as well. See "—Governmental Programs and Incentives" for an additional discussion of certain relevant incentive programs.

### Fleet Operator Challenges

Fleet operators and their companies face a number of challenges in the market today, including:

- ***Difficulty complying with existing and new federal and state emission restrictions and compliance requirements*** . Federal regulatory agencies, such as the EPA, and state regulatory agencies, such as CARB, have set forth mandates designed to reduce emissions from mobile sources. According to CARB, 12 other states and the District of Columbia have adopted California's greenhouse gas emissions standards for vehicles.
- ***Finding cost savings while managing high fuel, maintenance and repair costs*** . The federal Global Warming Pollution Reduction Act of 2007 set strict air quality standards for particulate matter, nitrous oxide and GHG reductions from new manufactured vehicles which were further tightened in 2010 to further reduce the amounts of particulate matter, nitrous oxide and GHG emitted by newly manufactured vehicles.
- ***Extending the lives of existing vehicles***. Due to reductions in capital expenditure budgets and the legislatively mandated addition of expensive and limiting emission reduction equipment, it is challenging to prolong the lives of existing vehicles because of the increased cost of expensive maintenance, service and repairs.
- ***Difficulty planning for the operation of their fleet when fuel supplies are interrupted, such as during a natural disaster*** . Existing vehicles rely on fuel that must be pumped (using electricity), which may be a challenge to source when supply is interrupted during natural or man-made disasters. It may be

possible for emergency service organizations to use the large battery packs of electric drive, commercial fleet vehicles as a mobile source of stored electrical energy. This electrical energy could supplement traditionally fueled back-up generators.

- **Difficulty in improving the environment around these heavy-duty commercial fleets**. Many studies have shown that the air quality in and around vehicles fueled by fossil fuels poses a health risk not only to drivers of these vehicles but to their passengers and those in and around these vehicles. Especially at risk are children as passengers on older diesel fueled buses, as their lungs, brains and other organs have not fully developed and the air quality surrounding a typical school bus using diesel fuel can pose serious health risks. By using zero-emission buses, trucks and cars, we believe we are creating a healthier environment in and around the vehicles they operate for their employees, customers and the communities they serve. In January 2017 (updated in June 2018), the Office of Environmental Health Hazard Assessment, on behalf of the California Environmental Protection Agency, released Version 3.0 of the California Communities Environmental Health Screening Tool (“CalEnviroScreen”). CalEnviroScreen identifies California communities by census tract that are disproportionately burdened by, and vulnerable to, multiple sources of pollution.

## Our Solution

We are a provider of new purpose-built zero-emission electric vehicles focused on total cost of ownership. The vehicles are manufactured by outside, original equipment manufacturer (“OEM”) partners located in China, Malaysia and the Philippines that can be marketed, sold, warranted and serviced through our developing distribution and service network. We also are a provider of advanced zero-emission electric drivetrain systems for integration in new buses and medium to heavy-duty commercial fleet vehicles. We also provide re-power conversion kits to replace conventional drivetrain systems for combustion powered vehicles with zero-emission electric drivetrain systems. Our vehicles and drivetrain systems are designed to help fleet operators unlock the benefits of technology that reduces greenhouse gases (“GHG”), nitrous oxide (“NOx”), particulate matter (“PM”) and other pollutants, as well as to address the challenges of local, state and federal regulatory compliance and traditional-fuel price cost instability. As of December 31, 2019, we had a backlog of one zero-emission electric school bus, 10 zero-emission cargo vans, 11 zero-emission Class 4 trucks, one ICE powered prison transport bus conversion to a zero-emission all electric bus, and 50 e-trikes, which consists of unfilled firm orders for products under signed contracts with customers.

We seek to enable our customers to:

- **Add Emission-Compliant Vehicles and Drivetrain Systems to Their Fleets**. Our commercial fleet vehicles and drivetrain systems are designed to reduce or eliminate the use of traditional petroleum-based fuels that create greenhouse gases and particulate matter.
- **Reduce Total Cost of Ownership**. Our technology is designed to reduce fuel budgets and maintenance costs by eliminating or reducing the reliance on traditional petroleum-based fuels, instead using the more energy efficient and less variably priced grid-provided electricity.
- **Prolong Lives of Existing Vehicles**. Zero-emission electric vehicles generally have lower maintenance costs. These reduced maintenance costs may take the form of longer service intervals between brake system maintenance, elimination of internal combustion engine oil and oil filter changes, reduction or elimination of transmission oil and oil filter changes, reduction or elimination of air filter changes, elimination of emissions systems services, elimination of diesel emission fluid use, elimination of emissions tests on traditional fuel vehicles (if converted to a zero-emission electric drivetrain system) and the elimination of certification tests of high pressure tanks on propane, liquefied natural gas and compressed natural gas powered vehicles (if converted to a zero-emission electric drivetrain system).
- **Plan for Natural Disasters When Fuel Supply May be Interrupted**. Our zero-emissions systems are designed, when optionally equipped, to serve as on-site emergency back-up energy storage if grid power becomes intermittent or fails temporarily during natural or man-made disasters.

- **Improve the Environment Around Vehicles.** As a result of our zero-emission systems, drivers, operators, customers and the communities they serve could have healthier environments in and around these vehicles.

## Development of the Business to Date

We have taken an active role in building awareness and support for our zero-emission electric vehicles and drivetrain systems in industry specific target groups and at all levels of government and regulatory agencies and the constituencies they serve. We initially accomplished this through our participation with Blue Bird Corporation (“Blue Bird”) in its DOE grant program to accelerate the adoption of advanced and alternative fuel vehicles. We have also maintained prior and current memberships in industry groups (private and governmental) and participate in their events; speaking engagements; management interviews; pilot product exhibits; fleet vehicle demonstrations and responses to requests for information and requests for proposals. We regularly engage with electric utility companies across the United States to build awareness of the medium to heavy-duty electric vehicles we currently offer and how their greater adoption could positively increase their customers’ electricity usage.

As discussed below under the section entitled “—Partnerships/Teaming Agreements”, we have entered into a number of agreements with third parties and continue to explore additional alliances, and to establish our decentralized assembly, sales and service model. We believe we can preserve cash resources while scaling up quickly when demand requires by leveraging the unused or underutilized service technician time, specific vehicle type expertise and service facility equipment of specific partners in ways to off-load some defined tasks, providing seasonal demand adjustments to technician headcount that will partially mitigate the human resource costs and challenges associated with scaling-up or down an employee base.

## Our Strengths

We believe the following attributes and capabilities provide us with long-term competitive advantages:

- **Product Diversity.** We have multiple product offerings, including zero-emission electric new purpose-built vehicles and drivetrain systems for new vehicles or to re-power existing commercial fleet vehicles, and, as a result, the ability to scale-up, scale-down or refine a specific product line in response to market demands and the evolving local, state and federal regulatory and incentive programs. Also, within each product area, we have multiple suppliers of key vehicle and drivetrain system components, allowing price flexibility both for our final products and replacement parts required over the product lifespan. This allows us to meet the expectations and budget constraints of public or private commercial fleet operators.
- **Regulatory Agency Familiarity.** By taking an active role in many trade industry groups and related events, we have developed and continually strive to maintain strong relationships with key local, state and federal regulatory agencies involved in the growing zero-emission vehicle industry. To meet their own aggressive emissions targets, these regulatory agencies have encouraged the growth of zero-emission electric vehicles and drivetrain systems, especially in connection with heavy-duty commercial fleets.
- **Relationships With Purchasers.** To help shorten the sales cycles for our products, we have identified and built relationships with key commercial operators that have purchasing authority or influence over their organizations. We are also able to leverage past sales and marketing relationships that were built by our experienced management team.
- **Additional Sales Potential.** We have additional sales potential with commercial fleet customers. These potential additional sales could include: automated charging infrastructure, intelligent stationary energy storage systems that enable higher levels of vehicle fast-charging, emergency back-up facility power for use during grid power outages, enabling technologies to access the developing grid-connected opportunities for the aggregate power available from groups of large battery packs, or enabling technologies that allow for the avoidance of electric utility demand charges.
- **Unique Market Knowledge.** We have specific and tailored sales cycle knowledge based on the over 30 years of experience of our management team.

We intend to capitalize on these opportunities by pursuing the following key strategies:

- **Develop Sales Staff.** We currently employ an experienced sales staff and industry consultants with ties to trucking fleet, county and city transportation managers, as well as school districts and an extensive dealer network. In 2019, we hired additional sales staff to augment our current personnel, and most likely will add more in 2020. We expect to be able to train these new additions in the electric vehicle differences, benefits, and opportunities for fleet expansion to help our current and future customer base.
- **Build Dealership Networks.** We intend to build dealership networks for the local sales and service of our zero-emission new purpose-built zero-emission electric commercial vehicles either manufactured by or for us, and to service any vehicles that we have converted to all-electric operation. As an example, we recently announced an agreement with Central States Bus Sales Inc. ("Central States") for warranty and maintenance services for our electric vehicles sold within the extensive Central States' Midwest service area. We also recently announced the opening of a new operations facility in Corona, California. that will also provide such warranty and maintenance services. ADOMANI ZEV Sales is a wholly owned subsidiary of ADOMANI, and is a licensed vehicle dealer in California.
- **Develop Third Party Relationships.** We plan to complete existing negotiations with partners and seek additional partners for the manufacture of our zero-emission systems.
- **Provide Demonstrations.** We will seek out and respond to local, state and federal pilot demonstration opportunities in interest areas for which we have relevant current product offerings or in areas of interest that are congruent with product(s) that are on our product development roadmap but still in early stage development. In 2019 we participated in multiple ride-and-drive events across the United States and Canada that demonstrated our new product offerings, which consist of logistic vans, and Class 3, 4, and 5 trucks and chassis.
- **Obtain Approvals From Incentive Programs.** We will seek to have our products approved for various local, state and federal vehicle designations and incentive programs, like the California Hybrid Voucher Incentive Program administered by CARB, meant to accelerate the purchase of cleaner, more efficient trucks and buses in California. The drivetrain systems we have provided to Blue Bird are approved for voucher programs in California and New York.
- **Grow Our Manufacturing, Installation and Service Capability .** As facility space and technician time requirements at partners are exceeded, we intend to expand or relocate to larger owned or leased facilities dedicated to the manufacture, installation and service of our zero-emission vehicles and drivetrain systems. For example, we recently leased a facility in Corona, California to support this activity.
- **Technical Support.** In addition to the technical support we currently provide to our customers, we have assisted in the creation of operator and service manuals, in-field training material, the handling of service inquiries and on-site maintenance technician training. With the introduction of our new, purpose-built electric vehicles, we anticipate adding additional technicians in 2020 to expand our resources for supporting the maintenance, warranty work or repairs that any vehicle we have sold or that contains our vehicles may require.
- **Introduce New Products.** As new markets develop, we plan to expand our zero-emission vehicles and systems into ancillary product verticals, such as charging infrastructure (also called Electric Vehicle Service Equipment), stationary energy storage, vehicle-to-grid hardware and capabilities.
- **Develop Our International Business.** We plan to develop our business internationally. For example, we intend to pursue future opportunities in China, which we believe is an important market for us due in part to its publicly announced emphasis on all-electric vehicles and large population. However, we remain in the early stages of the development of our business plan to pursue such opportunities. We are currently selling all-electric e-trikes in the Philippines, where approximately 3.5 million combustion-fueled e-trikes are currently in service. We recently visited Ukraine to discuss establishing a presence in the country to manufacture electric vehicles and components for them as part of Ukraine's push to electrify vehicles. In addition, we are in discussions about similar opportunities in Mexico and in South

## Our Customers

Our current primary focus is Class 3 to Class 5 trucks and cab and chassis, class 3 and 4 cargo vans and cutaways, in addition to Neighborhood Electric Vehicles (“NEVs”) and, in the Philippines, e-trikes. Our target customers primarily include public and private fleet operators that have an interest in meeting or exceeding local, state and federal emission regulatory guidelines while saving money on fuel and maintenance costs over the lifecycle of their fleet vehicles and that also have an interest in tangible demonstrations of their GHG-reducing efforts. These targets include:

- Public and private schools that operate “white fleet” vehicles for non-student transportations use, such as facility service trucks, food service delivery vans/trucks, campus security vehicles and golf cart-type vehicles.
- Commercial fleet operators that provide high daily mileage vehicles for use on routes in and around airports, hotels and offsite parking facilities.
- Last mile delivery companies with fleets of delivery vans, short haul trucks and distribution/sorting facility center vehicles.
- Large agricultural and food processing industry-focused companies that operate Class 1 through 7 trucks, buses and/or delivery vans.
- Public and private transportation services that are involved in prisoner transportation.
- Large companies that operate shuttle buses, transit style buses and facility based vehicles, including on and off road -type vehicles for employee transport to/from remote parking areas, to/from special events and the various vehicles used for facilities maintenance, services and security.
- Private transportation contractors that shuttle large companies’ employees from common public transportation hubs to their campuses.
- Public and private colleges and universities that operate shuttle buses, transit style buses, facility service vans and trucks and utilize golf cart-type vehicles on their campuses.
- Community-based, public/privately funded shuttle buses serving special-needs community members.
- Retirement communities, municipalities, shopping malls, movie studio lots, and large warehouse facilities that currently use golf cart-type vehicles for moving people and goods.
- The current market of approximately 3.5 million e-trike users in the Philippines, most of which currently operate gasoline or diesel-powered vehicles.
- Public and private K-12 schools that operate Type-A, C and D school buses and special-needs student buses.
- Student transportation contractors that serve public and private schools.
- Port, railway and distribution center operators that use traditionally-fueled loading equipment, tractors, material handling equipment, forklifts, Class 1 through 7 trucks, delivery vans, yard goats, etc., that could be replaced with zero-emission alternatives.
- Mining companies with fleets of above ground service vehicles and underground staff transport and support vehicles.
- Oil and gas companies with fleets of field trucks.
- Electric utility companies with fleets of service trucks that are in the public eye.
- Military-based fleet operators that have non-combat fleet vehicles of all sizes.

## Our Products and Services

Our products and services primarily include:

- Purpose-built, zero-emission vehicles or chassis of all sizes manufactured by outside OEM partners but to be marketed, sold, warranted and serviced through the developing ADOMANI distribution and service network.
- Zero-emission electric drivetrain systems for use in new buses and medium to heavy-duty commercial fleet vehicles.
- NEVs that are enclosed vehicles with seatbelts, climate control, fold-down rear seats, windshield wipers, turn signals, a back-up camera, LED/Halogen headlights and LED taillights and storage space for use where golf-cart-type vehicles are currently in uses.
- E-trikes, or three-wheeled all-electric vehicles designed to transport people in crowded municipal areas.
- Optional drivetrain system components that allow for electric power-export and various levels of grid connectivity.

***Purpose-built, zero-emission vehicles or chassis of all sizes manufactured by outside OEM partners but to be marketed, sold, warranted and serviced through the developing ADOMANI distribution and service network.***

Envirotech Drive Systems Incorporated (“Envirotech”), a manufacturer of zero-emission trucks, cargo vans, chassis and other commercial vehicles various sizes, has designed vehicles for us to our specifications where possible. We intend to utilize the services of Envirotech and other OEMs to support our efforts to sell, warranty and supply zero-emission commercial vehicles through our developing ADOMANI distribution and service network.

***Zero-emission electric re-power conversion drivetrain systems for use in existing fleet, school buses and medium to heavy-duty commercial fleet vehicles.***

This drivetrain system process results in the same zero-emission electric vehicle described immediately above. However, this drivetrain system allows for the removal of the OEM’s internal combustion engine (“ICE”), much of the ICE cooling system, fuel tanks, exhaust and emission systems (manifolds, pipes, mufflers, particulate filters, DEF system, etc.) and, typically, the OEM transmission and any associated transmission cooling system.

***Zero-emission electric drivetrain systems for use in new school buses and medium to heavy-duty commercial fleet vehicles.***

This drivetrain system results in a zero-emission electric vehicle with similar performance specifications (except range) to a traditionally fueled version. The major drivetrain system components systems include appropriately sized traction motor/generator(s), motor controller(s) and power-flow set up for either a direct-drive configuration, a single speed gearbox (speed reduction) or, a multi-gear ration transmission system. Other integrated drivetrain system components include lithium-ion battery packs, a battery management system (“BMS”), inverters, chargers, electrically driven systems for power steering and power (hydraulic or air) brakes, a vehicle control unit (“VCU”), wiring harnesses, a flat screen user-interface (dash board) and fleet technician diagnostic tools. Prior to May 31, 2019 and pursuant to our agreement with Blue Bird, we supplied Blue Bird with zero-emission electric drivetrain systems for integration into its Type C and D school buses.

**Industry contacts and experience allow for optional drivetrain system components that allow for electric power-export and various levels of grid connectivity.**

These systems integrate bi-directional changers and inverters and require additional facility-based, stationary charging hardware and control systems.

In addition, our products and services may in the future include some or all of the following:

- Zero-emission electric drivetrain systems for ship-through integration by outside OEMs into their own privately branded medium to heavy-duty commercial fleet vehicles.
- Automated charging infrastructure for commercial fleet vehicles.
- "Intelligent" stationary energy storage that enables fast vehicle charging.
- "Intelligent" stationary energy storage that enables emergency back-up facility power during grid power outages.
- "Intelligent" stationary energy storage that enables access to the developing grid-connected opportunities for the aggregate power available from groups of large battery packs.
- "Intelligent" stationary energy storage that enables avoidance of electric utility demand charges for commercial customers integrated with or independent of ADOMANI-supplied, zero-emission fleet vehicle(s).
- Energy storage systems (battery packs) replacements with better energy density and/or expected lifecycles for existing electric vehicles and equipment that has outlived their OEM-provided energy storage systems. For example, replace flooded lead acid ("FLA") battery packs of existing industrial forklifts and underground mining equipment with more energy dense and higher cycle-life battery packs composed of lithium-ion cells.

**Testing**

Our suppliers are vetted before their products are accepted for use in our products. Our drivetrain systems and finished products are inspected, road-tested (when applicable) and receive quality control testing prior to delivery.

**Customer Service, Support and Training**

The sales team, both direct and contractors, will be used as the first point of customer contact for customer support and training. At the point that the sales force can no longer handle the volume of these requirements, we will hire, train and support an additional internal staff.

**Technology**

Zero-emission electric drivetrain systems for purpose-built new vehicles generally include the following: electric traction motor/generator of sufficient kW power for grade, speed, acceleration and efficiency requirements, a motor controller/inverter system that modulates electrical power flow between the battery packs and traction motor, a gear reduction system or multispeed transmission, systems to electrify power steering/brakes, a VCU, high-voltage traction battery packs with integrated BMS, battery disconnect units, thermal management systems, vehicle charging hardware, electric HVAC systems, DC to DC inverter(s) to reduce traction battery pack voltage sufficient to operate on-board, low voltage systems, wiring harnesses, user/driver interface and remote diagnostic/tracking/fault code/data logging systems. Although clear industry power-export standards have not yet been adopted, systems and options for a variety of vehicle-to-other power management options (such as grid, building, stationary energy storage, etc.) are being developed by multiple vendors and their inclusion may be offered as additional cost options in the future.

Re-power drivetrain systems to convert existing traditionally-fueled fleet vehicles with ICEs to zero-emission operation include many of the same components as described above for purpose-built vehicle systems. For simplicity, cost savings and maintenance technician familiarity, some OEM systems of the subject vehicle may be retained and/or utilized, including cooling systems for the engine and transmission, mounting brackets and bolts,

power steering and brake systems and 12 and/or 24 volt systems and accessories. Items that are typically not retained/repurposed include the OEM internal combustion engine, transmission, liquid or gaseous fuel tanks and exhaust/treatment systems.

## **Sales and Marketing**

### **Sales**

We intend to expand our marketing and sales staff as we open additional sales, service and assembly facilities. We have a team of dedicated marketing and sales employees with responsibility for each of the geographic region we serve. As a result, we believe we can efficiently and cost-effectively build out our marketing and sales network.

### **Marketing**

We plan to focus our marketing efforts on increasing brand awareness, generating demand for our products, communicating product advantages and generating qualified leads for our sales force. We intend to rely on a variety of marketing vehicles, including our website and social media, participation in industry conferences and trade shows, public relations and our collaborative relationships with our business and teaming partners to share our technical message and the benefits of our product offering, with customers.

### **Manufacturing**

We currently contract with third-party suppliers to manufacture our products. In 2020, utilizing our new Corona, California facility, we plan on increasing our integration efforts to include the final assembly of sub-assembly components.

### **Distribution**

We intend to distribute our products both inside and outside of our current U.S. market.

### **Partnerships/Teaming Agreements**

We have agreements with Amperics, Inc., Central States Bus Sales Inc, Envirotech Electric Vehicles Incorporated, and GerWeiss EV USA LLC. None of these agreements contain any binding purchase or sales minimums.

#### ***Amperics, Inc.***

Amperics, Inc., is an energy storage technology innovator, developer and vendor of advanced supercapacitor-based intelligent energy storage solutions. In September 2018, we entered into a non-binding letter of intent with Amperics and made a strategic investment in the company. We initially intend to design and manufacture an uninterruptable power supply product to support a new customer in the Far East. The investment is intended to support product development and manufacture of Amperics product verticals. Since the highest cost components within an electric vehicle drivetrain system or stationary energy storage system are typically the battery packs, we are constantly surveying energy storage options, battery cell chemistry advances and battery vendor offerings to determine how best to balance key attributes such as kilowatt per hour cost, charge/discharge rates, energy density, stability under environmental extremes and degradation over anticipated charge cycles. A beneficial attribute in one area often comes with a corresponding penalty in another. Supercapacitors, in general, are often associated with high power density, very high cycle-life, but lower energy density than traditional lithium-ion or FLA batteries. We believe that the Amperics supercapacitor technology can alter these attributes, exhibiting a unique combination of both high power density and high energy density.

#### ***Central States Bus Sales Inc.***

Central States Bus Sales Inc. ("Central States") in business for 45 years, is the official Blue Bird bus dealership in Illinois, Tennessee, Kentucky, Arkansas and is headquartered in Fenton, Missouri. They are partnered

with many of the best manufacturers and vendors available in the transportation industry to provide dedicated transportation solutions through exceptional service. They sell and service a wide variety of bus manufacturers, and as a result of Blue Bird's sale of electric school buses powered by ADOMANI drivetrain systems, they have qualified EV technicians on staff. We signed an agreement with Central States, and will use them to provide warranty and maintenance services for electric fleet vehicles sold by us in the Central States service areas.

### ***Envirotech Electric Vehicles Incorporated***

Envirotech Electric Vehicles Incorporated ("Envirotech") is a Canadian-based company that is engaged in the design, prototyping and certification of electric components and vehicles, including complete drivetrain systems. We engaged Envirotech to design and build a series of zero-emission electric Class 3 and 6 trucks, cargo vans and chassis built to our specifications and requirements. The vehicles are initially comprised of a cab, chassis and electric drivetrain system. Any customer can then customize the trucks by adding a box or stake bed to the vehicle in accordance with their needs. We received the first truck and cargo van pursuant to our arrangement with Envirotech in December 2018. In 2019, Envirotech received the CARB executive order for certification. We as the dealer for Envirotech, submitted additional information to the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project ("HVIP") Department of CARB and received our HVIP listing in November, 2019, which renders the trucks and vans eligible for buy-down funding based on the GVWR. These buy-down funds are intended to enable companies to purchase zero-emission electric trucks and receive a discount to aid in the purchase. The HVIP buy-down funding is currently between \$50,000 for Class 3 trucks (\$55,000 if used in a disadvantaged area community census tract) and up to \$90,000 for Class 6 trucks (\$100,000 if used in a disadvantaged area community census tract).

### ***GerWeiss EV USA LLC***

GerWeiss EV USA LLC ("GerWeiss") is a manufacturer of zero-emission all-electric vehicles that, to date, has focused on the manufacture of all-electric three-wheeled vehicles in the Philippines. In August 2018, we entered into a non-binding letter of intent with GerWeiss in order to explore, together with Envirotech and Amperics, a collaboration to develop and introduce re-powered zero-emission all-electric transit buses in the Philippines. We are still considering the transit buses and the Amperics technology, but in early 2019, we received a purchase order from GerWeiss for 250 new light-weight, shorter range three-wheelers ("e-trikes") and in order to introduce our products to the Philippine markets quickly, authorized production of the first ten e-trikes, which were delivered in the fourth quarter of 2019.

### **Raw Materials and Supply Chain**

Prices for the systems, components and raw materials we use in our vehicles and drivetrain systems, many of which are OEM items used by many companies in different applications, can fluctuate depending on market conditions and global demand. Our purchase of raw materials is currently limited due to sales volume, but we attempt to limit our exposure to raw material price increases and availability fluctuations by having relationships with a dynamic group of vendors that sell us value-added hardware, components and systems. We have further mitigated these supply chain risks by establishing purchasing relationships with multiple vendors that are diversified by type of product offered, brand of products offered, country of origin of products (which is relevant for "Buy American" provisions that we encounter with our customers), individual specification requirements, purchase quantity requirements, quality, availability and price. Our drivetrain systems allow for component substitution, which further mitigates our exposure to any one supplier or component. We believe that we have adequate supplies and access to the sources of the systems, components and materials to meet our current and anticipated future production and supply requirements.

### **Backlog**

As of December 31, 2019, our backlog consisted of purchase orders for one zero-emission electric school buses, 10 zero-emission trucks, 11 zero-emission cargo vans, one conversion of an ICE powered prison transport bus to a zero-emission all electric bus, and 50 e-trikes for the Philippines. We believe our costs associated with the current backlog will be approximately \$2.6 million and that the sale price of the current backlog will be approximately \$3.1 million.

## **Employees**

As of March 6, 2020, we had 11 full-time employees. None of our employees are covered by collective bargaining agreements and we believe our employee relations are good.

## **Competition**

The electric vehicle market is highly competitive and we expect it to become even more so in the future as additional companies launch competing products and vehicle offerings. We compete with other alternative energy technologies, such as natural gas, propane and hybrid technologies. The electric competitors include Ford, which produces the Ford Transit Connect EV<sup>®</sup> and has made recent statements about producing an electric F-150 pickup truck and has announced production of the Mustang Mach-E SUV; Nissan, which besides the Leaf EV, produces a small electric delivery van called the NV200; Rivian, who intends to introduce the R1T electric pick-up truck; General Motors, which besides producing the Chevy Bolt EV, has made recent statements about considering the production of an electric pick-up truck and reintroducing an electric Hummer; Blue Bird has electric drivetrain options for their Type-D, C and A school buses; Navistar, which produced the Navistar eStar<sup>®</sup> and builds the electric drivetrain system for IC Type-C school buses, unveiled a prototype battery-electric version of its medium-duty International MV truck in late 2019 and a regular production eMV model is said to be coming to the market in 2021; Freightliner, which produces the eM2 and eCascadia electric trucks; Mercedes-Benz, producing the eActros electric truck and EQV electric vans; Mitsubishi/Fuso produces the eCanter electric truck; Tesla, producing a Class-8 Semi truck and recently introduced a pick-up truck called the Cybertruck; Bollinger Motors, producing the B2 electric pickup truck; Odyne Systems, which produces plug-in hybrid drivetrain systems for trucks and buses; Lightning Systems, which produces re-power electric drivetrain systems for trucks and buses; Lion Electric Company, a Canadian-based manufacturer of Type C all-electric school buses, mini buses and a Class-8 truck; Nordresa, which produces re-power electric drivetrain systems for cab-forward trucks and package delivery vans; Volkswagen has presented an e-Delivery truck and a Volksbus e-Flex prototypes; Proterra has a full line of electric transit buses and is providing electric drivetrain systems for Thomas Bus, electric school buses; Workhorse, which builds an all-electric walk-in van and an electric prototype pick-up truck called the W-15; Chanje, which produces a large electric package delivery van; Volvo is expected to introduce the FE Electric and FL Electric semi-trucks by the end of 2020; Peterbilt has said they will have three battery-electric truck models available for sale by the end of 2020; Nikola Motors has said it will produce the Nikola One and Nikola Two model semi-trucks; BYD, which manufactures new electric trucks and transit buses; TransPower, which has converted Type-C and D school buses and trucks; and Motiv, which sells electric drivetrain systems for Type A school buses and package delivery vans.

## **Intellectual Property**

The protection of our technology and intellectual property is an important component of our success. We rely on intellectual property laws, including trade secret, copyright, trademark and patent laws in the United States and abroad, and use contracts, confidentiality procedures, non-disclosure agreements, employee disclosure and invention assignment agreements and other contractual rights to protect our intellectual property.

As of December 31, 2019, we own three issued U.S. patents, which will expire in 2030 and 2033, and one issued Chinese utility model that will expire in 2026. A Chinese patent application is also pending on a new invention. In addition, we maintain a trademark portfolio including common law trademarks and service marks, and have two service marks registered and a pending trademark application in the United States.

Circumstances outside of our control could pose a threat to our intellectual property rights. Effective intellectual property protection may not be available in the United States or other countries in which we provide our solution. In addition, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Any impairment of our intellectual property rights could harm our business, our ability to compete and harm our operating results. In addition, as the number of competitors grows and solutions of competitors overlap, we may in the future face claims by third parties that we infringe upon or misappropriate their intellectual property rights, and we may be found to be infringing upon or to have misappropriated such rights. In the future, we, or our customers, may be the subject of legal proceedings alleging that our solutions or underlying technology infringe or violate the intellectual property rights of others.

### **Governmental Programs and Incentives**

We believe that the availability of government subsidies and incentives currently is an important factor considered by our customers when purchasing vehicles that utilize our technology, and that our growth depends in part on the availability and amounts of these subsidies and incentives. Over time, we believe that the importance of the availability of government subsidies and incentives will decrease, as we continue to reduce the upfront cost of vehicles that utilize our technology. In order to help ensure that we and our customers benefit from available subsidies and incentive programs in the United States, Canada, Mexico, Asia and in Europe, we have incentive specialists that work directly with our sales team and our customers on these issues providing updates in near real-time as programs become available.

### **Overview of Incentive Programs Most Applicable to Our Products**

We intend to have our products approved for various local, state and federal incentive programs, including those set forth below. In particular, California's zero-emission vehicle mandate, which requires that a certain percentage of an automobile manufacturer's sales must be zero-emission vehicles, has resulted in numerous incentive programs designed to accelerate the purchase and/or repower of cleaner, more efficient vehicles in California. We anticipate that the relevant aggregate funding available in California alone over the next several years may be in excess of \$800 million, which includes federal, state and Volkswagen settlement funding sources.

#### ***California Hybrid and Zero-Emissions Truck and Bus Voucher Incentive Project***

While the HVIP program is currently oversubscribed and awaiting funding, we believe our customers may become eligible for purchase under HVIP when the program reopens in 2020. HVIP is a CARB program administered by CALSTART, the purpose of which is to help speed the early market introduction of clean, low-carbon hybrid and electric trucks and buses. Under HVIP, dealers and fleet operators may request vouchers from HVIP on a first-come first-served basis, up to the funding amount available for that year, to reduce the cost of purchasing hybrid and zero-emission medium- and heavy-duty trucks and buses. It is a statewide program.

HVIP vouchers range in amounts depending on the gross vehicle weight of the purchased vehicle and the number of vehicles purchased. Zero-emission Class 3 trucks are currently eligible for up to \$50,000; Class 4 vehicles are funded at the \$80,000 level and Class 5 vehicles are eligible for \$90,000. Depending on project location (i.e. if in a disadvantaged area community census tract) those amounts can be increased to \$55,000 and \$90,000, and \$100,000, respectively.

HVIP funds the purchase of only fully commercialized hybrid and zero-emission trucks and buses. Vehicles still in the demonstration or evaluation stage are not eligible for inclusion in HVIP. Vehicle manufacturers must apply to have their hybrid and zero-emissions trucks and buses included in HVIP's voucher program. Once a make and model is included in the program, the manufacturer is not required to submit a full application for the succeeding year's program unless the vehicle has been modified. We intend to comply with the HVIP guidelines and continue to qualify our vehicles for the HVIP vouchers.

### ***New York Truck Voucher Incentive Program (NYT-VIP)***

NYT-VIP is a first-come, first-served incentive program funded by the New York State Energy Research & Development Authority. The structure and process for fleets to secure incentives is similar to that of HVIP discussed above. Eligible vehicles include all-electric, hybrid-electric, and CNG trucks and buses. Funding for eligible vehicles domiciled in New York State and New York City can reach \$150,000 per vehicle. Class 4 and 5 all electric trucks are eligible for up to \$100,000 and \$110,000 in funds respectively (i.e., up to 95% of the incremental cost over diesel). ADOMANI is currently completing the process of registering for the program which reopened in late 2019 and has \$18.4 million in funds available. In support of the transition to all-electric vehicles, New York City Mayor Bill de Blasio recently signed an executive order requiring electrification of the city's entire municipal vehicle fleet by 2040.

### ***Drive Clean Chicago-Drive Clean Truck Program***

Drive Clean Chicago is accelerating the adoption of advanced vehicle technologies for the commercial truck and taxi sectors in the Chicago six-county area by reducing the cost of new alternative fuel vehicles and public alternative fuel stations. The program from the Chicago Department of Transportation offers incentives including \$10,000 for CNG and electric taxis, up to \$150,000 for hybrid and all-electric trucks, and 30% of the capital cost for CNG and fast-charge electric fueling stations.

### ***Volkswagen Environmental Mitigation Trust Funds***

We anticipate that the 23 states that we have prioritized may allocate approximately \$200 million in funds per year for the three years beginning in 2018 to on-road vehicle projects. Several individual states have provided carve outs specifically for electric vehicles and, in some cases, electric school buses. For example, California, Illinois, Indiana, Michigan and Ohio have each allocated funds directly to electric school bus projects. The California program will provide per vehicle incentives of \$400,000. These states are currently in the process of funding their initial rounds or are developing specific funding plans. We have engaged with several of these states to support the development of such plans.

### ***California Air Resources Board***

CARB gathers air quality data for the State of California, ensures the quality of this data, designs and implements air models, and sets ambient air quality standards for the state, with a particular focus on regulating tailpipe emissions and other mobile sources. CARB compiles the state's emissions inventory and performs air quality and emissions inventory special studies. CARB uses the Emissions Inventory and Air Quality Models to evaluate air quality and reduce emissions in each of California's 35 local air districts.

CARB also manages several incentive and rebate programs and awards hundreds of millions of dollars in grants to reduce emissions from on- and off-road vehicles and equipment. CARB is responsible for program oversight. CARB awards grants and funds through the Air Quality Improvement Program (AB 118); the Carl Moyer Program; the Voucher Incentive Program for enhanced fleet modernization and emission reduction; and the Lower-Emission School Bus Program/School Bus Retrofit and Replacement Account.

In February 2020, the CARB staff held a workshop to discuss a new fleet rule that will target a 100% zero-emission truck and bus fleet for the state of California by 2045. The rule making being considered enjoys broad political support, and has some precedent (e.g. the Advanced Clean Transit rule). We will monitor future actions on the proposal.

### ***California Energy Commission***

The California Energy Commission ("CEC") has several core responsibilities, including but not limited to setting energy policy, developing renewable energy, achieving energy efficiency, and transforming California's transportation infrastructure. One goal of the CEC is to mitigate GHG emissions and reduce the impact of climate change. The CEC carries out its responsibilities pursuant to several of California's landmark environmental laws. In 2006, the Legislature passed and then Governor Arnold Schwarzenegger signed two landmark pieces of legislation with far-reaching implications for energy policy. The most comprehensive is AB 32, the California Global Warming

Solutions Act of 2006, which sets an economy-wide cap on California GHG emissions at 1990 levels by no later than 2020. At the time, this was an aggressive goal that represented an approximately 11% reduction from then-current emissions levels and nearly a 30 % reduction from projected business-as-usual levels in 2020. In 2015, California passed Senate Bill (SB) 350, which further committed California to reducing GHG emissions by establishing a 2030 greenhouse gas reduction target of 40% below 1990 levels. The transportation sector represents a significant portion of California's GHG emissions.

In 2007, AB 118 created the Alternative and Renewable Fuel and Vehicle Technology Program. The program is intended to increase the use of alternative and renewable fuels and innovative technologies that will transform California's fuel and vehicle types to help attain the state's climate change policies. AB 118 authorizes the CEC to provide approximately \$100 million annually as incentives to public agencies, vehicle and technology consortia, businesses, public-private partnerships, workforce training partnerships and collaboratives, fleet owners, consumers, recreational boaters, and academic institutions for projects that: develop and improve alternative and renewable low-carbon fuels; optimize alternative and renewable fuels for existing and developing engine technologies; improve light-, medium-, and heavy-duty vehicle technologies; and retrofit medium-and heavy-duty on-road and non-road vehicle fleets.

#### ***Air Quality Management Districts ("AQMD") and Air Pollution Control Districts ("APCD")***

California's AQMDs/APCDs are responsible for controlling emissions primarily from stationary sources of air pollution such as large power plants and refineries, but also have a role in distributing funds and administering incentive programs from mobile sources-primarily cars, trucks and buses, but also construction equipment, ships and trains, from which approximately 75% of emissions are generated. The largest AQMD/APCDs are the South Coast AQMD, Bay Area AQMD, San Joaquin Valley APCD, and the San Diego APCD. Local AQMDs/APCDs develop and adopt an Air Quality Improvement Plans, which serves as the blueprint to bring the respective areas into compliance with federal and state clean air standards. Rules are adopted to reduce emissions from various sources, including specific types of equipment, industrial processes, paints and solvents, even consumer products. Permits are issued to many businesses and industries to ensure compliance with air quality rules. Local AQMDs award grants to help reduce emissions in their local communities. These grants and incentive programs include programs aimed at reducing emissions from mobile sources such as buses and trucks. For example, the San Joaquin Valley Air District's Truck Replacement Program is a program open year-round which offers grant funding equal to HVIP. In some cases, air district funding programs such as this can be combined with other sources including state and federal grants.

#### ***Clean Cities***

Clean Cities is a program administered by the DOE's Office of Efficiency and Renewable Energy, Vehicle Technology Program. According to the DOE, the mission of Clean Cities is to advance the energy, economic, and environmental security of the United States by supporting local decisions to adopt practices that reduce the use of petroleum in the transportation sector. Clean Cities is a government-industry partnership. Under the program, public and private stakeholders from businesses, city and state governments, the automotive industry, fuel providers, and community organizations form coalitions throughout the country, which then work with the DOE to establish a plan for reducing petroleum consumption in their respective geographic areas.

#### ***National Clean Diesel Program / Diesel Emissions Reduction Act***

The National Clean Diesel Funding Assistance Program, which is administered by the EPA National Clean Diesel Campaign, provides funding under the Diesel Emissions Reduction Act for projects that seek to reduce emissions from existing diesel engines. Eligible applicants include U.S. regional, state and local agencies that have jurisdiction over transportation or air quality and certain nonprofit institutions that provide pollution reduction or educational services to owners and operators of diesel fleets or that have as their principal purpose the promotion of transportation or air quality. Among the eligible uses of funding under this program are the purchase of buses and medium and heavy-duty trucks that result in reduced diesel emissions. Funds are administered both at the national level by EPA with a nationwide solicitation for projects as well as at the state level through smaller regional requests for proposals.

## ***Congestion Mitigation and Air Quality ("CMAQ") Improvement Program***

The CMAQ Improvement Program, which is jointly administered by the Department of Transportation Federal Highway Administration and Federal Transit Administration, provides funding to states to support surface transportation projects and other related efforts that contribute air quality improvements and provide congestion relief. CMAQ funding is allocated to the states annually based on a statutory formula that is based on population and air quality classification as designated by the EPA. Each state's transportation department then is responsible for distributing the funds. State transportation departments may spend CMAQ funds on projects that reduce ozone precursors, and at least 16 states have used CMAQ funds for alternative fuel vehicle projects (such as purchasing electric or hybrid vehicles).

### ***Other State Incentives***

A number of states and municipalities in the United States, as well as certain private enterprises, offer incentive programs to encourage the adoption of alternative fuel vehicles, including tax exemptions, tax credits, exemptions and special privileges. For example, Maryland has introduced a voucher program that provides financial assistance for the purchase of electric trucks registered in that state, and Arizona exempts use tax and lowers registration fees for the purchase of an electric vehicle. Other states, including Colorado, Georgia, Utah, Florida and West Virginia, provide for substantial state tax credits for the purchase of electric vehicles.

### ***Government Regulation***

Our products are designed to comply with a significant number of governmental regulations and industry standards, some of which are evolving as new technologies are deployed. Government regulations regarding the manufacture, sale and implementation of products and systems similar to ours are subject to future change. We cannot predict what impact, if any, such changes may have upon our business. We believe that vehicles that utilize our technology are in conformity with all applicable laws in all relevant jurisdictions.

### ***Emission and Fuel Economy Standards***

Government regulation related to climate change is under consideration at the U.S. federal and state levels. The EPA and National Highway Traffic Safety Administration ("NHTSA") issued a final rule for greenhouse gas emissions and fuel economy requirements for trucks and heavy-duty engines on August 9, 2011, which had an initial phase-in starting with model year 2014 and a final phase-in occurring in model year 2017. NHTSA standards for model years 2014 and 2015 were voluntary, while mandatory standards first went into effect in 2016. In August 2016, the EPA and NHTSA jointly finalized Phase 2 standards for medium- and heavy-duty vehicles through model year 2027 to improve fleet fuel efficiency and cut carbon emissions.

The rule provides emission standards for carbon dioxide and fuel consumption standards for three main categories of vehicles: (i) combination tractors, (ii) heavy-duty pickup trucks and vans, and (iii) vocational vehicles. According to the EPA and NHTSA, vocational vehicles consist of a wide variety of truck and bus types, including delivery, refuse, utility, dump, cement, transit bus, shuttle bus, school bus, emergency vehicles, motor homes and tow trucks, and are characterized by a complex build process, with an incomplete chassis often built with an engine and transmission purchased from other manufacturers, then sold to a body manufacturer.

The EPA and NHTSA rule also establishes multiple flexibility and incentive programs for manufacturers of alternatively fueled vehicles, including an engine averaging banking and trading ("ABT") program, a vehicle ABT program and additional credit programs for early adoption of standards or deployment of advanced or innovative technologies. The ABT programs allows for emission and/or fuel consumption credits to be averaged, banked or traded within defined groupings of the regulatory subcategories. The additional credit programs allow manufacturers of engines and vehicles to be eligible to generate credits if they demonstrate improvements in excess of the standards established in the rule prior to the model year the standards become effective or if they introduce advanced or innovative technology engines or vehicles.

## **Vehicle Safety and Testing**

The National Traffic and Motor Vehicle Safety Act of 1966 (" Safety Act"), regulates motor vehicles and motor vehicle equipment in the United States in two primary ways. First, the Safety Act prohibits the sale in the United States of any new vehicle or equipment that does not conform to applicable motor vehicle safety standards established by NHTSA. Meeting or exceeding many safety standards is costly, in part because the standards tend to conflict with the need to reduce vehicle weight in order to meet emissions and fuel economy standards. Second, the Safety Act requires that defects related to motor vehicle safety be remedied through safety recall campaigns. A manufacturer is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard. Should we or NHTSA determine that either a safety defect or noncompliance exists with respect to any of our modified vehicles, the cost of such recall campaigns could be substantial.

### **Battery Safety and Testing**

We believe our battery packs conform to mandatory regulations that govern transport of "dangerous goods," which includes lithium-ion batteries that may present a risk in transportation. The governing regulations, which are issued by the Pipeline and Hazardous Materials Safety Administration, are based on the UN Recommendations on the Safe Transport of Dangerous Goods Model Regulations, and related UN Manual of Tests and Criteria. The requirements for shipments of these goods vary by mode of transportation, such as ocean vessel, rail, truck and air.

Our battery suppliers have completed the applicable transportation tests including:

- Altitude simulation, which involves simulating air transport;
- Thermal cycling, which involves assessing cell and battery seal integrity;
- Vibration, which involves simulating vibration during transport;
- Shock, which involves simulating possible impacts during transport;
- External short circuit, which involves simulating an external short circuit; and
- Overcharge, which involves evaluating the ability of a rechargeable battery to withstand overcharging.

### **Available Information**

We were incorporated in Florida on August 6, 2012 and reincorporated in Delaware in November 2016. Our principal executive offices and mailing address are: 4740 Green River Road, Suite 106, Corona, California 92880. Our telephone number is (951) 407-9860. Our corporate website address is [www.adomanelectric.com](http://www.adomanelectric.com). Information contained on, or that can be accessed through, our website does not constitute part of this Annual Report and inclusion of our website address in this report is an inactive textual reference only. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are accessible free of charge at our website. The Securities and Exchange Commission ("SEC") also maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

### **Item 1A. RISK FACTORS**

*Investing in our securities involves significant risks, including the potential loss of all or part of your investment. These risks could materially affect our business, financial condition and results of operations and cause a decline in the market price of our common stock. You should carefully consider all of the risks described in this Annual Report, in addition to the other information contained in this Annual Report, before you make an investment in our securities. In addition to other matters identified or described by us from time to time in filings with the SEC, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement. Some of these important factors, but not necessarily all important factors, include the following:*

## **Risks Related to Our Business**

### ***We may not successfully execute our business plan to generate revenue and create a sustainable growth trajectory.***

We did not generate significant revenues from inception through June 30, 2018, and have only recently generated revenues of \$12.6 million in 2019. Our ability to continue to generate revenue and grow our revenue will depend, in part, on our ability to execute on our business plan, expand our business model and develop new products in a timely manner. We may fail to do so. A variety of factors outside of our control could affect our ability to generate revenue and our revenue growth. Our success in implementing our strategy of producing and selling new zero-emission drivetrain systems, buses, trucks, other fleet vehicles and re-power conversion kits could also slow our revenue growth.

### ***We have a history of losses and we may not achieve or sustain profitability in the future.***

For the years ended December 31, 2019 and 2018, we incurred net losses of \$5.2 million and \$11.0 million, respectively. As of December 31, 2019, we had working capital of \$2.7 million, an accumulated deficit of \$59.2 million and stockholders' equity of \$3.3 million. To date, we have financed our operations primarily through issuing equity capital, convertible notes and notes payable. Our products have been recently developed and may not be commercially successful or generate significant revenue. If we are to ever achieve profitability it will be dependent upon the successful development and successful commercial introduction and acceptance of zero-emission electric vehicles and drivetrain systems such as ours; the demand for new trucks and other fleet vehicles with zero-emission drivetrain systems; and the demand for conversion of existing buses, trucks and other fleet vehicles to zero-emission electric drivetrain systems, any of which may not occur. We may not achieve profitability in the future as we anticipate that our operating expenses will increase significantly in the foreseeable future as we:

- continue to invest in research and development to enhance our zero-emission products and services;
- design, develop and manufacture our medium to heavy-duty fleet vehicles and our drivetrain systems and their components;
- increase our sales and marketing to acquire new customers; and
- increase our general and administrative functions to support our growing operations.

Because we will incur the costs and expenses from these efforts before we receive any significant incremental revenues with respect thereto, our losses in future periods will likely be greater than the losses we would incur if we developed our business more slowly. In addition, these efforts may prove more expensive than we currently anticipate, or may not result in increases in our revenues, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. Even if we are successful in generating revenue and increasing our customer base, we may not become profitable in the future or may be unable to maintain any profitability achieved if we fail to increase our revenue and manage our operating expenses or if we incur unanticipated liabilities. And even if our revenue increases, we may not be able to sustain the rate of revenue growth. Revenue growth may slow or revenue may decline for a number of reasons, including continued problems accessing various incentive programs to assist our customers with their purchase of our vehicles, lack of demand for our zero-emission vehicles and drivetrain systems, increasing competition, lengthening sales cycles, decelerating growth of, or declines in, our overall market, or our failure to capitalize on growth opportunities or to introduce new offerings. Any failure by us to achieve and maintain revenue or profitability could cause the price of our common stock to decline.

While we believe that our existing cash and cash equivalents will be sufficient to fund our operations during the next twelve months, we may not successfully execute our business plan, and if we do not, we may need additional capital to continue our operations.

### ***Our limited operating history makes it difficult to evaluate our current business and future prospects.***

Our short operating history and recent changes to our business model make it difficult to evaluate our current business and our future prospects. It is difficult to predict our future revenues and appropriately budget for our expenses, and we have limited insight into trends that may emerge and affect our business. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and changing industries, including challenges in forecasting accuracy, determining appropriate

investments of our limited resources, market acceptance of our products and services and future products and services, competition from new and established companies, including those with greater financial and technical resources, acquiring and retaining customers and increasing revenue from existing customers, enhancing our products and services and developing new products and services. You should consider our business and prospects in light of the risks and difficulties that we will encounter as we continue to develop our business model. We may not be able to address these risks and difficulties successfully, which would materially harm our business and operating results and cause the market price of our common stock to decline.

We may experience quarterly fluctuations in our operating results due to a number of factors which make our future results difficult to predict and could cause our operating results to fall below expectations.

Our quarterly operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not consider our past results in any projected growth rate or as indicative of our future performance.

We expect our period-to-period operating results to vary based on our operating costs which we anticipate will increase significantly in future periods as we, among other things, design and develop our zero-emission vehicles and drivetrain systems, open new design, sales and service facilities, hire additional technology staff, increase our travel and operational budgets, increase our facility costs, hire and train service personnel, increase our sales and marketing activities, and increase our general and administrative functions to support our growing operations. As a result of these factors, we believe that quarter-to-quarter comparisons of our operating results, especially in the short-term, are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our operating results may not meet expectations of equity research analysts or investors. If any of this occurs, the trading price of our stock could decline, either suddenly or over time.

Based upon all of the factors described above, we have a limited ability to forecast our future revenue, costs and expenses and, as a result, our operating results may from time to time fall below our estimates.

***Our future growth is dependent upon demand for new mid-sized delivery trucks and cargo vans, buses, and other fleet vehicles with zero-emission drivetrain systems and on demand for re-power conversion kits for existing diesel- and gasoline-powered buses, truck and other fleet vehicles to zero-emission electric drivetrain systems.***

Our growth is highly dependent upon the market acceptance of, and we are subject to an elevated risk of any reduced demand for, new zero-emission truck and other fleet vehicles and demand for re-power conversion kits for existing trucks and other fleet vehicles to zero-emission electric drivetrain systems. If this market does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be harmed and we may need to raise additional capital. This market is relatively new, rapidly evolving, characterized by rapidly changing technologies, price competition, additional competitors, evolving government regulation and industry standards, frequent new vehicle announcements and changing consumer demands and behaviors. Factors that may influence the market acceptance of new zero-emission vehicles, and the conversion of existing buses and fleet vehicles to zero-emission electric vehicles include:

- perceptions about zero-emission electric vehicle quality, safety design, performance and cost, especially if adverse events or accidents occur that are linked to the quality or safety of any electric vehicle;
- perceptions about the limitations in the technology resulting in a limited range over which zero-emission electric vehicles may be driven on a single battery charge (increases in distance requires additional batteries, which increases weight, and, at some point, too much weight diminishes the additional distance being sought before requiring a charge);
- perceptions about vehicle safety in general, in particular safety issues that may be attributed to the use of advanced technology;
- the availability of alternative fuel vehicles, including competitive vehicles and improvements in the fuel economy of the internal combustion engine may cause a slow-down in the demand to switch to zero-emission electric vehicles;
- the availability of service for zero-emission electric vehicles;

- the environmental consciousness of owners of diesel- and gasoline-powered buses, truck and other fleet vehicles;
- changes in the cost of oil and gasoline;
- government regulations and economic incentives, including a change in the administrations and legislations of federal and state governments, promoting fuel efficiency and alternate forms of energy;
- access to charging stations both public and private, standardization of electric vehicle charging systems and perceptions about convenience and cost to charge an electric vehicle;
- the availability of tax and other governmental incentives and rebates to purchase and operate electric vehicles or future regulation requiring increased use of zero-emission or hybrid vehicles;
- perceptions about and the actual cost of alternative fuel; and
- macroeconomic factors.

Additionally, we have limited experience in introducing new products, as we commenced production and deliveries of our products within the most recent two years. To the extent that we are not able to build our products in accordance with customer expectations, our future sales could be harmed.

We may also become subject to regulations that require us to alter the design of our vehicles and drivetrain systems, which could negatively impact consumer interest in our products.

The influence of any of the factors described above may cause current or potential customers not to purchase our electric vehicles or drivetrain systems, which would materially adversely affect our business, operating results, financial condition and prospects.

***We may not be able to compete successfully against current and future competitors.***

The market for commercial zero-emission electric and hybrid vehicles is relatively new, rapidly evolving, characterized by rapidly changing technologies, price competition, additional competitors, evolving government regulation and industry standards, frequent new vehicle announcements and changing consumer demands and behaviors.

Most of our existing and potential competitors, including Ford, Nissan, Navistar, Freightliner, Mercedes-Benz, Odyne Systems, Lightning Systems, Nordresa, Workhorse, Mitsubishi/Fuso, BYD, Proterra, TransPower, Lion Electric Company, Rivian, General Motors, Blue Bird, Tesla, Volkswagen, Volvo, Peterbilt, Nikola, and Motiv, have substantially greater financial resources, more extensive engineering, manufacturing, marketing and customer service and support capabilities, longer operating histories and greater name recognition than we do. They may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. Virtually all of our competitors have more extensive customer bases and broader customer and industry relationships than we do. Our competitors may be in a stronger position to respond quickly to new technologies and may be able to design, develop, market and sell their products more effectively. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period of time than we can. Each of these competitors has the potential to capture market share in our target market, which could have an adverse effect on our position in our industry and on our business and operating results.

We expect competition in our industry to intensify in the future in light of anticipated increased demand for alternative fuel vehicles and to continued globalization and consolidation in the worldwide automotive industry. Factors affecting competition include product quality and features, innovation and development time, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in further downward price pressure and adversely affect our business, financial condition, operating results and prospects. Our ability to successfully compete in our industry will be fundamental to our future success in existing and new markets and to our market share. There can be no assurances that we will be able to compete successfully in our markets. If our competitors introduce new products or services that compete with or surpass the quality, price or performance of our products or services, we may be unable to satisfy existing customers or attract new customers at the prices and levels that would allow us to generate attractive rates of return on our investment. A disruptive technology advancement in the electric vehicle industry by a competitor, such as in energy storage, traction motors or power electronics, could affect the sales of our products.

Demand in the zero-emission electric vehicle industry is volatile, which may lead to lower vehicle unit sales, which could adversely affect our operating results. Volatility of demand in the zero-emission electric vehicle industry may materially and adversely affect our business, prospects, operating results and financial condition. The markets in which we currently compete and plan to compete in the future have been subject to considerable volatility in demand in recent periods. As a low volume producer, we have fewer financial resources than more established providers have to withstand changes in the market and disruptions in demand. Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in further downward price pressure and adversely affect our business, prospects, financial condition and operating results. These effects may have a more pronounced impact on our business given our relatively smaller scale and financial resources as compared to many incumbent providers.

Competition could result in price reductions and revenue shortfalls, loss of customers and loss of market share. If we cannot compete successfully against current and future competitors, our business, prospects, results of operations and financial condition could be negatively impacted.

***Our sales cycle can be long and unpredictable and require considerable time and expense before executing a customer agreement, which may make it difficult to project when, if at all, we will obtain new customers and generate revenue from those customers.***

The sales cycle for our business, from initial contact with a potential lead to contract execution and implementation, typically takes significant time and is difficult to predict. Our sales cycle in some cases has lasted up to six to nine months or more. Our sales efforts involve educating our customers about the use, capabilities and benefits of our products and services. Some of our customers undertake a significant evaluation process that frequently involves not only our products and services but also the offerings of our competitors. This process can be costly and time-consuming. In addition, once a customer is inclined to purchase our products, their ability in most cases to issue a purchase order is dependent on being granted funding toward the purchase. It is very difficult for us, or our customers, to predict the timing of the release of such funding, and specifically whether they will receive any of it. As a result, it is difficult to predict when we will obtain new customers and begin generating revenue from these new customers. As part of our sales cycle, we may incur significant expenses before executing a definitive agreement with a prospective customer and before we are able to generate any revenue from such agreement. The substantial time and money spent on our sales efforts may not generate significant revenue. If conditions in the marketplace generally or with a specific prospective customer change negatively, it is possible that no definitive agreement will be executed, and we will be unable to recover any of these expenses. If we are not successful in targeting, supporting and streamlining our sales processes, our ability to grow our business, and our operating results and financial condition may be adversely affected. If our sales cycles lengthen, our future revenue could be lower than expected, which would have an adverse impact on our consolidated operating results and could cause our stock price to decline.

***Developments in alternative technologies or improvements in the internal combustion engine may materially adversely affect the demand for electric vehicles and our products.***

Significant developments in alternative technologies, such as advanced diesel, ethanol and other renewable fuels, fuel cells or compressed natural gas, or improvements in the fuel economy of the internal combustion engine, may materially and adversely affect our business and prospects in ways we do not currently anticipate. For example, compressed natural gas or propane, which are abundant and relatively inexpensive in North America, may emerge as consumers' preference. Any failure by us to develop new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay our development and introduction of new and enhanced zero-emission electric vehicles or drivetrain systems which could result in the loss of competitiveness of our products, decreased revenue and a loss of market share to competitors.

***If we are unable to keep up with advances in zero-emission electric vehicle technology, we may suffer an inability to obtain a competitive position in the market or suffer a decline in our competitive position.***

There are companies in the zero-emission electric vehicle industry that have developed or are developing vehicles and technologies that compete or will compete with our vehicles. Our competitors could be able to provide products and services similar to ours more efficiently or at greater scale. We may be unable to keep up with changes in zero-emission electric vehicle technology and, as a result, may suffer a decline in our competitive position. Any failure to keep up with advances in zero-emission electric vehicle technology would result in a decline in our competitive position, which would materially and adversely affect our business, prospects, operating results and financial condition. Our research and development efforts may not be sufficient to adapt to changes in zero-emission electric vehicle technology. As technologies change, we plan to upgrade or adapt our vehicles and introduce new vehicles in order to continue to provide vehicles with the latest technology, in particular battery cell technology. However, our vehicles may not compete effectively with alternatives if we are not able to source and integrate the latest technology into our vehicles. For example, we do not manufacture the items required to produce our vehicles, including battery cells, which makes us dependent upon other suppliers of technology for our battery packs, motors and other components of our electric vehicles. If for any reason we are unable to keep pace with changes in commercial electric vehicle technology, particularly battery technology, our competitive position may be adversely affected.

***The demand for commercial zero-emission electric vehicles depends, in part, on the continuation of current trends resulting from historical dependence on fossil fuels. Extended periods of low diesel or other petroleum-based fuel prices could adversely affect demand for vehicles that utilize our technology, which could adversely affect our business, prospects, financial condition and operating results.***

We believe that much of the present and projected demand for commercial zero-emission electric vehicles results from concerns about volatility in the cost of petroleum-based fuel, the dependency of the United States on oil from unstable or hostile countries, government regulations and economic incentives promoting fuel efficiency and alternative forms of energy, as well as the belief that poor air quality and climate change results in part from the burning of fossil fuels. If the cost of petroleum-based fuel decreased significantly, or the long-term supply of oil in the United States improved, the government may eliminate or modify its regulations or economic incentives related to fuel efficiency and alternative forms of energy. If there is a change in the perception that the burning of fossil fuels does not negatively impact the environment, the demand for commercial zero-emission electric vehicles could be reduced, and our business and revenue may be harmed. Diesel and other petroleum-based fuel prices have been extremely volatile, and we believe this continuing volatility will persist. Lower diesel or other petroleum-based fuel prices over extended periods of time may lower the current perception in government and the private sector that cheaper, more readily available energy alternatives should be developed and produced. If diesel or other petroleum-based fuel prices remain at deflated levels for extended periods of time, the demand for commercial electric vehicles may decrease, which could have an adverse effect on our business, prospects, financial condition and operating results.

***We may not be able to reduce and adequately control the costs and expenses associated with operating our business, including our material and production costs.***

If we are unable to reduce and/or maintain a sufficiently low level of costs for designing, manufacturing, marketing, selling and distributing and servicing our zero-emission electric vehicles relative to their selling prices, our operating results, gross margins, business and prospects could be materially and adversely impacted. We have made, and will be required to continue to make, significant investments for the design, manufacture and sales of our zero-emission vehicles.

We incur significant costs related to procuring the materials and components required to build our vehicles and convert combustion fuel-based vehicles to electric vehicles. As a result, without including the impact of government or other subsidies, incentives, or tariffs, our costs and therefore the purchase prices for our commercial zero-emission electric vehicles and/or converting commercial vehicles currently are substantially higher than the purchase prices for gas or diesel-fueled vehicles with comparable features.

Additionally, in the future we may be required to incur substantial marketing costs and expenses to promote our zero-emission vehicles, including through the use of traditional media such as television, radio and print, even though our marketing expenses to date have been relatively limited. If we are unable to keep our operating costs aligned with the level of revenues we generate, our operating results, business and prospects will be harmed. Many of the factors that impact our operating costs are beyond our control. For example, global demand from all manufacturers of zero-emission vehicles for the same resources could create shortages and drive the costs of our raw materials and certain components, such as lithium-ion battery cells, to a higher level and reduce profit or create or increase losses. Indeed, if the popularity of zero-emission electric vehicles exceeds current expectations without significant expansion in battery cell production capacity and advancements in battery cell technology, shortages could occur which would result in increased material and component parts costs to us, and could also negatively impact our ability to meet production requirements if the batteries were simply not available.

***If we fail to manage our anticipated growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.***

Any failure to manage our anticipated growth effectively could materially and adversely affect our business, prospects, operating results and financial condition. We have recently expanded our operations and further expansion will be required, especially in connection with electric vehicle component assembly and manufacturing, service and warranty requirements. The requirements of being a public company have significantly increased our general and administrative costs. Our future operating results depend to a large extent on our ability to manage this expansion and growth successfully. Risks that we face in undertaking this expansion include:

- establishing sufficient sales, service and service facilities in a timely manner;
- forecasting production and revenue;
- training new personnel;
- controlling expenses and investments in anticipation of expanded operations;
- expanding design, manufacturing, sales and service facilities;
- implementing and enhancing administrative infrastructure, systems and processes;
- addressing new markets; and
- expanding operations and finding and hiring a significant number of additional personnel, including manufacturing personnel, design personnel, engineers and service technicians.

We may in the future hire a significant number of additional personnel, including design and manufacturing personnel and service technicians for our zero-emission electric vehicles, the timing of which will depend on the success of our sales efforts. Because vehicles that utilize our technology are based on a different technology platform than traditional internal combustion engines, individuals with sufficient training in zero-emission electric vehicles may not be available to hire, and we may need to expend significant time and expense training the employees we do hire. Competition for individuals with experience designing, manufacturing and servicing zero-emission electric vehicles is intense, and we may not be able to attract, assimilate, train or retain additional highly qualified personnel in the future, which could seriously harm our business and prospects.

In this regard, we will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively. Further, to accommodate our expected growth we must continually improve and maintain our technology, systems and network infrastructure. We therefore may be unable to manage our expenses effectively in the future, which would negatively impact our gross margin or operating expenses in any particular quarter. If we fail to manage our anticipated growth and change in a manner that preserves the quality of our zero-emission vehicles and services and our ability to deliver in a timely manner, it will negatively affect our brand and reputation and harm our ability to retain and attract customers.

***If our zero-emission electric vehicles fail to perform as expected, our ability to develop, market and sell our vehicles could be harmed.***

Our zero-emission vehicles may not perform in a manner that is consistent with our customers' expectations for a variety of reasons. If our vehicles were to contain defects in design and manufacture that cause them not to perform as expected or that require repair, or experience any other failure to perform as expected, it could harm our reputation and result in delivery delays, product recalls, product liability claims, significant warranty and other expenses, which could have a material adverse impact on our ability to develop, market and sell our zero-emission vehicles. For example, should we have a significant sale of either new vehicles or re-power conversion kits and a defect (from a supplier-purchased product or internally assembled components) were to be discovered after delivery that could not be corrected in a timely manner, we could suffer an adverse public relations event that harms the company in a way that it may not be able to recover from, or which turns out to be so costly as to cause a significant loss. Although we attempt to remedy any issues we observe in our products as effectively and as rapidly as possible, such efforts may not be timely, may hamper production or may not provide satisfaction to our customers. While we have performed extensive internal testing, we currently have a limited frame of reference by which to evaluate the long-term performance of our zero-emission products. There can be no assurance that we will be able to detect and fix any defects in our products prior to their sale to customers. Further, the performance of our zero-emission products may be negatively impacted by other factors, such as limitations inherent in existing battery technology and extreme weather conditions.

Any vehicle product defects or any other failure of our commercial zero-emission electric vehicles to perform as expected could harm our reputation and result in delivery delays, product recalls, product liability claims, significant warranty and other expenses, customer losses and lost revenue, any of which could have a material adverse impact on our business, financial condition, operating results and prospects.

***We are dependent on third parties to deliver raw materials, parts, components and services in adequate quantity in a timely manner and at reasonable prices, quality levels, and volumes acceptable to us. Our business, prospects, financial condition and operating results could be adversely affected if we experience disruptions in our supply chain.***

We provide zero-emission electric vehicles, drivetrain systems and re-power drivetrain systems assembled from components supplied by third parties. For example, we rely on third parties for batteries, traction motors, power electronics, connectors, cables, and metal fabrication for battery storage boxes. As a result, we are particularly dependent on those third parties to deliver raw materials, parts, components and services in adequate quality and quantity in a timely manner and at reasonable prices. Some components of our vehicles and drivetrain systems include materials such as copper, lithium, rare-earth and strategic metals that have historically experienced price volatility and supply interruptions. In addition, we do not currently maintain long-term agreements with our suppliers with guaranteed pricing because we cannot at this time guarantee them adequate volume, which exposes us to fluctuations in component, materials and equipment prices and availability.

Recently, there have been significant changes to U.S. trade policies, treaties and tariffs, which have resulted in uncertain economic and political conditions that have made it difficult for us and our suppliers to accurately forecast and plan future business activities. For example, the U.S. has imposed tariffs on certain products imported into the U.S. from China, the European Union and other countries, and could impose additional tariffs or trade restrictions. Such changes to U.S. policies related to global trade and tariffs have resulted in uncertainty surrounding the future of the global economy and have resulted in certain retaliatory trade measures and tariffs implemented by other countries. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the impacted nations and the United States. Any of these factors could depress economic activity and have a material adverse effect on the business and financial condition of our suppliers, which, in turn, would negatively impact us.

Furthermore, currency fluctuations weakening the U.S. dollar against foreign currencies may adversely affect our purchasing power for such raw materials, parts and components and manufacturing equipment from foreign suppliers. Substantial increases in the prices for such raw materials, components and equipment would increase our operating costs, and could reduce our margins if we cannot recoup the increased costs through increased prices. We may not be able to recoup these increased costs by increasing the prices of our products.

In cases where we rely on a sole supplier for a component or system, if there is an interruption of supply or increased industry demand it may be difficult for us to substitute one supplier for another, increase the number of suppliers or change one component for another in a timely manner or at all. Additionally, many of our current suppliers are small companies that produce a limited number of specialized products. If any of these suppliers were to go out of business or be acquired by a competitor of ours or any other third party that decides to discontinue our supply relationship, we would need to find an alternative supplier, which we may not be able to do.

This limited supply chain exposes us to multiple potential sources of delivery failure or component shortages for the production of our zero-emission electric products. We may experience delays due to supply chain disruptions with respect to any of our zero-emission electric products we may produce. In addition, our currently ongoing transition from low to high volume production tooling for our zero-emission electric products may take longer than expected which may adversely impact our short-term financial results.

Changes in business conditions, domestic and foreign regulations (including tariffs), labor issues, wars, governmental changes, natural disasters and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers' ability to deliver components to us on a timely basis. Furthermore, if we experience significantly increased demand, or need to replace certain existing suppliers, there can be no assurance that additional supplies of component parts will be available when required on terms that are favorable to us, or that any supplier would allocate sufficient supplies to us in order to meet our requirements or fill our orders in a timely manner, or that we could engineer replacement components ourselves.

Changes in our supply chain may result in increased costs in the future. We have also experienced cost increases from certain of our suppliers in order to meet our quality targets and development timelines as well as due to design changes that we made, and we may experience similar cost increases in the future. Additionally, we are negotiating with existing suppliers for cost reductions, seeking new and less expensive suppliers for certain parts, and attempting to redesign certain parts to make them less expensive to produce. If we are unsuccessful in our efforts to control and reduce supplier costs, our operating results will suffer.

If we encounter unexpected difficulties with our current suppliers, and if we are unable to fill these needs from other suppliers, we could experience production delays, which could have a material adverse effect on our financial condition and operating results.

The inability of these suppliers to deliver, or their refusal to deliver, necessary raw materials, parts and components of our zero-emission drivetrain systems and services in a timely manner at prices, quality levels, and volumes acceptable to us would have a material adverse effect on our financial condition and operating results. Our business, prospects, financial condition and operating results could be adversely affected if we experience disruptions in our supply chain.

***The facilities or operations of our third party providers could be damaged or adversely affected as a result of disasters or unpredictable events.***

If major disasters such as earthquakes, fires, floods, hurricanes, wars, terrorist attacks, computer viruses, pandemics or other events occur, the production facilities of some of our third party providers may be seriously damaged, or they may have to stop or delay production and shipment of our products. We may also experience downtime due to a third party provider's delay in production and shipment of our products due to, among other reasons, their inability to obtain supplies and materials. Either of these delays could have a material adverse impact on our business, operating results and financial condition.

***We have become increasingly dependent on information technology and any breakdown, interruption or breach of our information technology systems could subject us to liability or interrupt the operation of our business, which could have a material adverse effect on our business, financial condition, cash flows and results of operations.***

We are increasingly dependent upon information technology systems and infrastructure in connection with the conduct of our business. We must routinely update our information technology infrastructure and our various information technology systems throughout the organization may not continue to meet our current and future business needs. Furthermore, modification, upgrade or replacement of such systems may be costly. In addition, any breakdown, interruption, corruption or unauthorized access to or cyber-attack on these systems could create system disruptions, shutdowns or unauthorized disclosure of confidential information. While we attempt to take appropriate security and cyber-security measures to protect our data and information technology systems and to prevent such breakdowns and unauthorized breaches and cyber-attacks, these measures may not be successful and these breakdowns and breaches in, or attacks on, our systems and data may not be prevented. Such breakdowns, breaches or attacks may cause business interruption and could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our common stock to decline, and we may suffer financial damage or other losses as a result of lost or misappropriated information.

***If our suppliers fail to use ethical business practices and comply with applicable laws and regulations, our brand image could be harmed due to negative publicity.***

We do not control our independent suppliers or their business practices and, as such, they may not comply with ethical or legal business practices, such as environmental responsibility, fair wage practices, appropriate sourcing of raw materials, and compliance with child labor laws, among others. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations.

Violation of labor or other laws by our suppliers or the divergence of an independent supplier's labor or other practices from those generally accepted as ethical in the United States or other markets in which we do business could also attract negative publicity for us and our brand. This could diminish the value of our brand image and reduce demand for our zero-emission vehicles and drivetrain systems technology if, as a result of such violation, we were to attract negative publicity. If we, or others in our industry, encounter similar problems in the future, it could harm our brand image, business, prospects, financial condition and operating results.

***Our business success will depend in part on the success of our strategic relationships with third parties. We may not be able to identify adequate strategic relationship opportunities, or form strategic relationships, in the future.***

Our business success will depend in part on our ability to continue to successfully manage and enter into productive strategic relationships with third parties. We depend on various third parties to provide critical parts for our process. We currently maintain strategic relationships with key manufacturers of components we require for our zero-emission electric products and re-power conversion kits. Maintaining and expanding our strategic relationships with third parties is critical to our continued success. Further, our relationships with these third parties are typically non-exclusive and do not prohibit the other party from working with our competitors. These relationships may not result in additional customers or enable us to generate significant revenue. Identifying suitable business partners and negotiating and documenting relationships with them require significant time and resources. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to successfully sell our products and services, compete in the marketplace or to grow our revenue could be impaired and our operating results would suffer.

While we may be able to establish alternate supply relationships or engineer replacement components for any single source components, we may be unable to do so in the short term, or at all, at prices or costs that are favorable to us. In particular, while we believe that we will be able to secure alternate sources of supply for most of our single sourced components in a relatively short time frame, qualifying alternate suppliers or developing our own replacements for certain highly customized components of our products may be time consuming, costly and may force us to make additional modifications to a product's design, or at a minimum require us to delay delivery of orders.

We currently have and are seeking to establish new relationships with third parties to provide alternative parts sources, such as batteries, controllers and battery management systems. For example, we continue to test additional battery manufacturers' products in order to have back-up options should our existing supplier have delivery or quality issues. However, we may not be able to identify or secure suitable business relationship opportunities in the future or to insure that our competitors will not capitalize on such opportunities before we do. Our strategic relationships for batteries, motors and controllers will keep us competitive if maintained properly. We may not be able to offer benefits to companies that we would like to establish and maintain strategic relationships with. Moreover, identifying such opportunities could demand substantial management time and resources, and negotiating and financing relationships involves significant costs and uncertainties. If we are unable to successfully source and execute on strategic relationship opportunities in the future, our overall growth could be impaired, and our business, prospects and operating results could be materially adversely affected.

***Our suppliers must scale their zero-emission vehicle manufacturing, assembling, and converting processes effectively and quickly from low volume production to high volume production.***

Our existing production model utilizing third parties may not be well suited for the high-volume production we hope to require to scale our business. We do not know whether we or our existing suppliers will be able to develop efficient, low-cost manufacturing, assembly and converting capability and processes, and reliable sources of component supply that will enable us to meet the quality, price, engineering, design and production standards, as well as the production volumes required, to successfully develop our business. Any failure by us or our suppliers to develop such manufacturing, assembly and converting processes and capabilities and reliable sources of component supply within our projected costs and timelines could have a material adverse effect on our business, prospects, operating results and financial condition.

The ability of our suppliers to scale their manufacturing, assembling, and converting processes is in part dependent on ours and their supply chain and on our collective ability to execute on our decentralized production strategy. Even if we and our suppliers are successful in developing our high-volume manufacturing, assembly and converting capability and processes, and reliable sources of component supply, we do not know whether we will be able to do so in a manner that avoids significant delays and cost overruns, including, as a result of factors beyond our control, such as problems with suppliers and vendors, in time to meet our commercialization schedules or to satisfy the requirements of customers. In addition, certain components we or our third-party suppliers integrate may not be available on a consistent basis or in large quantities. Our business, prospects, financial condition and operating results could be adversely affected if we or our suppliers experience disruptions in our respective supply chains or if we or they cannot obtain materials of sufficient quality at reasonable prices.

The complexity in our business is expected to grow as we introduce new products and services. We have limited experience in simultaneously designing, testing, manufacturing, upgrading, adapting and selling our zero-emission products as well as limited experience allocating our available resources among the design and production of multiple zero-emission units. As we add complexity to our product line and introduce new products and services, we may experience unexpected delays.

If we and our suppliers are unable to scale our respective existing assembly processes and systems quickly while maintaining our current quality level, including as a result of supply chain constraints and inability to manage complexity in our business, we may be unable to meet our customers' vehicle quality and quantity requirements or our forecasted production schedule or lower our cost of sales. As a result, we may not be able to meet our customers' delivery schedules and could face the loss of customers, or be exposed to liability to customers to which we promised delivery, which could adversely affect our business, prospects, financial condition and operating results.

***We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.***

We may become subject to product liability claims, which could harm our business, prospects, operating results and financial condition if we are not able to successfully defend or insure against such claims. The zero-emission electric vehicle industry may experience significant product liability claims and we face inherent risk of exposure to claims in the event our zero-emission products do not perform as expected or malfunction and personal injury or death results. Our risks in this area are particularly pronounced given the limited field experience of our zero-emission vehicles, number of vehicles delivered to date and limited field experience of those vehicles. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future vehicle candidates which would have a material adverse effect on our brand, business, prospects and operating results. We have added product liability insurance on a claims-made basis for all our zero-emission products with appropriate annual limits. However, our insurance may not be sufficient to cover all potential product liability claims. Any lawsuit seeking significant monetary damages either in excess of our coverage, or outside of our coverage, may have a material adverse effect on our reputation, business and financial condition.

In connection with the development and sale of our zero-emission products, we may need to comply with various safety regulations and requirements with which it may be expensive or difficult to comply. For example, we may be subject to compliance from CARB. In addition, we may be subject to various other federal and state-level requirements.

***We may be compelled to undertake product recalls.***

Any product recall in the future may result in adverse publicity, damage our brand and adversely affect our business, prospects, operating results and financial condition. We may at various times, voluntarily or involuntarily, initiate a recall if any of our zero-emission drivetrain system components prove to be defective. Such recalls, voluntary or involuntary, involve significant expense and diversion of management attention and other resources, which would adversely affect our brand image in our target markets and could adversely affect our business, prospects, financial condition and results of operations.

***Our warranty reserves may be insufficient to cover future warranty claims which could adversely affect our financial performance .***

If our warranty reserves are inadequate to cover future warranty claims on vehicles that utilize our technology, our business, prospects, financial condition and operating results could be materially and adversely affected. We provide a two-year warranty on parts and workmanship and a five-year warranty on batteries with every zero-emission electric product. Most of our warranty offering, with the exception of workmanship, is covered by the component manufacturers' warranty. In addition, customers have the opportunity to purchase an Extended Service Plan for the period after the end of the standard warranty to cover additional services for an additional three-year period or 100,000 miles, whichever comes first. The warranty is similar to other providers' warranty programs and is intended to cover all parts and labor to repair defects in material or workmanship in the product. We plan to record and adjust warranty reserves based on changes in estimated costs and actual warranty costs. However, because we have only recently begun delivering our first zero-emission vehicles, and we have extremely limited operating experience with our them, we therefore have little experience with warranty claims for these zero-emission vehicles or with estimating warranty reserves. We will monitor our warranty reserves based on our actual warranty claim experience. We may be required to provide for increases in warranty reserves in the future. Our future warranty reserves may not be sufficient to cover all claims or our limited experience with warranty claims may not adequately address the needs of our customers to their satisfaction.

***Our insurance strategy may not be adequate to protect us from all business risks.***

We may be subject, in the ordinary course of business, to claims resulting from products liability, employment-related actions, class-action lawsuits, accidents, acts of God and other actions against us. Additionally, our insurance coverage may be insufficient to cover all existing and future claims against us. We may be compelled to expend significant time and resources defending any such claims, and a loss that is uninsured or which exceeds

policy limits may require us to pay substantial amounts, which could adversely affect our financial condition and operating results.

***If we are unable to design, develop, market and sell zero-emission electric vehicles and other product offerings that address additional market opportunities, our business, prospects and operating results will suffer.***

We may not be able to successfully develop new zero-emission electric vehicles, or address new market segments or develop a broader customer base. To date, we have primarily focused our business on the sale of zero-emission electric drivetrain systems for school buses. We will need to address additional markets and expand our customer demographic in order to further grow our business. In particular, we have recently transitioned to target owners of trucks (all classes inclusive of 3–7) and vans between 10,000 pounds GVWR to 19,500 pounds GVWR, commercial fleets, including white fleets of school districts, which is a much different market from that of our previous zero-emission drivetrain systems. Successfully offering all electric vehicles in this market requires delivering a vehicle with different characteristics at a price that is competitive with other similar vehicles. We have only recently taken delivery of our initial trucks, chassis and cargo van vehicles, so it is difficult to forecast their eventual cost, manufacturability or quality, and is equally difficult to project market acceptance and our ability to generate sales in volumes as we currently intend. Our failure to address additional market opportunities would harm our business, financial condition, operating results and prospects.

***Our growth depends in part on the availability and amounts of government subsidies and incentives and the application of regulations that encourage conversion to electric vehicles. These subsidies and incentives are limited and unpredictable and could expire or change to benefit competing technologies.***

We believe that the availability of government subsidies, rebates, and economic incentives is currently a critical factor considered by our customers when purchasing our zero-emission systems or converting their existing vehicles to zero-emission-electric or hybrids, and that our growth depends in large part on the availability and amounts of these subsidies and economic incentives. Any unavailability, reduction, elimination or adverse application of government subsidies, rebates, and economic incentives because of administrative mistakes made by those in charge of the programs, budgetary challenges, expiration, policy changes, the reduced need for such subsidies, rebates, and incentives due to the perceived success of electric or hybrid vehicles or other reasons may result in the diminished price competitiveness of the alternative fuel vehicle industry generally and our zero-emission electric and hybrid vehicles in particular, especially prior to our ability to significantly reduce our costs. For example, in the United States, we and our customers benefit from significant subsidies in connection with the purchase of our vehicles under the California HVIP, CARB, local air quality management districts, the EV Demonstration Project, and state-level Clean Cities programs. Under these programs, purchasers of qualifying vehicles and those who convert their existing vehicles are eligible to receive subsidies or incentives from \$55,000 to \$220,000, respectively, per qualifying vehicle purchased or converted. Certain regulations and programs that encourage sales of zero-emission electric and hybrid vehicles could expire, be exhausted, be eliminated or applied in a way that adversely impacts sales of our commercial zero-emission electric and hybrid vehicles, either currently or at any time in the future. For example, the U.S. federal government and many state governments, as well as many national governments within the European Union, are facing political changes, fiscal crises and budgetary constraints, which could result in the elimination of programs, subsidies and incentives that encourage the purchase or conversion of zero-emission electric and hybrid vehicles. In addition, grants made by the DOE under the U.S. Recovery and Reinvestment Act of 2009 to clean technology companies, such as the EV Demonstration Project grant, may be subject to a high level of scrutiny in part due to recent financial difficulties experienced by recipients of DOE loan guarantees. In addition, currently some purchase subsidies are limited in total annual amounts and have been exhausted before all willing buyers have been able to consummate a purchase. We currently benefit from certain government and economic incentives supporting the development and adoption of zero-emission electric vehicles. If government subsidies and economic incentives to produce and purchase zero-emission electric vehicles were no longer available to us or our customers, or the amounts of such subsidies and incentives were reduced or eliminated, it would have a negative impact on demand for our vehicles and our business, prospects, financial condition and operating results would be adversely affected.

In addition, we anticipate that in the future there may be new opportunities for us to apply for grants, loans and other incentives from federal, state, local and foreign governments on our own behalf and on behalf of our customers. Our ability to obtain funds or incentives from government sources is subject to the availability of funds under applicable government programs and approval of our applications to participate in such programs. The application process for these funds and other incentives is and will continue to be highly competitive.

***Our service model may be costly for us to operate and may not address the service requirements of our prospective customers.***

Our business plan is not to develop company owned and operated service and warranty centers but to leverage existing third-party bus and truck facilities to process our new vehicles and conversions. This plan may not prove to be workable and we may be forced to establish our own facilities at some point, resulting in substantial capital expenditures and increased operating costs. Zero-emission electric commercial vehicles incorporate new and evolving technologies and require specialized service. These special service arrangements are now and in the future may continue to be costly and we may not be able to recoup the costs of providing these services to our customers. In addition, a number of potential customers may choose not to purchase our commercial zero-emission electric vehicles because of the lack of a more widespread service network. If we are unable to satisfactorily service vehicles that utilize our technology, our ability to generate customer loyalty, grow our business and sell additional vehicles could be impaired. There can be no assurance that these service arrangements or our limited experience servicing vehicles that utilize our technology will adequately address the service requirements of our customers to their satisfaction, or that we will have sufficient resources to meet these service requirements in a timely manner as the volume of vehicles we are able to deliver annually increases. If we do not adequately address our customers' service needs, our brand and reputation may be adversely affected, which, in turn, could have an adverse effect on our business, prospects, financial condition and operating results.

Traditional providers do not necessarily provide maintenance and repair services directly. Customers must instead service their vehicles through franchised dealerships or through third party maintenance service providers. We are pursuing a number of agreements to provide third party service for us. However, it is unclear when or even whether such third party service providers will be able to acquire the expertise to service our zero-emission electric commercial vehicles. As vehicles that utilize our technology are placed in more locations, we may encounter negative reactions from our customers who are frustrated that they cannot use local service locations to the same extent as they have with their conventional commercial vehicles and this frustration may result in negative publicity and reduced sales, thereby harming our business and prospects.

***Our decentralized assembly, sales and service model will present numerous challenges and we may not be able to execute on our plan to establish sales, service and assembly facilities in the urban areas we have targeted and our facilities in any of those markets may underperform relative to our expectations.***

Our strategy of establishing sales, service, and assembly facilities in selected urban areas in the United States is substantially different from the prevailing centralized manufacturing and franchised distribution and service model used currently by our zero-emission and conversion manufacturing competitors. For example, we may not be able to utilize long established sales channels developed through a traditional franchise system to increase our sales volume, which may harm our business, prospects, financial condition and operating results. Moreover, we will be competing with companies with well established distribution channels. If we determine that our decentralized model is inadequate, opening our own sales, service and assembly facility in any market generally will be capital intensive and require, among other things, establishing a local order volume that is sufficient to support the facility, finding a suitable and available location, negotiating a satisfactory lease agreement for the facility, obtaining permits and approvals from local and state authorities (which, in the case of facilities to be opened in foreign countries, may require obtaining approvals from national governments), building out the facility to our specifications and hiring and training employees to assemble, sell and service our zero-emission electric vehicles and converting existing vehicles to zero-emission electric vehicles. If we decide we must open our own facilities, we plan to seek state and local government incentives to defray the costs of opening facilities in the markets we have selected, but we may not be successful in this effort, or the incentives may not be as significant as we would like. As with any development project, the development and build-out of a facility will subject us to the risk of cost overruns and delays, which may be significant. Once our sales, service and assembly facilities are open for business, we will need to ensure that they maintain a high level of quality in order to satisfy customers and enhance the brand. Even if we are able to address all of the challenges discussed above, we have little experience in sales, service or assembly and our sales, service and assembly facilities in one or more markets may not adequately address customer service needs or be profitable and we may lose sales and our entire investment in such facilities, damaging our reputation in the process. If we are unable to establish the local order volume we require in order to open new sales, service and assembly facilities or are unable to successfully assemble, sell, and service our zero-emission electric commercial vehicles adequately for customers and profitably operate these new facilities in our target markets, our business, prospects, financial condition and operating results may be adversely affected. If we do not adequately address our customers' service needs, our brand and reputation will be adversely affected, which in turn could have a material and adverse impact on our business, financial condition, operating results and prospects.

***We are subject to substantial regulation, which is evolving, and unfavorable changes or any failure by us to comply with these regulations could substantially harm our business and operating results.***

Our commercial zero-emission electric vehicles, the sale of motor vehicles in general and the electronic components used in vehicles are subject to substantial regulation under international, federal, state and local laws. We may incur in the future increased costs in complying with these regulations. Regulations related to the electric vehicle industry and alternative and renewable energy currently are evolving and we face risks associated with changes to these regulations or new regulations. These risks include the following:

- Changes to the regulations governing the assembly, transportation and disposal of lithium-ion batteries;
- Revisions in motor carrier safety laws in the United States to further enhance motor vehicle safety generally and to ensure that electric vehicles achieve levels of safety commensurate with other cars, trucks, and buses could increase the costs associated with the component parts and the manufacture, assembly, and conversion of our drivetrain systems; and
- Revisions in consumer protection laws to ensure that consumers are fully informed of the particular operational characteristics of vehicles could increase our costs associated with warning labels or other related customer information dissemination.

To the extent the laws governing our business and vehicles change, some or all of our zero-emission electric products may not comply with applicable international, federal, state or local laws, and certain of the competitive advantages of our products may be reduced or eliminated, which could have an adverse effect on our business. Furthermore, compliance with changing regulations could be burdensome, time consuming, and expensive. To the extent compliance with changes in regulations or new regulations is cost prohibitive, our business, prospects, financial condition and operating results will be adversely affected.

***Vehicle dealer and distribution laws could adversely affect our ability to sell our commercial zero-emission electric vehicles.***

Sales of our zero-emission electric vehicles are and/or may be subject to international, state and local vehicle dealer and distribution laws. To the extent such laws prevent us from selling our vehicles to customers located in a particular jurisdiction or require us to retain a local dealer or distributor or establish and maintain a physical presence in a jurisdiction in order to sell vehicles in that jurisdiction, our business, prospects, financial condition and operating results could be adversely affected. We intend to contract with vehicle dealers to sell and/or service our vehicles, but we have no assurance at this time that we will successfully contract with vehicle dealers and distributors to sell and/or service our vehicles.

***We may face risks associated with our international business.***

We plan to develop our business internationally. The sale and shipment of our products across international borders, as well as the purchase of components and products from international sources, would subject us to extensive United States, European Economic Area and other foreign governmental trade, import and export and customs regulations and laws. Compliance with these regulations and laws would be costly and may expose us to penalties for non-compliance. If we are successful in developing our international activities, we expect that such operations would be subject to a variety of risks, including:

- difficulties in staffing and managing foreign and geographically dispersed operations;
- having to comply with various United States and international laws, including export control laws and the U.S. Foreign Corrupt Practices Act of 1977 and anti-money laundering laws;
- differing regulatory requirements for obtaining clearances or approvals to market our products;
- changes in, or uncertainties relating to, foreign rules and regulations that may impact our ability to sell our products, perform services or repatriate profits to the United States;
- tariffs and trade barriers, export regulations and other regulatory and contractual production costs and/or limitations on our ability to sell our products in certain foreign markets;
- fluctuations in foreign currency exchange rates;

- imposition of limitations on or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures;
- imposition of differing labor laws and standards;
- economic, political or social instability in foreign countries and regions;
- an inability, or reduced ability, to protect our intellectual property, including our patented zero-emission drivetrain system design, including any effect of compulsory licensing imposed by government action; and
- availability of government subsidies or other incentives that benefit competitors in their local markets that are not available to us.

While we plan to expand into other markets in the future, our expansion plans may not be realized, or if realized, may not be successful. We expect each market to have particular regulatory and funding hurdles to overcome and future developments in these markets, including the uncertainty relating to governmental policies and regulations, could harm our business. If we expend significant time and resources on expansion plans that fail or are delayed, our reputation, business and financial condition may be harmed.

***We are subject to various environmental laws and regulations that could impose substantial costs upon us and cause delays in opening our sales, service and assembly facilities.***

We and our operations are subject to federal, state and/or local environmental laws and regulations, including laws relating to the use, handling, storage, transportation, disposal and human exposure to hazardous substances and wastes. Environmental and health and safety laws and regulations can be complex, and we expect that our business and operations may be affected by future amendments to such laws or other new environmental and health and safety laws which may require us to change our operations. These laws can give rise to liability for investigatory costs, administrative oversight costs, cleanup costs, property damage, bodily injury and fines and penalties. Capital and operating expenses needed to comply with environmental laws and regulations can be significant, and violations may result in substantial fines and penalties, third party damages, responsibilities to investigate and take corrective or remedial actions, suspension of production or a cessation of our operations.

Contamination at our facilities may result in liability for us under environmental laws and regulations, including, but not limited to the Comprehensive Environmental Response, Compensation and Liability Act, which can impose liability for the full amount of remediation-related costs without regard to fault, for the investigation and cleanup of contaminated soil and ground water, for building contamination and impacts to human health and for damages to natural resources. The costs of complying with environmental laws and regulations and any claims concerning noncompliance, or liability with respect to contamination in the future, could have a material adverse effect on our financial condition or operating results. We may face unexpected delays in obtaining the necessary permits and approvals required by environmental laws and regulations in connection with any planned manufacturing or operational facilities that could require significant time and financial resources and delay our ability to operate these facilities, which would adversely impact our business prospects and operating results.

***Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology.***

Our success and ability to compete depend in part upon our intellectual property. We primarily rely on intellectual property laws, including trade secret, copyright, trademark and patent laws in the United States and abroad, and use contracts, confidentiality procedures, non-disclosure agreements, employee disclosure and invention assignment agreements and other contractual rights to protect our intellectual property. However, the steps we take to protect our intellectual property rights may be inadequate or we may be unable to secure intellectual property protection for all of our products and services.

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products, services or products and services similar to ours and our ability to compete effectively would be impaired. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. Any of our intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. The enforcement of our intellectual property rights depends on our legal actions against these infringers being successful, but these actions may not be successful, even when our rights have been infringed. In addition, we might be required to spend significant resources to monitor and protect our intellectual property rights, and our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Litigation to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, whether or not it is resolved in our favor, and could ultimately result in the impairment or loss of portions of our intellectual property. Any patents issued in the future may not provide us with competitive advantages or may be successfully challenged by third parties.

Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective protection of our intellectual property may not be available to us in every country in which our products and services are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

***We could incur substantial costs as a result of any claim of infringement of another party's intellectual property rights.***

Companies, organizations or individuals, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that could prevent, limit or interfere with our ability to produce, use, develop or sell our zero-emission electric or hybrid vehicles or components, which could make it more difficult for us to operate our business. Companies in our industry are increasingly bringing and becoming subject to suits alleging infringement of proprietary rights, particularly patent rights, and our competitors may hold patents or have pending patent applications, which could be related to our business. These risks have been amplified by the increase in third parties, or non-practicing entities, whose sole primary business is to assert such claims. We have not received in the past, but may receive in the future, notices that claim we or our customers using our products and services have misappropriated or misused other parties' intellectual property rights. In those cases, we intend to investigate the validity of these claims and, if we believe these claims have merit, to respond through licensing or other appropriate actions. If we are sued by a third party that claims that our technology infringes its rights, the litigation could be expensive and could divert our management resources. We do not currently have an extensive patent portfolio of our own, which may limit the defenses available to us in any such litigation.

In addition, in many instances, we have agreed to indemnify our customers against certain claims that our products and services infringe the intellectual property rights of third parties. The results of any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease offering or using technologies or producing, using, developing or selling vehicles or conversions that incorporate the challenged intellectual property;
- make substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign technology or vehicles that utilize our technology to avoid infringement.

If we are required to make substantial payments or undertake any of the other actions noted above as a result of any intellectual property infringement claims against us or any obligation to indemnify our customers for such claims, such payments or costs could have a material adverse effect upon our business and financial results. Furthermore, our business could be adversely affected by any significant disputes between us and our customers as to the applicability or scope of our indemnification obligations to them.

***In many of our zero-emission electric vehicles we use battery packs composed of lithium-ion battery cells, which, if not appropriately managed and controlled, on rare occasions have been observed to catch fire or vent smoke and flames. If any such events occur in our commercial electric vehicles, we could face liability for damage or injury, adverse publicity and a potential safety recall .***

The battery packs in our manufactured or converted vehicles use lithium-ion cells, which have been used for years in laptop computers, cell phones and electric vehicles. On rare occasions, if not appropriately managed and controlled, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells. Highly publicized incidents of laptop computers, cell phones, and Tesla, Inc.'s electric vehicles bursting into flames have focused consumer attention on the safety of these cells. More recently, a limited number of side-impact tests carried out by NHTSA on non-commercial passenger vehicles containing lithium-ion batteries and thermal management systems containing liquid coolant have resulted in post-collision fires under certain conditions. Any failure of a competitor's electric vehicle may cause indirect adverse publicity for us and our electric vehicles. These events have raised questions about the suitability of lithium-ion cells for automotive applications. A field failure of our battery packs may occur, particularly if one of our manufactured or converted vehicles is involved in a collision, which could damage the vehicle or lead to personal injury or death and may subject us to lawsuits, product recalls, or redesign efforts, all of which would be time consuming and expensive. Furthermore, there is some risk of electrocution if individuals who attempt to repair battery packs on our manufactured or converted vehicles do not follow applicable maintenance and repair protocols. Any such damage or injury would likely lead to adverse publicity and potentially a safety recall. Any such adverse publicity or negative public perceptions regarding the suitability of lithium-ion cells for automotive applications or any future incident involving lithium-ion cells such as a vehicle or other fire, even if such incident does not involve vehicles that utilize our technology, could seriously harm our business, prospects, financial condition and operating results.

***Unfavorable conditions in the global economy, rising interest rates and capital market liquidity issues could limit our ability to grow our business and negatively affect our operating results.***

Revenue growth and potential profitability of our business depends on the level of demand in the markets we serve. To the extent that weak economic conditions cause our customers and potential customers to freeze or reduce their capital expenditure or operational budgets, particularly those for zero-emission electric vehicles, demand for our products and services may be negatively affected. Historically, economic downturns have resulted in overall reductions in these budgets and corresponding spending. If economic conditions deteriorate or do not materially improve, our customers and potential customers may elect to decrease their operational budgets or defer or reconsider product and service purchases, which would limit our ability to grow our business and negatively affect our operating results.

***Our business depends on our Chief Executive Officer and management team, retaining and attracting qualified management, key employees and technical personnel and expanding our sales and marketing capabilities.***

Our success depends upon the continued service of Mr. Reynolds, our Chairman, CEO and President, as well as other members of our senior management team. It also depends on our ability to continue to attract and retain additional highly qualified management, technical, engineering, operating and sales and marketing personnel. We do not currently maintain key person life insurance policies on any of our employees. While we have employment contracts with Mr. Reynolds and Mr. Menerey, our Chief Financial Officer, we do not have fixed term employment agreements with any of our other management employees, all who could terminate their relationship with us at any time. Our business also requires skilled technical, engineering, product and sales personnel, who are in high demand and are difficult to recruit and retain. As we continue to innovate and develop our products and services and develop our business, we will require personnel with expertise in these areas. There is increasing competition, especially in California, for talented individuals such as design engineers, manufacturing engineers, and other skilled employees with specialized knowledge of electric vehicles, zero-emission electric drivetrain systems and conversions. This competition affects both our ability to retain key employees and hire new ones. Key talent may leave us due to various factors, such as a very competitive labor market for talented individuals with automotive or transportation experience. Our success depends upon our ability to hire new employees in a timely manner and retain current employees. Additionally, we compete with both mature and prosperous companies that have far greater financial resources than we do and start-ups and emerging companies that promise short-term growth opportunities. The loss of Mr. Reynolds, Mr. Menerey or any other member of our senior management team, or an inability to attract, retain and motivate additional highly skilled employees required for the planned development and expansion of our

business, could delay or prevent the achievement of our business objectives and could materially harm our business.

***The forecasts of market growth may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, our business may not grow at similar rates, if at all.***

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates, which may not prove to be accurate. Forecasts relating to the expected growth in zero-emission electric vehicles, electric drivetrain systems and conversions and other markets may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

***We will require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.***

We need sufficient capital to fund our ongoing operations and continue our development. We intend to continue to make investments to support our business growth and will require additional funds to respond to business challenges, such as keeping pace with technological developments in order to remain competitive in our evolving industry, improve our operating infrastructure or acquire complementary businesses and technologies. While we believe that our existing cash and cash equivalents will be sufficient to fund our operations during the next eighteen months, we will need to engage in additional equity or debt financings to secure additional funds. We do not expect to be able to satisfy our cash requirements solely through product sales in the near future, therefore we expect to rely on the net proceeds from our previous offerings and available debt financing to fund our operations. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when and if we require it, our ability to continue to support our business growth, and to respond to business challenges could be significantly impaired.

***We may selectively pursue acquisitions of complementary businesses and technologies, which could divert capital and our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.***

We may selectively pursue acquisitions of complementary businesses and technologies that we believe could complement or expand our applications, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

In addition, we have limited experience with acquiring other businesses or technologies. If we acquire businesses or technologies, we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies or services in a profitable manner;
- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- difficulty integrating the accounting systems, operations and personnel of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;

- difficulty converting the customers of the acquired business onto our applications and contract terms, including disparities in the revenue, licensing, support or professional services model of the acquired company;
- diversion of management's attention from other business concerns;
- adverse effects to our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees; and
- use of resources that are needed in other parts of our business; and use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. We may also unknowingly inherit liabilities from acquired businesses or assets that arise after the acquisition and that are not adequately covered by indemnities. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial position may suffer.

***If we are unable to maintain effective internal control over financial reporting and effective disclosure controls and procedures, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.***

Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on the internal control over financial reporting. Once we are no longer either an "emerging growth company" or a smaller reporting company, such report must be attested to by our independent registered public accounting firm. The Sarbanes-Oxley Act also requires that our principal executive officer and principal financial officer conclude as to the effectiveness of our disclosure controls and procedures on a quarterly basis. As of December 31, 2019, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective. Due to our size, we rely heavily on key management for day-to-day operations and internal controls, and our size and correspondingly limited resources give rise to additional internal control weaknesses, including our disclosure controls.

If we fail to detect errors on a timely basis, our financial statements may be materially misstated and if we are unable to comply with the requirements of Section 404 of the Sarbanes Oxley Act, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, if and when required, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***We are an emerging growth company and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.***

For as long as we continue to be an emerging growth company, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earliest of (i) the date on which we are deemed to be a "large accelerated filer," (ii) the end of the fiscal year in which we have total annual gross revenue of \$1.07 billion or more during such fiscal year, (iii) the date on which we issue more than \$1 billion in non-convertible debt in a three-year period or (iv) the end of the fiscal year in which the fifth anniversary of our initial public offering occurs.

***We may not be able to utilize a significant portion of our net operating loss or research and development tax credit carryforwards, which could adversely affect our profitability.***

As of December 31, 2019, we had federal and state net operating loss carryforwards ("NOLs") due to prior period losses. Under previous tax laws, these NOLs, if not utilized, would have begun to expire from 2033 through 2037 for federal and state purposes, respectively. These net operating loss carryforwards could have expired unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability. Due to changes in federal tax laws under the Tax Cuts and Jobs Act of 2017, the NOLs, while limited to 80% in terms of amounts to be utilized, do not expire. California tax law has not changed to conform to the new federal law on NOLs, and the information above thus still applies to our California NOLs.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize net operating loss carryforwards or other tax attributes in any taxable year may be limited if we experience an "ownership change." A Section 382 "ownership change" generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws.

Future issuances of our stock could cause an "ownership change." It is possible that any future ownership change could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability.

***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

### **Risks Related to the Ownership of Our Securities**

***The price of our common stock is and is likely to continue to be volatile and fluctuate substantially, which could result in substantial losses for our stockholders and may prevent you from reselling your shares at or above the price you paid for your shares.***

The market price of our common stock is and is likely to remain volatile and may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- overall performance of the equity markets;
- the development and sustainability of an active trading market for our common stock;
- our operating performance and the performance of other similar companies;
- changes in the estimates of our operating results that we provide to the public, our failure to meet these projections or changes in recommendations by securities analysts that elect to follow our common stock;
- press releases or other public announcements by us or others, including our filings with the SEC;
- changes in the market perception of all-electric and hybrid products and services generally or in the effectiveness of our products and services in particular;
- announcements of technological innovations, new applications, features, functionality or enhancements to products, services or products and services by us or by our competitors;
- announcements of acquisitions, strategic alliances or significant agreements by us or by our competitors;

- announcements of customer additions and customer cancellations or delays in customer purchases;
- announcements regarding litigation involving us;
- recruitment or departure of key personnel;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets;
- regulatory developments in the United States or foreign countries;
- the economy as a whole, market conditions in our industry, and the industries of our customers;
- the expiration of market standoff or contractual lock-up agreements;
- the size of our market float; and
- any other factors discussed in this report.

The market price and volume of our common stock could fluctuate, and in the past has fluctuated, relative to our limited public float. We are particularly subject to fluctuations-as reported on the OTC Markets Group Inc. (“OTC”) during the year ended December 31, 2019, our stock price reached highs of \$0.49 and lows of \$0.06, with daily trade volumes reaching a high of 7,502,100 and a low of 6,200. In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies.

In the past, stockholders have filed securities class action litigation following periods of market volatility. In August 2018, a purported class action lawsuit was filed in California against us, certain of our executives officers, and the two underwriters of our offering of common stock under Regulation A in June 2017, which alleges that documents related to our June 2017 offering contained materially false and misleading statements and that all defendants violated Section 12(a) (2) of the Securities Act of 1933, as amended (the “Securities Act”), and that we and the individual defendants violated Section 15 of the Securities Act, in connection therewith. Plaintiff’s counsel subsequently filed a first amended complaint, a second amended complaint, and a third amended complaint. In October 2019, we answered the third amended complaint, generally denying the allegations and asserting affirmative defenses. In November 2019, Network 1 and Boustead Securities (together the “Underwriters”) filed a cross-complaint against us seeking indemnification under the terms of the underwriting agreement that we entered into with the Underwriters related to our initial public offering (the “Underwriting Agreement”). In December 2019, we filed our answer to the Underwriters’ cross-complaint, generally denying the allegations and asserting affirmative defenses, and we also filed a cross-complaint against the Underwriters seeking indemnification under the terms of the Underwriting Agreement. In January 2020, Edward R. Monfort, our former Chief Technology Officer and former director, filed a cross-complaint against the Underwriters seeking indemnification under the terms of the Underwriting Agreement. In January 2020, Mr. Monfort filed a cross-complaint against us seeking indemnification under the terms of our Amended and Restated Bylaws and Section 145 of the Delaware General Corporation Law. In February 2020 we filed an answer to Mr. Monfort’s cross-complaint, generally denying the allegations and asserting affirmative defenses. Although we believe that the purported class action lawsuit is without merit and intend to vigorously defend the action, such litigation is expensive and diverts our management resources. Additionally, we could in the future be the target of additional litigation. Any such litigation could subject us to substantial additional costs, further divert resources and the attention of management from our business, and adversely affect our business, results of operations and financial condition.

***The warrants issued in connection with our January 2018 public offering contain anti-dilution rights which could cause their exercise price to be reduced and the number of shares underlying such warrants to be correspondingly increased, which could result in substantial dilution to our existing stockholders and adversely affect the market price of our securities.***

The warrants issued and sold in our January 2018 public offering include anti-dilution rights, which provide that if, at any time the warrants are outstanding, we issue or are deemed to have issued any shares of common stock or securities that are convertible into or exchangeable for shares of common stock (except for certain exempt

issuances, including the issuance of certain stock options, shares of common stock upon the exercise of securities outstanding prior to January 2018 and securities issued in connection with certain acquisitions or strategic transactions) for consideration less than the then current exercise price of the warrants, which is currently \$4.50 per share and subject to adjustment pursuant to the terms thereof, the exercise price of such warrants is automatically reduced to the price per share of such new issuance. Further, simultaneously with any adjustment to the exercise price of such warrants, the number of shares of common stock that may be purchased upon exercise of such warrants will be increased or decreased proportionately, such that after such adjustment the aggregate exercise price payable thereunder for the adjusted number of shares of common stock underlying such warrants will be the same as the aggregate exercise price in effect immediately prior to such adjustment. To the extent that we issue or are or deemed to have issued securities for consideration that is substantially less than the exercise price of the warrants issued in our January 2018 public offering, holders of our common stock will experience dilution, which may be substantial and which could lower the market price of our securities. Further, the potential application of such anti-dilution rights may prevent us from seeking additional financing, which would adversely affect our ability to finance our operations and continue to support our growth initiatives .

***We have and will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which adversely affect our operating results.***

As a public company, and particularly after we are no longer an emerging growth company, we are incurring and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting, corporate governance requirements, and investor relations expenses. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of Nasdaq and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel have adapted to the requirements of being a public company and devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations have made it more expensive for us to obtain director and officer liability insurance, and we have incurred substantially higher costs to obtain increased coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

The increased costs associated with operating as a public company have and will continue to decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business or increase the prices of our products or services. Additionally, if these requirements divert our management's attention from other business concerns, they could have a material adverse effect on our business, prospects, financial condition and operating results.

***NASDAQ has delisted our common stock from trading on its exchange, which could limit stockholders' ability to trade our common stock.***

As previously reported, our common stock was delisted from trading on The NASDAQ Capital Market due to our failure to regain compliance with the \$1.00 minimum bid price requirement for continued listing pursuant to Listing Rule 5550(a)(2) of The NASDAQ Stock Market within the applicable compliance period.

As of August 22, 2019, shares of our common stock began trading on the OTCQB® Venture Market under the trading symbol "ADOM". Although we remain a reporting company under the Securities Exchange Act of 1934 and continue to be subject to the public reporting requirements of the Securities and Exchange Commission, as a result of being traded on the OTC Markets, our stockholders could face significant material adverse consequences, including limited availability of market quotations for our common stock and reduced liquidity for the trading of our securities. In addition, we could experience a decreased ability to issue additional securities and obtain additional financing in the future.

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

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If few securities analysts commence coverage of us, or if industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

***We may fail to meet our publicly announced guidance or other expectations about our business, which would cause our stock price to decline.***

We may provide guidance regarding our expected financial and business performance, such as projections regarding sales and production, as well as anticipated future revenues, gross margins, profitability and cash flows. Correctly identifying key factors affecting business conditions and predicting future events is inherently an uncertain process and our guidance may not ultimately be accurate. Our guidance is based on certain assumptions such as those relating to anticipated production and sales volumes and average sales prices, supplier and commodity costs, and planned cost reductions. If our guidance is not accurate or varies from actual results due to our inability to meet our assumptions or the impact on our financial performance that could occur as a result of various risks and uncertainties, the market value of our common stock could decline significantly.

***The concentration of our common stock ownership with our executive officers, directors and affiliates will limit your ability to influence corporate matters.***

Our executive officers, directors and owners of 5% or more of our outstanding common stock and their respective affiliates beneficially owned, in the aggregate 31.2% of our outstanding common stock as of March 2, 2020. This percentage includes both outstanding shares of common stock and stock options that are vested and exercisable as of that date. These stockholders will therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control will limit our stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. This ownership could affect the value of our common stock.

***We do not intend to pay dividends for the foreseeable future.***

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Consequently, stockholders must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

***Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.***

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to defend against a takeover attempt;
- establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a supermajority stockholder vote;

- provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;
- prevent stockholders from calling special meetings; and
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder becomes an “interested” stockholder.

Not applicable.

**Item 2. PROPERTIES**

We maintain our principal office and our recently-leased warehouse and production facility in Corona, California and additional office and storage space in Los Altos, San Francisco, and Stockton, California under a combination of leases and subleases that are month-to-month or expire at various times between now and February, 2023. We believe that our facilities are adequate to meet our needs for the immediate future, and that, should it be needed, we will be able to secure additional space to accommodate any such expansion of our operations.

**Item 3. LEGAL PROCEEDINGS**

Except as set forth below, we know of no material, existing or pending, legal proceedings against our Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest.

On August 2, 2018, Edward R. Monfort, our former Chief Technology Officer and former director, filed a complaint, captioned *Edward R. Monfort v. ADOMANI, Inc., et al.*, Case No.: 18CV332757, in the Superior Court of the State of California for the County of Santa Clara, against us and certain of our executive officers, alleging that we and the other defendants (i) breached the terms of certain common stock subscription agreements to which Mr. Monfort is a party, (ii) fraudulently deprived Mr. Monfort of certain purported equity in the Company and (iii) fraudulently induced Mr. Monfort to execute a release of claims in connection with his June 2016 employment agreement. Mr. Monfort sought unspecified monetary damages, declaratory relief regarding the extent of his equity ownership in the Company and other relief. On August 24, 2018, we filed a notice of removal pursuant to which we removed the case to the United States District Court for the Northern District of California. On September 24, 2018, Mr. Monfort filed a motion for remand, seeking to remand the proceeding from the United States District Court for the Northern District of California back to the Superior Court of the State of California for the County of Santa Clara. On January 8, 2019, the United States District Court for the Northern District of California denied the motion for remand. On February 7, 2019, we answered Mr. Monfort's complaint and filed counterclaims against Mr. Monfort alleging counterclaims for: (i) breach of contract; (ii) declaratory judgment; (iii) breach of fiduciary duty; (iv) wrongful dilution; and (v) conversion. On September 12, 2019, we filed a motion for summary judgment, asking the court to dismiss all of Mr. Monfort's claims. On November 25, 2019, the court granted the motion and dismissed all of Mr. Monfort's claims with prejudice. Following the court's ruling, the parties engaged in settlement negotiations regarding, among other things, the Company's counterclaims and Mr. Monfort's appeal rights. The parties reduced their agreement to writing in a Settlement Agreement and Release. This document, executed by all parties and the Company's litigation insurer, StarStone Specialty Insurance Company, became effective on February 4, 2020. The parties agreed, among other things, to the following: (i) Mr. Monfort abandoned all appeal rights; (ii) Mr. Monfort's options to purchase Company stock were terminated; (iii) Mr. Monfort will divest himself of all Company common stock that he, his family, his affiliates, or his businesses own over the ten-week period following the effective date of the Settlement Agreement and Release; (iv) the Company abandoned its counterclaims; and (v) the parties released each other from any and all claims, known or unknown, that existed as of the date of the Settlement Agreement and Release. Neither Mr. Monfort nor any defendant in this action took any financial compensation to settle this matter. On February 5, 2020, consistent with the parties' stipulation, the court dismissed the Company's counterclaims with prejudice. This matter is now closed.

On August 23, 2018, a purported class action lawsuit captioned *M.D. Ariful Mollik v. ADOMANI, Inc. et al.*, Case No. RIC 1817493, was filed in the Superior Court of the State of California for the County of Riverside against us, certain of our executive officers, Mr. Monfort, and the two underwriters of our offering of common stock under Regulation A in June 2017. This complaint alleges that documents related to our offering of common stock under Regulation A in June 2017 contained materially false and misleading statements and that all defendants violated Section 12(a)(2) of the Securities Act, and that we and the individual defendants violated Section 15 of the Securities Act, in connection therewith. The plaintiff seeks on behalf of himself and all class members: (i) certification of a class under California substantive law and procedure; (ii) compensatory damages and interest in an amount to be proven at trial; (iii) reasonable costs and expenses incurred in this action, including counsel fees and expert fees; (iv) awarding of rescission or rescissory damages; and (v) equitable relief at the discretion of the Court. Plaintiff's counsel has subsequently filed a first amended complaint, a second amended complaint, and a third amended complaint. Plaintiff Mollik was replaced by putative class representatives Alan K. Brooks and Electric Drivetrains, LLC. Alan K. Brooks was subsequently dropped as a putative class representative. On October 25, 2019, we answered the third amended complaint, generally denying the allegations and asserting affirmative defenses. On November 5, 2019, Network 1 and Boustead Securities (together the "Underwriters") filed a cross-complaint against the Company seeking indemnification under the terms of the underwriting agreement the Company and the Underwriters entered for the Company's initial public offering (the "Underwriting Agreement"). On December 10, 2019, the Company filed its answer to the Underwriters' cross-complaint, generally denying the allegations and asserting affirmative defenses. Also on this date, the Company filed a cross-complaint against the Underwriters seeking indemnification under the terms of the Underwriting Agreement. On January 14, 2020, Mr. Monfort filed a cross-complaint against the Underwriters seeking indemnification under the terms of the Underwriting Agreement. On January 15, 2020, Mr. Monfort filed a cross-complaint against the Company seeking indemnification under the terms of the Company's Amended and Restated Bylaws and Section 145 of the Delaware General Corporation Law. On February 18, 2020 we filed an answer to Mr. Monfort's cross-complaint, generally denying the allegations and asserting affirmative defenses. We believe that the purported class action lawsuit is without merit and intend to vigorously defend the action.

On June 19, 2019, Alan K. Brooks, an ADOMANI investor, filed a complaint, captioned *Alan K. Brooks v. ADOMANI, Inc., et al.*, Case No. 1-CV-349153 in the Superior Court of California for the County of Santa Clara, against the Company, certain of the Company's executive officers and directors, two of the underwriters of the Company's offering of common stock under Regulation A in June 2017, and certain of the underwriters' personnel, among others. The complaint alleges that the Company and other defendants breached the terms of an agreement between Mr. Brooks and the Company by refusing to release 1,320,359 shares of ADOMANI, Inc. stock to Mr. Brooks. Mr. Brooks seeks damages of \$13,500,000.00 plus interest and attorney's fees. On September 20, 2019, Mr. Brooks filed his first amended complaint ("FAC") reasserting his breach of contract claim and alleging five additional claims for (i) violations of Cal. Corp. Code Section 25401, (ii) fraud, (iii) negligent misrepresentation, (iv) elder abuse, and (v) unfair competition. We answered the FAC on November 12, 2019, generally denying the allegations in the FAC and asserting affirmative defenses. A case management conference is scheduled in this matter for March 17, 2020. We believe that the lawsuit is without merit and intend to vigorously defend the action.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Part II**

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

**Market Information**

Our common stock trades on the OTCQB market under the symbol "ADOM".

**Holders**

As of February 24, 2020, we had approximately 121 record holders of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. The number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

**Dividend Policy**

We have never declared or paid any dividends on our common stock and do not anticipate that we will pay any dividends to holders of our common stock in the foreseeable future. Instead, we currently plan to retain any earnings to finance the growth of our business. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on our financial condition, results of operations and capital requirements as well as other factors deemed relevant by our board of directors.

**Recent Sales of Unregistered Securities**

None.

**Repurchases of Equity Securities**

We did not purchase any of our equity securities during the period covered by this Annual Report.

**Item 6. Selected Financial Data**

Not applicable.

*The following discussion should be read in conjunction with our financial statements and related notes included in Part IV of this Annual Report. This discussion contains forward-looking statements that reflect our plans, estimates, beliefs and expectations that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those discussed in Item 1 (Business) and Item 1A (Risk Factors) of Part I of this Annual Report.*

## **Overview**

We are a provider of new purpose-built zero-emission electric vehicles focused on total cost of ownership. The vehicles are manufactured by outside, original equipment manufacturer ("OEM") partners located in China, Malaysia and the Philippines that can be marketed, sold, warranted and serviced through our developing distribution and service network. We also are a provider of advanced zero-emission electric drivetrain systems for integration in new buses and medium to heavy-duty commercial fleet vehicles. We also provide re-power conversion kits to replace conventional drivetrain systems for combustion powered vehicles with zero-emission electric drivetrain systems. Our vehicles and drivetrain systems are designed to help fleet operators unlock the benefits of technology that reduces greenhouse gases ("GHG"), nitrous oxide ("NOx"), particulate matter ("PM") and other pollutants, as well as to address the challenges of local, state and federal regulatory compliance and traditional-fuel price cost instability.

For the years ended December 31, 2019 and 2018, we generated sales revenue of \$12.6 million and \$5.0 million, respectively. For the years ended December 31, 2019 and 2018, our net losses were \$5.2 million and \$11.0 million, respectively.

## **Factors Affecting Our Performance**

We believe that the growth and future success of our business depend on various opportunities, challenges and other factors, including the following:

**New Customers.** We are competing with other companies and technologies to help fleet managers and their districts/companies more efficiently and cost-effectively manage their fleet operations. Once these fleet managers have decided they want to buy from us, we still face challenges helping them obtain financing options to reduce the cost barriers to purchasing. We may also encounter customers with inadequate electrical services at their facilities that may delay their ability to purchase from us.

**Investment in Growth.** We plan to continue to invest for long-term growth. We anticipate that our operating expenses will increase in the foreseeable future as we invest in research and development to enhance our zero-emission electric vehicles and systems; design, develop and manufacture our commercial fleet vehicles and their components; increase our sales and marketing to acquire new customers; and increase our general and administrative functions to support our growing operations. We believe that these investments will contribute to our long-term growth, although they will adversely affect our results of operations in the near term. In addition, the timing of these investments can result in fluctuations in our annual and quarterly operating results.

**Zero-emission electric vehicle experience.** Our dealer and service network is not currently completely established, although we do have certain agreements in place. One issue they may have, and we may encounter, is finding appropriately trained technicians with zero-emission electric fleet vehicle experience. Our performance will depend on having a robust dealer and service network, which will require appropriately trained technicians to be successful. Because vehicles that utilize our technology are based on a different technology platform than traditional internal combustion engines, individuals with sufficient training in zero-emission electric vehicles may not be available to hire, and we may need to expend significant time and expense training the employees we do hire. If we are not able to attract, assimilate, train or retain additional highly qualified personnel in the future, or do so cost-effectively, our performance would be significantly and adversely affected.

**Market Growth.** We believe the market for all-electric solutions for alternative fuel technology, specifically all-electric vehicles, will continue to grow as more purchases of new zero-emission vehicles and as more conversions of existing fleet vehicles to zero-emission vehicles are made. However, unless the costs to produce such vehicles decrease dramatically, purchases of our products will continue to depend in large part on financing subsidies from government agencies. We cannot be assured of the continued availability, the amounts of such assistance to our customers, or our ability to access such funds.

**Sales revenue growth from additional products.** We seek to add to our product offerings additional zero-emission vehicles of all sizes manufactured by outside OEM partners, to be marketed, sold, warranted and serviced through our developing distribution and service network, as well as add other ancillary products discussed elsewhere in this report.

**Sales revenue growth from additional geographic markets.** We believe that growth opportunities for our products exist internationally, as well. Our future performance will depend in part upon the growth of these additional markets. Accordingly, our business and operating results will be significantly affected by our ability to timely enter and effectively address these emerging markets and the speed with which and extent to which demand for our products in these markets grows.

## **Components of Our Results of Operations**

### **Sales**

Sales are recognized from the sales of new, purpose-built zero-emission electric vehicles; advanced zero-emission electric drivetrain systems for fleet vehicles; the sale and/or installation of re-power conversion kits to replace conventional drivetrain systems in combustion powered vehicles with zero-emission electric drivetrain systems; and from contracting to provide engineering services. Sales are recognized in accordance with Accounting Standards Codification ("ASC") Topic 606, as discussed in Note 2 to our consolidated financial statements included in Part IV of this Annual Report.

### **Cost of Sales**

Cost of sales includes those costs related to the development, manufacture, and distribution of our products. Specifically, we include in cost of sales each of the following: material costs (including commodity costs); freight costs; labor and other costs related to the development and manufacture of our products; and other associated costs. Cost of sales for long-term contracts are recognized proportionate to the prescribed gross profit of each contract. Cost of sales also includes costs related to the valuation of inventory due to impairment, obsolescence, or shrinkage.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses include all corporate and administrative functions that support our company, including personnel-related expense and stock-based compensation costs; costs related to investor relations activities; warranty costs, including product recall and customer satisfaction program costs; consulting costs; marketing-related expenses; and other expenses that cannot be included in cost of sales.

**Consulting and Research and Development Expenses**

These expenses are related to our consulting and research and development activity.

**Other Income/Expenses, Net**

Other income/expenses include non-operating income and expenses, including interest income and expense.

**Provision for Income Taxes**

We account for income taxes in accordance with Financial Accounting Standards Board ("FASB") ASC 740 "Income Taxes," which requires the recognition of deferred income tax assets and liabilities for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the enactment occurs. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that we will not realize tax assets through future operations. Because we have incurred only losses to this point, no provision for income taxes has been made.

**Results of Operations****Comparison of the Years Ended December 31, 2019 and 2018***Sales*

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
<i>In thousands, except percentages</i>				
Sales	\$ 12,561	\$ 5,011	\$ 7,550	150.67 %

Sales were \$12.6 million and \$5.0 million for the years ended December 31, 2019 and 2018, respectively. The increase in sales is primarily due to products and services sold to Blue Bird, and work performed under a DOE grant awarded to Blue Bird for which we were selected to provide products and services. Additionally, sales included two electric school buses sold to Rialto Unified School District and ten e-trikes sold to GerWeiss EV USA LLC ("GerWeiss").

*Cost of Goods Sold*

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
<i>In thousands, except percentages</i>				
Cost of goods sold	\$ 11,627	\$ 4,878	\$ 6,749	138.36 %

Cost of goods sold was \$11.6 million and \$4.9 million for the years ended December 31, 2019 and 2018, respectively. The increase is primarily due to costs related to the increase in sales as discussed in "Sales" above.

*Operating Expenses*

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
<i>In thousands, except percentages</i>				
General and administrative <sup>1</sup>	\$ 5,705	\$ 10,651	\$ (4,946)	-46.44 %
Consulting	333	171	162	94.74 %
Research and development	109	686	(577)	-84.11 %
Total operating expenses, net	\$ 6,147	\$ 11,508	\$ (5,361)	-35.81 %

<sup>1</sup> Includes stock-based compensation expense as follows:

<i>In thousands, except percentages</i>	Year Ended December 31,		\$ Change	% Change
	2019	2018		
Stock-based compensation expense	\$ 769	\$ 6,410	\$ (5,641)	-88.00 %

#### *General and Administrative Expenses*

General and administrative expenses were \$5.7 million and \$10.7 million for the years ended December 31, 2019 and 2018, respectively. The decrease is primarily due to a decrease of \$5.6 million in non-cash stock-based compensation expense, and to decreases in other general and administrative expenses, offset by increases of \$184,559 in insurance expense, \$177,988 in legal and professional fees, \$173,578 in payroll expense, and \$102,999 in advertising and marketing expense. General and administrative expenses for the year ended December 31, 2019 include approximately \$1.1 million in non-cash charges, including \$768,550 in stock-based compensation expense, \$273,972 in bad debt expense, and \$48,576 in depreciation expense.

#### *Consulting*

Consulting expenses were \$333,625 and \$170,824 for the years ended December 31, 2019 and 2018, respectively. The increase is due to an increase in sales and marketing consulting and to supply chain-related consulting activity during the year ended December 31, 2019. Consulting expense for the year ended December 31, 2019 includes \$55,000 non-cash charges.

#### *Research and Development Expenses*

Research and development expenses were \$108,751 and \$686,367 for the years ended December 31, 2019 and 2018, respectively. The decrease is due to the write-down of property and equipment of \$385,065 in 2018 relating to a vehicle that would not be further utilized for its intended purpose, and the timing of certain expenditures for research and development activity.

#### *Interest Expense*

<i>In thousands, except percentages</i>	Year Ended December 31,		\$ Change	% Change
	2019	2018		
Interest expense	\$ 155	\$ 46	\$ 109	236.96 %

Interest expense consists of payments made for interest incurred on our secured line of credit.

Interest expense was \$155,158 and \$46,362 for the years ended December 31, 2019 and 2018, respectively. The increase is due to the increase in the principal balance of our line of credit.

#### *Cash Flows*

A summary of our operating, investing and financing activities is shown in the following table:

<i>In thousands</i>	Year Ended December 31,	
	2019	2018
Cash flows used in operating activities	\$ (4,582)	\$ (4,511)
Cash flows provided by (used in) investing activities	1,128	(3,705)
Cash flows provided by financing activities	4,127	9,529
Net increase in cash and cash equivalents	\$ 673	\$ 1,313

### *Cash Used in Operating Activities*

Cash used in operating activities is primarily the result of our operating losses, reduced by the impact of non-cash expenses, including non-cash stock-based compensation. These numbers are further impacted by adjustments for non-cash interest expense.

Net cash used in operating activities during the year ended December 31, 2019 was \$4.6 million, as a result of a net loss of \$5.2 million, stock-based compensation expense of \$768,550, \$273,972 in bad debt expense related to Notes Receivable, and other non-cash charges of \$111,092, and changes in operating assets and liabilities that used \$582,438 in cash. Accounts receivable decreased by \$335,269 due to 2019 sales activity and the timing of accounts receivable receipts. Prepaid expenses increased by \$94,938, primarily due to increases in deposits for inventory and prepaid insurance. Other current assets increased by \$44,062 primarily due to an increase in accrued other receivables. Inventory increased by \$494,158 due to the receipt of several completed vehicles that have not yet been sold. Notes receivable increased by \$27,199 due primarily to additional interest that has accrued on these note. Other non-current assets decreased by \$57,392 due to the amortization of the right-of-use asset established in conjunction with the new lease accounting standard, offset by an increase in deposits. Accounts payable increased by \$76,047, primarily due to 2019 sales activity and the timing of payment for product purchases. Accrued liabilities decreased by \$320,288, due primarily to the payment of production costs of \$365,420, offset by increases in other ongoing accrual accounts. Other non-current liabilities decreased by \$70,500 due to reclassification as current liabilities in conjunction with the new lease accounting standard.

Net cash used in operating activities during the year ended December 31, 2018 was \$4.5 million, as a result of a net loss of \$11.0 million, stock-based compensation expense of \$6.4 million, other non-cash charges of \$643,415, and changes in operating assets and liabilities that used \$516,738 in cash. Accounts receivable increased by \$996,622 due to 2018 sales activity and the timing of accounts receivable receipts. Other current assets increased by \$496,118, primarily due to increases in deposits for inventory and prepaid insurance premiums. Inventory decreased by \$210,000 due to the sale of a bus, previously held in inventory as of December 31, 2017, and sold during 2018. Other non-current assets increased by \$70,977 due primarily to the amortization of the right-of-use asset established in conjunction with the new lease accounting standard. Accounts payable increased by \$312,280, primarily due to 2018 sales activity and the timing of payment for product purchases. Accrued liabilities increased by \$453,605, due primarily to production costs of \$365,420 and increases in other ongoing accrual accounts. Other non-current liabilities decreased by \$70,500 due to reclassification as current liabilities in conjunction with the new lease accounting standard.

We expect cash used in operating activities to fluctuate significantly in future periods as a result of a number of factors, some of which are outside of our control, including, among others: the success we achieve in generating revenue; the success we have in helping our customers obtain financing to subsidize their purchases of our products; our ability to efficiently develop our dealer and service network; the costs of batteries and other materials utilized to make our products; the extent to which we need to invest additional funds in research and development; and the amount of expense we incur to satisfy future warranty claims.

### *Cash Used in Investing Activities*

Net cash provided by investing activities during the year ended December 31, 2019 was \$1.1 million, due to the reclassification to cash from liquid marketable securities based on shorter maturity dates, in the amount of \$1.2 million, offset by the issuance of a \$38,000 note receivable to another third party, and \$12,567 for the acquisition of property and equipment.

Net cash used in investing activities during the year ended December 31, 2018 was \$3.7 million, due to the purchase of liquid marketable securities in the amount of \$3.9 million, the repayment of a \$500,000 note receivable from a third party, the issuance of a \$200,000 note receivable to another third party, and \$79,739 for the acquisition of property and equipment.

#### *Cash Provided by Financing Activities*

Net cash provided by financing activities during the year ended December 31, 2019 was \$4.1 million, due to approximately \$4.1 million in net proceeds received under our line of credit with Morgan Stanley and \$7,109 in proceeds received from the exercise of stock options.

Net cash provided by financing activities during the year ended December 31, 2018 was \$9.5 million, due to approximately \$9.8 million in net proceeds from the closing of our follow-on offering on January 9, 2018, \$1.7 million in net proceeds received under our line of credit with Morgan Stanley and \$99,470 in proceeds received from the exercise of stock options, offset by the \$2.1 million repayment of notes payable principal and related accrued and unpaid interest.

#### **Liquidity and Capital Resources**

From our incorporation in 2012 until the completion of our offerings of common stock under Regulation A in June 2017 and units in January 2018, we financed our operations and capital expenditures through issuing equity capital, convertible notes and notes payable.

As of December 31, 2019, we had cash and cash equivalents of \$4.4 million, and short-term liquid marketable securities of \$2.8 million. We believe that our existing cash and cash equivalents and short-term investments will be sufficient to fund our operations during the next eighteen months. However, we may not successfully execute our business plan, and if we do not, we may need additional capital to continue our operations and support the increased working capital requirements associated with the fulfillment of purchase orders.

The sale of additional equity securities in the future could result in additional dilution to our stockholders and those securities may have rights senior to those of our common stock. In particular, the warrants issued and sold in our January 2018 public offering include anti-dilution rights, which provide that if, at any time the warrants are outstanding, we issue or are deemed to have issued any shares of common stock or securities that are convertible into or exchangeable for shares of common stock (except for certain exempt issuances, including the issuance of certain stock options, shares of common stock upon the exercise of securities outstanding prior to January 2018 and securities issued in connection with certain acquisitions or strategic transactions) for consideration less than the then current exercise price of the warrants, which is currently \$4.50 per share and subject to adjustment pursuant to the terms thereof, the exercise price of such warrants is automatically reduced to the price per share of such new issuance. Further, simultaneously with any adjustment to the exercise price of such warrants, the number of shares of common stock that may be purchased upon exercise of such warrants will be increased or decreased proportionately, such that after such adjustment the aggregate exercise price payable thereunder for the adjusted number of shares of common stock underlying such warrants will be the same as the aggregate exercise price in effect immediately prior to such adjustment. To the extent that we issue or are or deemed to have issued securities for consideration that is substantially less than the exercise price of the warrants issued in our January 2018 public offering, holders of our common stock will experience dilution, which may be substantial and which could lower the market price of our securities. Further, the potential application of such anti-dilution rights may prevent us from seeking additional financing, which would adversely affect our ability to finance our operations and continue to support our growth initiatives.

The incurrence of additional indebtedness in the future would result in increased debt service obligations and could result in operating and financial covenants that would restrict our operations. Such capital, if required, may not be available on terms that are favorable to us or at all. We are currently incurring operating deficits that are expected to continue for the foreseeable future, and as we begin to execute our marketing plan, we expect our operating deficit will continue to grow until we begin to generate a sufficient level of sales revenue from our sales and marketing efforts. The sale of additional equity securities in the future could result in additional dilution to our stockholders and those securities may have rights senior to those of our common stock. The incurrence of additional indebtedness in the future would result in increased debt service obligations and could result in operating and financial covenants that would restrict our operations. Such capital, if required, may not be available on terms that are favorable to us or at all. We are currently incurring operating deficits that are expected to continue for the foreseeable future, and as we begin to execute our marketing plan, we expect our operating deficit will continue to grow until we begin to generate a sufficient level of sales revenue from our sales and marketing efforts. The sale of additional equity securities in the future could result in additional dilution to our stockholders and those securities may have rights senior to those of our common stock. The incurrence of additional indebtedness in the future would result in increased debt service obligations and could result in operating and financial covenants that would restrict our operations. Such capital, if required, may not be available on terms that are favorable to us or at all. We are currently incurring operating deficits that are expected to continue for the foreseeable future, and as we begin to execute our marketing plan, we expect our operating deficit will continue to grow until we begin to generate a sufficient level of sales revenue from our sales and marketing efforts.

#### ***Regulation A Offering***

On June 9, 2017, we completed an offering of common stock under Regulation A. We sold 2,852,275 shares of common stock for gross proceeds of approximately \$14.6 million, of which approximately \$1.7 million was paid to certain selling stockholders for 342,273 shares of common stock they sold in the offering. Net proceeds, after deducting commissions, expenses, and fees of approximately \$2.5 million, were approximately \$10.0 million.

#### ***Follow-On Public Offering***

On January 9, 2018, we completed a public offering of 3,666,667 units for gross proceeds of \$11.0 million. For each unit sold in the offering, we issued one share of our common stock and a warrant to purchase 1.5 shares of our common stock at an exercise price of \$4.50. Net proceeds, after deducting commissions, expenses, and fees of approximately \$1.2 million, were approximately \$9.8 million.

#### ***Credit Facilities***

Effective May 2, 2018, the Company secured a line of credit from Morgan Stanley Private Bank, National Association ("Morgan Stanley"). Borrowings under the line of credit bear interest at 30-day LIBOR plus 2.0%. There is no maturity date for the line, but Morgan Stanley may at any time, in its sole discretion and without cause, demand the Company immediately repay any and all outstanding obligations under the line of credit in whole or in part. The line is secured by the cash and cash equivalents maintained by the Company in its Morgan Stanley accounts, which was approximately \$7.1 million as of December 31, 2019, of which \$4.3 million is classified on our balance sheet as cash and cash equivalents, and \$2.8 million as marketable securities as of December 31, 2019. Borrowings under the line may not exceed 95% of such cash, cash equivalents, and marketable securities balances. Due to a reduction in the invested assets in October 2019 used to pay down the amount outstanding on the line at that time, the maximum amount the Company could borrow at December 31, 2019, was approximately \$6.6 million. Such borrowing threshold, however, is subject to change at Morgan Stanley's discretion and depends upon the holdings in the Company's accounts, the maturity dates of the securities in the accounts and the credit quality of the underlying insurers. As of December 31, 2019, the principal amount outstanding under this line of credit was approximately \$5.8 million, and the undrawn borrowing availability was approximately \$821,000. The line of credit and related interest expense was repaid in full on February 3, 2020.

#### ***Capital Expenditures***

We do not have any contractual obligations for ongoing capital expenditures at this time. We do, however, purchase equipment necessary to conduct our operations on an as needed basis.

## **Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

## **Indemnification Agreements**

As we have generated sales, we have provided customers with indemnification of varying scope against claims of intellectual property infringement by third parties arising from the use of our products. We do not estimate the costs related to these indemnification provisions to be significant and are unable to determine the maximum potential impact of these indemnification provisions on our future results of operations. In addition, we have directors and officers liability coverage to further mitigate our indemnification exposure. No demands have been made upon us to provide indemnification and there are no claims that we are aware of that could have a material effect on our consolidated balance sheet, consolidated statement of operations, or consolidated cash flows.

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with the preparation of the financial statement information presented in this report are not significant because we have not generated any appreciable revenue. Therefore, we have not had to make assumptions or estimates related to a reserve for bad debt expense. As to future warranty costs to be incurred, we recorded a warranty reserve against 2019 revenue and will continue to evaluate the provision for such expenses in the future. These two items will have significant potential impact on our consolidated financial statements in the future. We also have no significant current litigation on which we have to provide reserves or estimate accruals and our investment to date in property, plant and equipment has not been significant. We therefore have not had to rely on estimates related to impairment. We have not generated any taxable income to date, so have not had to make any decisions about future profitability that would impact recording income tax expense. Assuming we are able to generate future profits by executing our business plan, these areas, among others, will most likely be our critical accounting policies and estimates.

On January 1, 2018, we adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605. The adoption of ASC Topic 606 did not result in a cumulative impact on us as of January 1, 2018 and the application of ASC Topic 606 had no impact on our statement of operations for the year ended December 31, 2019 or 2018, respectively.

We have early-adopted ASU No. 2016-02, Leases (Topic 842). The amendment requires companies to recognize leased assets and liabilities on the balance sheet and to disclose key information regarding leasing arrangements. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this amendment is permitted for all entities. While we do not anticipate that, going forward, leases will be material to our balance sheet, we chose to early-adopt as of December 31, 2017 due to our entering into new leases during the year. These new leases are the only leases required to be included on our balance sheet under the new standard. Consequently, the adoption of the new lease standard did not have any impact to prior period information. Further, these leases are operating leases and, therefore, have no income statement impact resulting from the adoption of this standard.

### **Contingencies**

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to us, but which will only be resolved when one or more future events occur or fail to occur. Our management, in consultation with its legal counsel as appropriate, assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, we, in consultation with legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in our financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

### **Stock-Based Compensation**

We measure the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. The fair value of our common stock was estimated by management based on observations of the cash sales prices of its common shares. Awards granted to directors are treated on the same basis as awards granted to employees.

### **Fair Value Measurement**

The carrying values of our financial instruments, including cash, notes receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. FASB ASC No. 820, "Fair Value Measurement" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

We do not have any assets or liabilities that are required to be measured and recorded at fair value on a recurring basis.

### **Jumpstart Our Business Startups Act of 2012 (JOBS Act)**

We are an “emerging growth company,” as defined in the JOBS Act. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for emerging growth companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. We have chosen to rely on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, as an emerging growth company we are not required to, among other things, (i) being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure, (ii) not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting, (iii) not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, (iv) reduced disclosure obligations regarding executive compensation or (v) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We will retain our emerging growth company status until the first to occur of: (i) the end of the fiscal year in which the fifth anniversary of the completion of our initial public offering occurs, (ii) the end of the fiscal year in which our annual revenues exceed \$1.07 billion, (iii) the date on which we issue more than \$1 billion in non-convertible debt during any three-year period or (iv) the date on which we qualify as a “large accelerated filer.”

### **Recent Accounting Pronouncements**

In June 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-07, Compensation—Stock Compensation (Topic 718): “Improvements to Nonemployee Share-Based Payment Accounting.” The amendment simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of ASC Topic 718, Compensation—Stock Compensation to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including any interim period, for reporting periods for which financial statements have not been issued, but no earlier than an entity’s adoption date of ASC Topic 606. The Company has implemented this change beginning in 2019, however, this amendment had minimal impact on our financial statements as of December 31, 2019.

In July 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): “(Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Companies and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.” Part I of this amendment addresses complexities of accounting for certain financial instruments with down round features, and Part II addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity. For public entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The amendments in Part II require no transition guidance, as the amendments have no accounting effect. The Company has chosen to early-adopt this ASU, effective January 1, 2018, however, this amendment had no impact on our financial statements for the years ended December 31, 2019, or 2018, respectively.

We have implemented all other new accounting pronouncements that are in effect and that may impact our financial statements and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our consolidated financial position or results of operations.

We are exposed to market risks in the ordinary course of our business. We do not currently face material market risks such as interest rate fluctuation risk and foreign currency exchange risk. Our cash and cash equivalents include cash in readily available checking and money market accounts. These investments are not dependent on interest rate fluctuations that may cause the principal amount of these investments to fluctuate, and we do not expect such fluctuation will have a material impact on our financial conditions. If we issue additional debt in the future, we will be subject to interest rate risk. The majority of our expenses are denominated in the U.S. dollar.

As we continue our commercialization efforts internationally, we may generate revenue and incur expenses denominated in currencies other than the U.S. dollar, a majority of which we expect to be denominated in Chinese Yuan. As a result, if and when the operations of ADOMANI China, our wholly owned subsidiary organized under the laws of China, expand in the future, our revenue may be significantly impacted by fluctuations in foreign currency exchange rates. We may face risks associated with the costs of raw materials, primarily batteries, as we go into production. To the extent these and other risks materialize, they could have a material effect on our operating results or financial condition. We currently anticipate that our international selling, marketing and administrative costs related to foreign sales will be largely denominated in the same foreign currency, which may mitigate our foreign currency exchange risk exposure.

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To the Stockholders and Board of Directors of  
ADOMANI, Inc.

Corona, California

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of ADOMANI, Inc. and its subsidiaries (collectively, the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ MaloneBailey, LLP*

[www.malonebailey.com](http://www.malonebailey.com)

We have served as the Company's auditor since 2014.

Houston, Texas

March 9, 2020

**ADOMANI, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,432	\$ 3,759
Marketable securities	2,771	3,949
Accounts receivable	661	997
Notes receivable, net	40	371
Inventory, net	494	—
Prepaid expenses	1,197	1,102
Other current assets	41	2
Total current assets	9,636	10,180
Property and equipment, net	112	150
Other non-current assets	569	503
Total assets	<u>\$ 10,317</u>	<u>\$ 10,833</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 418	\$ 342
Accrued liabilities	649	968
Line of credit	5,820	1,700
Total current liabilities	6,887	3,010
Long-term liabilities		
Other non-current liabilities	148	219
Total liabilities	7,035	3,229
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 5,000,000 authorized, \$0.00001 par value per share, none issued and outstanding as of December 31, 2019, and December 31, 2018	—	—
Common stock, 350,000,000 authorized, \$0.00001 par value per share, 73,125,538 and 72,732,292 issued and outstanding as of December 31, 2019, and December 31, 2018, respectively	1	1
Additional paid-in capital	62,459	61,628
Accumulated deficit	(59,178)	(54,025)
Total stockholders' equity	3,282	7,604
Total liabilities and stockholders' equity	<u>\$ 10,317</u>	<u>\$ 10,833</u>

See accompanying notes to consolidated financial statements.

**ADOMANI, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

	Year Ended December 31,	
	2019	2018
Sales	12,561	\$ 5,011
Cost of sales	11,627	4,878
Gross profit (loss)	934	133
Operating expenses:		
General and administrative	5,705	10,651
Consulting	333	171
Research and development	109	686
Total operating expenses, net	6,147	11,508
Loss from operations	(5,213)	(11,375)
Other income (expense):		
Interest income (expense), net	42	189
Other income	18	138
Total other income (expense)	60	327
Loss before income taxes	(5,153)	(11,048)
Income tax expense	—	—
Net loss	\$ (5,153)	\$ (11,048)
Net loss per share to common stockholders:		
Basic and diluted	\$ (0.07)	\$ (0.15)
Weighted shares used in the computation of net loss per share:		
Basic and diluted	72,919,333	72,185,167

See accompanying notes to consolidated financial statements.

**ADOMANI, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except per share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity
	Shares	Amount			
<b>Balance, December 31, 2017</b>	68,070,930	\$ 1	\$ 45,316	\$ (42,977)	\$ 2,340
Common stock issued for cash, net of offering costs	3,666,667	—	9,803	—	9,803
Common stock issued for stock options exercised	994,695	—	99	—	99
Stock based compensation	—	—	6,410	—	6,410
Net loss	—	—	—	(11,048)	(11,048)
<b>Balance, December 31, 2018</b>	72,732,292	\$ 1	\$ 61,628	\$ (54,025)	\$ 7,604
Common stock issued for services	322,162	—	55	—	55
Common stock issued for stock options exercised	71,084	—	7	—	7
Stock based compensation	—	—	769	—	769
Net loss	—	—	—	(5,153)	(5,153)
<b>Balance, December 31, 2019</b>	73,125,538	\$ 1	\$ 62,459	\$ (59,178)	\$ 3,282

See accompanying notes to consolidated financial statements.

**ADOMANI, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year Ended December 31,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net loss	(5,153)	(11,048)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	48	43
Provision for bad debt	274	200
Stock based compensation expense	769	6,410
Loss on write-down of property and equipment	7	385
Write-down of inventory	—	15
Common stock issued for services	55	—
Changes in assets and liabilities:		
Accounts receivable	335	(997)
Notes receivable	(27)	—
Inventory	(494)	210
Prepaid expenses	(95)	—
Other current assets	(44)	(496)
Other non-current assets	58	71
Accounts payable	76	312
Accrued liabilities	(320)	454
Other non-current liabilities	(71)	(70)
Net cash used in operating activities	<u>(4,582)</u>	<u>(4,511)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment, net	(13)	(79)
Investment in marketable securities	1,179	(3,926)
Investment in note receivable, net	(38)	(200)
Proceeds from repayment of note receivable	—	500
Net cash provided by (used in) investing activities	<u>1,128</u>	<u>(3,705)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	—	11,000
Advances on line of credit	5,850	2,800
Principal repayments on line of credit	(1,730)	(1,100)
Proceeds from exercise of stock options	7	99
Principal repayments of debt	—	(2,149)
Payments for deferred offering costs	—	(1,121)
Net cash provided by financing activities	<u>4,127</u>	<u>9,529</u>
Net change in cash and cash equivalents	673	1,313
Cash and cash equivalents at the beginning of the period	3,759	2,446
Cash and cash equivalents at the end of the period	<u>\$ 4,432</u>	<u>\$ 3,759</u>
Supplemental cash flow disclosures:		
Cash paid for interest expense	<u>\$ 146</u>	<u>\$ 43</u>
Cash paid for income taxes	<u>\$ —</u>	<u>\$ —</u>
Non-cash transactions:		
Other non-current asset reclassified to property & equipment	<u>\$ 7</u>	<u>\$ 12</u>
Property & equipment reclassified to notes receivable	<u>\$ 2</u>	<u>\$ —</u>
Deferred offering costs reclassified to equity	<u>\$ —</u>	<u>\$ 76</u>

See accompanying notes to consolidated financial statements.

**ADOMANI, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and operations**

ADOMANI, Inc. (“we”, “us”, “our” or the “Company”) is a provider of new purpose-built zero-emission electric vehicles focused on total cost of ownership. We are also a provider of advanced zero-emission electric drivetrain systems for integration in new buses and medium to heavy-duty commercial fleet vehicles. The Company also provides re-power conversion kits to replace conventional drivetrain systems for combustion powered vehicles with zero-emission electric drivetrain systems. The Company’s vehicles and drivetrain systems are designed to help fleet operators unlock the benefits of green technology and address the challenges of local, state and federal regulatory compliance and traditional-fuel price cost instability.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**— The Company’s consolidated financial statements and related disclosures for the periods ended December 31, 2019 and 2018, have been prepared using the accounting principles generally accepted in the United States (“GAAP”).

**Principles of Consolidation**—The accompanying financial statements reflect the consolidation of the individual financial statements of ADOMANI, Inc., ADOMANI California, Inc., Adomani (Nantong) Automotive Technology Co. Ltd., ADOMANI ZEV Sales, Inc., formerly known as School Bus Sales of California, Inc., and Zero Emission Truck and Bus Sales of Arizona, Inc. All significant intercompany accounts and transactions have been eliminated.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**—The carrying values of the Company’s financial instruments, including cash, notes receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 820, “Fair Value Measurement” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1:           Observable inputs such as quoted prices in active markets;
- Level 2:           Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3:           Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company does not have any assets or liabilities that are required to be measured and recorded at fair value on a recurring basis.

**Revenue Recognition**— The Company recognizes revenue from the sales of advanced zero-emission electric drivetrain systems for fleet vehicles and from contracting to provide related engineering services. In May 2014, the FASB issued new accounting guidance, ASC Topic 606, “Revenue from Contracts with Customers”, to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP. The amendments in this guidance state that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance requires enhanced disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized.

On January 1, 2018, the Company adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The adoption of ASC Topic 606 did not result in a cumulative impact on the Company as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company’s historic accounting under ASC Topic 605.

In applying ASC Topic 606, the Company is required to:

- 1) Identify any contracts with customers;
- 2) Determine if multiple performance obligations exist;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the respective obligation;
- 5) Recognize the revenue as the obligation is satisfied.

Contracts under the Blue Bird supply agreement, which was terminated effective as of May 31, 2019, and work performed for Blue Bird under a U.S. Department of Energy (“DOE”) grant awarded to Blue Bird, were single-performance obligations and, therefore, required no allocation of the transaction price. The Company’s active participation in the DOE grant ended on May 31, 2019. Prior to such termination, the Company recognized revenue when product was shipped or was billed by its third-party supplier for work performed under the DOE grant. Additionally, the Company recorded revenue for these sales at gross, rather than net, as the Company was the principal obligor to Blue Bird for both the supply agreement and the statement of work for the DOE grant, and, prior to the termination of such agreements, assumed the risk for non-performance, or non-compliance, related to any work performed by its subcontractor. An unexpected adjustment related to DOE work done prior to May 31, 2019 was made by Blue Bird in the quarter ended September 30, 2019, and the additional revenue was recognized in that period.

As part of the termination agreement with Blue Bird, the Company is to be paid \$5,000 for each electric drivetrain Blue Bird ordered from Cummins Corporation during the period of June 1, 2019 through September 30, 2019. This agreement is a single performance obligation with the Company recognizing revenue upon notification from Blue Bird that delivery has been made to its customer.

Product revenue also includes the sale of electric buses. These sales represent a single performance obligation with revenue recognition occurring at the time title transfers. Transfer of title occurs when the customer has accepted the bus and signed the appropriate documentation acknowledging receipt.

The Company is the recipient of a purchase order issued from GerWeiss EV USA LLC (“GerWeiss”) to produce all-electric tricycles (“e-trikes”). The Company has agreed to provide deposits to GerWeiss to fund the procurement of the supplies and assembly of the tricycles. The purchase order represents a single performance obligation with the Company recognizing revenue upon notification that the assembled units have been completed by GerWeiss. Upon the recording of revenue, the corresponding deposits are recorded as cost of goods sold.

**Cash and Cash Equivalents**—The Company considers all highly liquid investments purchased with an original or remaining maturity of three months or less to be cash equivalents.

**Marketable Securities**—The Company invests in short-term, highly liquid, marketable securities, such as U.S. Treasury notes, U.S. Treasury bonds, and other government-backed securities. The Company classifies these marketable securities as held-to-maturity, as the intent is not to liquidate them prior to the respective stated maturity date.

**Accounts Receivable and Allowance for Doubtful Accounts**—The Company establishes an allowance for bad debts through a review of several factors including historical collection experience, current aging status of the customer accounts, and financial condition of its customers. The Company does not generally require collateral for its accounts receivable. The Company had trade accounts receivable of \$661,352 and \$996,621 as of December 31, 2019 and 2018, respectively. Because all but \$15,000 of the December 31, 2019 trade accounts receivable balance relates to two California government agencies, and since the entire December 31, 2018 trade accounts receivable balance related to one customer, which the Company believed to be credit-worthy and, consequently, there is very little chance of default, no allowance has been recorded relative to the trade accounts receivable balance as of December 31, 2019 and 2018, respectively.

**Notes Receivables**—The Company also had notes receivable of \$834,491 and \$570,542 as of December 31, 2019 and 2018, respectively. The Company provided an allowance for notes receivable of \$471,000 and \$200,000 as of December 31, 2019 and 2018, respectively (see Note 5 below).

**Inventory and Inventory Valuation Allowance**—The Company records inventory at the lower of cost or market, and uses a First In, First Out (“FIFO”) accounting valuation methodology. The Company had inventory on hand of \$494,158 as of December 31, 2019. The Company provided an inventory allowance of \$0 as of December 31, 2019 and 2018, respectively.

**Inventory Deposits**—The Company records all inventory deposits as prepaid assets. Upon completion of production, and acceptance by the Company, deposits are reclassified to either inventory or cost of goods, depending on whether a sale of the product has occurred. The Company had inventory deposits of \$935,204 and \$882,050 as of December 31, 2019 and 2018, respectively, which are included in prepaid expenses on the consolidated balance sheets.

**Income Taxes**—The Company uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes.

The Company records a valuation allowance to reduce the deferred income tax assets to the amount that is more likely than not to be realized. In making such determinations, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. As of December 31, 2019 and 2018, the Company recognized a full valuation allowance for all deferred tax assets.

**Accounting for Uncertainty in Income Taxes**—The Company evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. At December 31, 2019 and 2018, management did not identify any uncertain tax positions.

**Net Loss Per Share**—Basic net loss per share is calculated by dividing the Company's net loss applicable to common stockholders by the weighted average number of common shares during the period. Diluted net loss per share is calculated by dividing the Company's net loss applicable to common stockholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted for any potentially dilutive debt or equity securities. As of December 31, 2019, the Company had 25,617,338 and 7,556,323 stock options and stock warrants outstanding, respectively.

**Concentration of Credit Risk**—The Company has credit risks related to cash and cash equivalents on deposit with a federally insured bank, as at times it exceeds the \$250,000 maximum amount insured by the Federal Deposit Insurance Corporation.

**Stock-Based Compensation**—The Company accounts for employee stock-based compensation in accordance with the guidance of FASB ASC Topic 718, "Compensation-Stock Compensation", which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The fair value of the equity instrument is charged directly to compensation expense and credited to additional paid-in capital over the period during which services are rendered. Additionally, in June 2018 the FASB issued Accounting Standards Update ("ASU") No. 2018-07, which simplified several aspects of accounting for nonemployee share-based payment transactions by expanding the scope of ASC Topic 718. The guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. The Company has implemented this change beginning in 2019, although it has minimal impact on its financial statements.

**Property and Equipment**—Property and equipment are stated at cost, less accumulated depreciation and amortization. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets, which range from three to five years, except leasehold improvements, which are being amortized over the life of the lease term. Property and equipment qualify for capitalization if the purchase price exceeds \$2,000. Major repairs and replacements, which extend the useful lives of equipment, are capitalized and depreciated over the estimated useful lives of the property. All other maintenance and repairs are expensed as incurred.

**Leases**—The Company has early-adopted ASU No. 2016-02, Leases (Topic 842). The amendment requires companies to recognize leased assets and liabilities on the balance sheet and to disclose key information regarding leasing arrangements. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this amendment is permitted for all entities. While the Company does not anticipate that, going forward, leases will be material to its balance sheet, it chose to early-adopt as of December 31, 2017 due to its entering into new leases during the year. These new leases are the only leases required to be included on the Company's balance sheet under the new standard. Consequently, the adoption of the new lease standard did not have any impact to prior period information. Further, these leases are operating leases and, therefore, have no income statement impact resulting from the adoption of this standard.

**Impairment of Long-Lived Assets**—Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates these assets to determine potential impairment by comparing the carrying amount to the undiscounted estimated future cash flows of the related assets. If the estimated undiscounted cash flows are less than the carrying value of the assets, the assets are written down to their fair value. There was no impairment of long-lived assets, or property and equipment, as of December 31, 2019 and 2018, respectively.

**Research and Development**—Costs incurred in connection with the development of new products and manufacturing methods are charged to operating expenses as incurred. During 2019 and 2018, \$108,751 and \$686,367, respectively, were expensed as research and development costs.

**Reclassification**—Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 financial presentation. These reclassifications have no impact on net loss.

### 3. Property and equipment, net

Components of property and equipment, net consist of the following as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Furniture and fixtures	\$ 41,799	\$ 41,799
Leasehold improvements	23,338	23,338
Computers	59,667	53,704
Vehicles	72,299	67,299
Test/Demo vehicles	15,784	31,728
Total property and equipment	212,887	217,868
Less accumulated depreciation	(101,044)	(67,777)
Net property and equipment	\$ 111,843	\$ 150,091

Depreciation and amortization expense was \$48,576 and \$43,350 for the years ended December 31, 2019 and 2018, respectively.

In June 2019, Ebus, Inc. ("Ebus"), transferred vehicles, with an estimated fair-market value of approximately \$7,000, to the Company in exchange for a corresponding reduction of the amounts due and payable under the terms of a promissory note issued to the Company. In December 2019, the Company transferred one of the vehicles with a fair-market value of approximately \$2,000 back to Ebus and recorded a corresponding increase to the amounts due and payable under the terms of the note (see Note 5).

During June 2018, the Company determined that a test/demonstration vehicle would not be further utilized for its intended purpose, thereby affecting future benefits from the asset, and, as such, in June 2018, the Company recognized a loss on write-down of property and equipment of \$385,065 relating to the vehicle. The write-down was recorded to research and development expense, as the asset was used as part of research and development activities.

### 4. Income Taxes

The cumulative estimated net operating loss carry-forward is \$23,158,860 and \$18,786,206 at December 31, 2019 and 2018, respectively, and will expire in the years 2039 and 2038, respectively. Due to the enactment of the Tax Cuts and Jobs Act of 2017, the corporate tax rate for those tax years beginning with 2018 has been reduced to 21%. Therefore, the cumulative tax effect at the expected rate of 21% comprising the Company's net deferred tax amount is as follows:

	December 31,	
	2019	2018
Net operating loss	918,257	973,919
Deferred tax asset attributable to:		
Net operating loss carryover	4,863,361	3,945,103
Valuation allowance	(4,863,361)	(3,945,103)
Net deferred tax asset	—	—
Cumulative NOL	23,158,860	18,786,206
Cumulative NOL at 21%	4,863,361	3,945,103

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryover for federal income tax reporting purposes are subject to annual limitations. The net operating loss carry-forward includes the years 2012 through 2019. Should a change in ownership occur, net operating loss carryover may be limited as to use in future years. Federal tax returns for tax years since 2015 are still open for examination by the Internal Revenue Service.

## 5. Notes Receivable

On June 29, 2017, the Company loaned \$500,000 to Ebus, an unaffiliated third party with engineering expertise in the electric bus technology industry, with whom the Company, at that time, expected it might seek an alliance at some future date, in order to provide it with working capital. The stated interest rate is 9% per annum, with interest payments due monthly beginning on July 31, 2017. The note is secured by the assets of the borrower and was scheduled to mature on December 31, 2017. In February 2018, the parties amended the note to extend the maturity date of the note to June 30, 2018, and in June 2018, the parties agreed to further amend the note to extend the maturity date of the note until September 30, 2018. The note, as amended, is subject to an extension fee of \$35,000, which was due no later than the September 30, 2018 maturity date. In addition, per the terms of the note, as amended, the borrower was obligated to make past due interest payments in the aggregate amount of \$18,750 on or before July 6, 2018. The Company received such past due interest payments on July 6, 2018. All subsequent interest payments prior to the September 30, 2018 maturity were made. Ebus failed to pay the \$500,000 principal balance along with an unpaid extension fee of \$35,000, by the September 30, 2018 maturity date, and the Company considers the note to be in default. The Company notified the borrower in writing of such default on October 1, 2018. The Company recorded a \$200,000 allowance as bad debt expense against the note based on preliminary determination of recoverability from the assets owned by Ebus. In October 2018, the Company accrued an additional fee of \$15,000 and late fees on the extension fee in the amount of \$1,750. The Company accrued interest at the default rate, which is the stated rate of interest plus 2%, in accordance with the note, through March 31, 2019. Total interest accrued for the nine months ended September 30, 2019 was \$13,749. In May 2019, the Company entered into a facility-sharing agreement with Ebus (see Note 11). In June 2019, Ebus transferred vehicles, with an estimated fair market value of approximately \$7,000, to the Company in exchange for a corresponding reduction in the amount due on the note. In December 2019, the Company agreed to transfer one of the vehicles with a fair-market value of \$2,000 back to Ebus, recording a corresponding increase to the amounts due on the note (see Note 3). In December 2019, the Company cancelled its facility-sharing agreement with Ebus and issued a foreclosure notification. In December 2019, the Company recorded an additional \$171,000 allowance as bad debt expense against the note based on a revised assessment of recoverability from the assets owned by Ebus, and also reclassified the net note receivable to a non-current asset due to the uncertain timing of recovery. The total unpaid principal and interest, as of December 31, 2019, is \$571,000. See Note 14.

The Company loaned an additional \$500,000 to another unaffiliated third party in the zero-emissions technology industry in December 2016. This note was subject to monthly interest of \$10,000 and was originally scheduled to mature on December 31, 2017. In January 2018, the parties agreed to extend the maturity of the note to April 30, 2018, and in April 2018, the parties agreed to further extend the maturity date of the note until June 30, 2018. In June 2018, the parties agreed to further extend the maturity date of the note to September 30, 2018. The note, as amended, was subject to an extension fee of \$55,000 due no later than the September 30, 2018 maturity date. The borrower repaid the principal outstanding under the note, along with accrued and unpaid interest of \$14,603 and extension fees of \$55,000, on August 15, 2018.

The Company loaned \$200,000 pursuant to a secured promissory note to an unaffiliated third party in the energy storage technology industry in September 2018. The stated interest rate under the note is 9% per annum and any unpaid interest will become part of the principal balance after one year and will compound accordingly. The amount outstanding under the note will automatically convert into preferred stock of the borrower in connection with a financing that results in aggregate gross proceeds to the borrower of at least \$500,000. Additionally, the Company may optionally convert into preferred stock of the borrower any or all of the amount outstanding under the note at any time. The note is secured by substantially all of the assets of the borrower and is scheduled to mature on December 31, 2020 unless conversion of the note occurs prior to that date. In May 2019, the Company loaned an additional \$38,000 pursuant to a secured promissory note to the same unaffiliated third party. The note carries the same terms and conditions as the initial note, but is scheduled to mature on March 31, 2020. The total unpaid principal and accrued interest, as of December 31, 2019, was \$39,995. During September through December 2019, accrued interest totaling \$23,496 on the original \$200,000 note, that had accrued between September 2018 and December 2019, was reclassified to principal. In December 2019, the Company recorded a \$100,000 allowance as bad debt expense against the original \$200,000 note based on a preliminary assessment of collectability. Although the original note matures on December 31, 2020, due to the uncertain timing of collection, the principal and unpaid interest of \$223,496 remain classified as a non-current asset on the consolidated balance sheet as of December 31, 2019.

## 6. Debt

During 2015, the Company issued two-year promissory notes with an aggregate face value of \$5,147,525 to third-party lenders for cash. The notes matured between January and November 2017 and carried an interest rate of 9%. The Company notified all holders of the 9% notes payable that it was exercising its option to extend the maturity dates six months pursuant to the provisions of the notes. In connection with these notes, the Company incurred debt issuance costs of \$514,753, which were recognized as debt discount and amortized over the life of the notes. As of December 31, 2017, the debt issuance costs associated with these notes have been fully amortized. As of December 31, 2018, the Company had repaid in cash from the proceeds of its January, 2018 follow-on offering (described in Note 7), all principal and accrued and unpaid interest outstanding under these notes.

In December 2016, the Company borrowed \$500,000 from an unaffiliated third party. The loan was scheduled to mature on June 15, 2017. It contained no stipulated interest rate, but the Company was obligated to pay loan fees of \$50,000 to the lender. The proceeds of the loan were immediately used to loan \$500,000 to an unaffiliated company in the zero-emissions technology industry that specializes in drivetrain solutions for zero-emission and hybrid vehicles. The loan, carried as a note receivable on the balance sheet, contains the same provisions, including the loan fees payable to the Company, as the note payable discussed above in this paragraph, and also was scheduled to mature on June 15, 2017. The Company repaid the loan to the unaffiliated third party on May 12, 2017 from the proceeds of the initial closing of the IPO. The maturity date for the note receivable was extended to December 31, 2017, and the unaffiliated third party began paying interest of \$10,000 per month to the Company. During the year ended December 31, 2017, the related amortization expense recognized on this loan amounted to \$45,833. The note was not repaid when due on December 31, 2017, but was extended to September 30, 2018, and was repaid in August 2018 (see Note 5).

Effective May 2, 2018, the Company secured a line of credit from Morgan Stanley Private Bank, National Association ("Morgan Stanley"). Borrowings under the line of credit bear interest at 30-day LIBOR plus 2.0%. There is no maturity date for the line, but Morgan Stanley may at any time, in its sole discretion and without cause, demand the Company immediately repay any and all outstanding obligations under the line of credit in whole or in part. The line is secured by the cash and cash equivalents maintained by the Company in its Morgan Stanley accounts, which was approximately \$7.1 million as of December 31, 2019, of which \$4.3 million is classified on our balance sheet as cash and cash equivalents, and \$2.8 million as marketable securities as of December 31, 2019. Borrowings under the line may not exceed 95% of such cash, cash equivalents, and marketable securities balances. Due to a reduction in the invested assets in October, 2019 used to paydown the amount outstanding on the line at that time, the maximum amount the Company could borrow at December 31, 2019, was approximately \$6.6 million. Such borrowing threshold, however, is subject to change at Morgan Stanley's discretion and depends upon the holdings in the Company's accounts, the maturity dates of the securities in the accounts and the credit quality of the underlying insurers. As of December 31, 2019, the principal amount outstanding under this line of credit was approximately \$5.8 million, and the undrawn borrowing availability was \$820,948.

## **7. Common Stock**

On January 9, 2018, the Company consummated the closing of a follow-on offering of units, each consisting of one share of common stock and a warrant to purchase 1.5 shares of common stock at an exercise price of \$4.50. The Company sold an aggregate of 3,666,667 units for aggregate gross proceeds of approximately \$11.0 million. Net proceeds received after deducting commissions, expenses and fees of approximately \$1.2 million amounted to approximately \$9.8 million. Under the terms of the underwriting agreement executed in connection with the follow-on offering, the Company issued to Boustead Securities, LLC and Roth Capital Partners, LLC warrants to purchase an aggregate of 256,667 shares of common stock. The warrants to purchase 256,667 shares of common stock were valued using the Black-Scholes option-pricing model, resulting in a fair market value of \$598,737. The assumptions used in the valuation of the warrants issued to Boustead Securities, LLC and Roth Capital Partners, LLC included the term of five years, the exercise price of \$3.75 per share, volatility of 92.20% and a risk-free interest rate of 2.13%. The fair value of these warrants was recorded as offering costs and netted against additional paid-in capital during the three months ended March 31, 2018.

During May, June and August 2018, certain non-employees exercised options to purchase an aggregate of 994,695 shares of common stock, for which the Company received aggregate gross proceeds of \$99,470 (see Note 9).

During January and February 2019, certain non-employees exercised options to purchase an aggregate of 71,084 shares of common stock, for which the Company received aggregate gross proceeds of \$7,108 (see Note 9).

Effective February 1, 2019, the Company hired a consultant to provide sales and marketing expertise. The consultant is to be paid \$7,500 per month, consisting of \$2,500 in cash and \$5,000 of common stock. The number of shares of common stock to be issued is determined by the Company's closing stock price on the last market day of the respective preceding month. As of December 31, 2019, the Company had issued 322,162 shares of common stock to the consultant. In December, 2019, the consultant's contract was extended through December 31, 2020, and the cash amount of monthly compensation was increased to \$3,200, effective January 1, 2020. See Note 14.

## 8. Stock Warrants

As of December 31, 2019, the Company has issued warrants to purchase 7,556,323 shares of Common Stock, consisting of a warrant to purchase 199,659 shares of Common Stock with a measurement price of \$5.00 and an exercise price of \$6.00, a warrant to purchase 350,000 shares of Common Stock with a measurement price of \$5.00 and an exercise price of \$5.00, a warrant to purchase 1,250,000 shares of Common Stock with a measurement price of \$1.00 and an exercise price of \$4.00, warrants issued to three warrant holders to purchase 750,001 shares of Common Stock with a measurement price of \$3.21 and an exercise price of \$4.50, warrants issued to two warrant holders to purchase 256,667 shares of Common Stock with a measurement price of \$3.21 and an exercise price of \$3.75, and warrants issued to eleven warrant holders to purchase 4,749,996 shares of Common Stock with a measurement price of \$3.29 and an exercise price of \$4.50.

The Company's stock warrant activity for the years ended December 31, 2019 and 2018 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2017	1,799,659	\$ 4.42	3.9
Granted	5,756,664	\$ 4.47	
Forfeited	—	—	
Outstanding at December 31, 2018	7,556,323	\$ 4.45	3.8
Granted	—	—	
Forfeited	—	—	
Outstanding at December 31, 2019	7,556,323	\$ 4.45	2.8
Exercisable at December 31, 2019	7,556,323	\$ 4.45	2.8

As of December 31, 2019, the outstanding warrants have no intrinsic value.

## 9. Stock-Based Compensation

On March 6, 2018, Edward R. Monfort ceased serving as the Company's Chief Technology Officer. Upon Mr. Monfort's separation from service, the Company's board of directors suspended Mr. Monfort's outstanding options. Although such options remain outstanding, they were unexercisable as of December 31, 2019 and through the date of this Annual Report. As of December 31, 2019, outstanding options to purchase an aggregate of 14,297,902 shares of common stock are attributable to Mr. Monfort. Effective as of January 29, 2020, all such options were cancelled by the Company in connection with the settlement of Mr. Monfort's claims against the Company. See Note 14.

In March 2018, the Company determined that certain non-employees, to whom it previously granted options, were no longer providing services to the Company. As a result, the Company canceled unvested options to purchase 297,694 shares of common stock previously granted pursuant to the Company's 2012 Stock Option and Stock Incentive Plan (the "2012 Plan"), effective as of February 28, 2018. In accordance with GAAP, the Company reversed \$423,308 of previously recorded expense with respect to such unvested options. During May, June and August 2018, certain non-employees exercised options to purchase an aggregate of 994,695 shares of common stock, for which the Company received aggregate gross proceeds of \$99,470 (see Note 7). In June 2018, unexercised options to purchase an aggregate of 499,123 shares of common stock previously held by such non-employees terminated in accordance with their terms, and the Company agreed to extend the exercise period of one non-employee's option to purchase 207,968 shares of common stock until July 31, 2018. In July 2018, the Company agreed to further extend the exercise period of such option to August 31, 2018, and on August 31, 2018, such option expired unexercised.

In April 2018, the Company's board of directors granted to certain employees and directors options to purchase an aggregate of 655,000 shares of common stock pursuant to the Company's 2017 Equity Incentive Plan. The options are for a contractual term of 10 years, vest over a three-year period, with one-third of the options vesting on the one-year anniversary of the grant date and the remainder vesting in equal installments thereafter, subject to a grantee's continuous service to the Company through each such vesting date. The exercise price for these options is \$1.31 per share. The options were valued using the Black-Scholes option-pricing model, resulting in a fair market value of \$229,643. The assumptions used in the valuation included an expected term of 5.75 years, volatility of 62% and a risk-free interest rate of 2.78%.

In June 2018, certain employees and directors agreed to voluntarily surrender options to purchase an aggregate of 3,450,000 shares of common stock at an exercise price of \$10.49 per share previously issued to such individuals in March 2017 pursuant to the 2012 Plan. Neither the Company nor the holders of such options will have any further rights or obligations with respect to such options, or with respect to any shares of common stock that could have been purchased upon exercise of such options, and none of the holders of the options received any value from the Company in connection with such surrender. The Company recognized stock-based compensation expense relating to these options for the months of April and May 2018 and for 10 days for the month of June 2018, as these options vested monthly on the 10<sup>th</sup> of each month. Accordingly, no additional stock-based compensation expense relating to these options has been recorded.

During January and February 2019, certain non-employees exercised options to purchase an aggregate of 71,084 shares of common stock, for which the Company received aggregate gross proceeds of \$7,108 (see Note 7).

In April 2019, the Company's board of directors granted to certain employees and directors options to purchase an aggregate of 1,095,000 shares of common stock pursuant to the Company's 2017 Equity Incentive Plan. The options are for a contractual term of 10 years, vest over a three-year period, with one-third of the options vesting on the one-year anniversary of the grant date and the remainder vesting in equal monthly installments thereafter, subject to a grantee's continuous service to the Company through each such vesting date. The exercise price for these options is \$0.45 per share. The options were valued using the Black-Scholes option-pricing model, resulting in a fair market value of \$205,118. The assumptions used in the valuation included an expected term of 5.75 years, volatility of 58.68% and a risk-free interest rate of 2.41%.

Stock option activity for the years ended December 31, 2019 and 2018 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2017	30,375,000	\$ 1.33	4.0
Granted	655,000	\$ 1.31	
Exercised	(994,695)	\$ 0.10	
Forfeited	(5,306,883)	\$ 7.05	
Outstanding at December 31, 2018	24,728,422	\$ 0.15	2.6
Granted	1,095,000	\$ 0.45	
Exercised	(71,084)	\$ 0.10	
Canceled/Forfeited	(135,000)	\$ 1.31	
Outstanding at December 31, 2019	25,617,338	\$ 0.16	1.9
Exercisable at December 31, 2019	9,997,616	\$ 0.14	2.2

Stock-based compensation expense was \$768,550 and \$6.4 million for the years ended December 31, 2019 and 2018, respectively, and is included in general and administrative expense in the accompanying consolidated statements of operations. As of December 31, 2019, the Company expects to recognize \$260,315 of stock-based compensation for the non-vested outstanding options over a weighted-average period of 1.91 years.

As of December 31, 2019, the outstanding options have an intrinsic value of approximately \$1.8 million.

#### 10. Customer and Vendor Concentration

For the year ended December 31, 2019, the Company had one customer, Blue Bird, that accounted for nearly all of its sales, and had one vendor, EDI, a subsidiary of Cummins, Inc., that accounted for nearly all of its cost of sales. The remaining 2019 sales were to Rialto Unified School District and to GerWeiss. Buses sold to Rialto Unified School District were manufactured for the Company by GreenPower Motor Company, Inc. GerWeiss purchases parts and materials from vendors, who are paid from deposits made by the Company and then assembles the e-trikes in their facility.

#### 11. Commitments

**Employment Agreements**— The Company had previously entered into an employment agreement with Mr. Monfort, with an effective date of June 1, 2016. The term of the employment agreement was two years, with an annual base salary of \$120,000. Additionally, the Company agreed to pay up to \$7,000 per month for invoiced expenses relating to research and development to ELO, LLC, which is owned by Mr. Monfort, as well as up to \$3,000 per month for services to another consultant selected by Mr. Monfort. Effective as of March 6, 2018, the Company terminated its employment agreement with Mr. Monfort.

Effective September 16, 2019, the Company renewed its employment agreement with its Chief Executive Officer. The term of the renewed employment agreement is five years, with an annual base salary of \$294,000. The agreement includes an annual car allowance of \$18,000.

Effective January 1, 2017, the Company entered into an employment agreement with Michael Menerey, its Chief Financial Officer. The term of the employment agreement is five years and the agreement provides for an annual base salary of \$200,000. Effective January 1, 2020, Mr. Menerey's annual base salary was increased to \$215,000.

**Operating Leases**— In 2016, the Company signed a lease for office space in Los Altos, California, to serve as office space for its Northern California operations. The lease expired on February 28, 2018 and the Company executed a new 10-month lease in March 2018. The total amount due under the lease was \$4,730 and the lease period was from March 1, 2018 through December 31, 2018. The Company has signed a one-year lease renewal, expiring on December 31, 2019. The total amount due under the renewal is \$5,676. The Company has renewed this lease, which will expire on December 31, 2020. The total amount due under the renewal is \$6,432.

In April 2017, the Company signed a lease for storage space in Phoenix, Arizona to serve as a location to store vehicles and other equipment utilized for marketing and trade-show purposes. The lease was on a month-to-month basis, and the total amount due monthly was \$500. The lease was terminated in April 2018.

In 2017, the Company signed a lease for storage space in Stockton, California to serve as a location to store vehicles and other equipment utilized for marketing and trade-show purposes. The lease is on a month-to-month basis and can be terminated by either party with 30 days' notice. The total due monthly is \$1,000.

In October 2017, the Company signed a non-cancellable lease for its corporate office space in Corona, California, to serve as its corporate headquarters. The lease is for a period of 65 months, terminating February 28, 2023. The base rent for the term of the lease is \$568,912. The total amount due monthly is \$7,600 at commencement and will escalate to \$10,560 by its conclusion. Additionally, the lease includes five months in which no rent payment was due.

In 2017, the Company signed a lease for two copiers for its corporate offices. The lease is for a period of 24 months, terminating September 30, 2019. The total due monthly is \$380. This lease is currently on a month-to-month basis.

In May 2019, the Company entered into a facility-sharing arrangement with Ebus for its premises in Downey, California. The agreement requires the Company to reimburse Ebus monthly facility costs of approximately \$10,600 in exchange for shared use of the site. The additional space was used to conduct research and development activity, stage materials, assemble and/or manufacture vehicles, perform pre-delivery inspections, test demo vehicles, and securely store vehicles, equipment and finished inventory. The agreement is on a month-to-month basis and is cancelable by either party with 10-days' notice. In December 2019, the Company cancelled the facility-sharing arrangement, effective on December 31, 2019 (see Note 5).

In December 2019, the Company signed a lease for warehouse space in Corona, California. The facility will be used to conduct research and development activity, stage materials, assemble and/or manufacture vehicles, perform pre-delivery inspections, test demo vehicles, and securely store vehicles, equipment, parts and finished vehicle inventories. The lease is for a period of 36 months, commencing on January 1, 2020, and terminating on December 31, 2022. The base rent for the term of the lease is \$495,720, with \$265 due per month for fire sprinkler alarm monitoring and landscape maintenance. The base rent amount due monthly is \$13,108 at commencement and will escalate to \$13,906 by its conclusion. See also Note 13 with respect to all leases discussed above.

**Other Agreements**— In 2015, the Company entered into a contract with THINKP3 to provide services under the goal of securing federal grant assistance for development of the Company's zero-emission and hybrid transportation solutions for school bus, commercial, government and utility fleets. The initial term of this contract was December 1, 2015 through November 30, 2016. On November 21, 2016, the parties renewed the agreement through November 30, 2017. On November 7, 2017, the Company renewed the agreement through November 30, 2018. On November 30, 2018, the Company renewed the agreement through November 30, 2019. On November 11, 2019, the Company renewed the agreement through November 30, 2020. Fees for these services are \$8,000 per month. The contract can be terminated by either party with 30-days' advance notice.

The following table summarizes the Company's future minimum payments under contractual commitments, excluding debt, as of December 31, 2019:

	Payments due by period				
	Total	Less than one year	1-3 years	4-5 years	More than 5 years
Operating lease obligations	885,288	284,124	580,044	21,120	—
Employment contracts	1,886,000	527,000	839,000	520,000	—
Total	2,771,288	811,124	1,419,044	541,120	—

## 12. Contingencies

On August 2, 2018, Edward R. Monfort, our former Chief Technology Officer and former director, filed a complaint, captioned *Edward R. Monfort v. ADOMANI, Inc., et al.*, Case No.: 18CV332757, in the Superior Court of the State of California for the County of Santa Clara, against us and certain of our executive officers, alleging that we and the other defendants (i) breached the terms of certain common stock subscription agreements to which Mr. Monfort is a party, (ii) fraudulently deprived Mr. Monfort of certain purported equity in the Company and (iii) fraudulently induced Mr. Monfort to execute a release of claims in connection with his June 2016 employment agreement. Mr. Monfort sought unspecified monetary damages, declaratory relief regarding the extent of his equity ownership in the Company and other relief. On August 24, 2018, we filed a notice of removal pursuant to which we removed the case to the United States District Court for the Northern District of California. On September 24, 2018, Mr. Monfort filed a motion for remand, seeking to remand the proceeding from the United States District Court for the Northern District of California back to the Superior Court of the State of California for the County of Santa Clara. On January 8, 2019, the United States District Court for the Northern District of California denied the motion for remand. On February 7, 2019, we answered Mr. Monfort's complaint and filed counterclaims against Mr. Monfort alleging counterclaims for: (i) breach of contract; (ii) declaratory judgment; (iii) breach of fiduciary duty; (iv) wrongful dilution; and (v) conversion. On September 12, 2019, we filed a motion for summary judgment, asking the court to dismiss all of Mr. Monfort's claims. On November 25, 2019, the court granted the motion and dismissed all of Mr. Monfort's claims with prejudice. Following the court's ruling, the parties engaged in settlement negotiations regarding, among other things, the Company's counterclaims and Mr. Monfort's appeal rights. The parties reduced their agreement to writing in a Settlement Agreement and Release. This document, executed by all parties and the Company's litigation insurer, StarStone Specialty Insurance Company, became effective on February 4, 2020. The parties agreed, among other things, to the following: (i) Mr. Monfort abandoned all appeal rights; (ii) Mr. Monfort's options to purchase Company stock were terminated; (iii) Mr. Monfort will divest himself of all Company common stock that he, his family, his affiliates, or his businesses own over the ten-week period following the effective date of the Settlement Agreement and Release; (iv) the Company abandoned its counterclaims; and (v) the parties released each other from any and all claims, known or unknown, that existed as of the date of the Settlement Agreement and Release. Neither Mr. Monfort nor any defendant in this action took any financial compensation to settle this matter. On February 5, 2020, consistent with the parties' stipulation, the court dismissed the Company's counterclaims with prejudice. This matter is now closed.

On August 23, 2018, a purported class action lawsuit captioned *M.D. Ariful Mollik v. ADOMANI, Inc. et al.*, Case No. RIC 1817493, was filed in the Superior Court of the State of California for the County of Riverside against us, certain of our executive officers, Mr. Monfort, and the two underwriters of our offering of common stock under Regulation A in June 2017. This complaint alleges that documents related to our offering of common stock under Regulation A in June 2017 contained materially false and misleading statements and that all defendants violated

Section 12(a)(2) of the Securities Act, and that we and the individual defendants violated Section 15 of the Securities Act, in connection with. The plaintiff seeks on behalf of himself and all class members: (i) certification of a class under California substantive law and procedure; (ii) compensatory damages and interest in an amount to be proven at trial; (iii) reasonable costs and expenses incurred in this action, including counsel fees and expert fees; (iv) awarding of rescission or rescissionary damages; and (v) equitable relief at the discretion of the Court. Plaintiff's counsel has subsequently filed a first amended complaint, a second amended complaint, and a third amended complaint. Plaintiff Mollik was replaced by putative class representatives Alan K. Brooks and Electric Drivetrains, LLC. Alan K. Brooks was subsequently dropped as a putative class representative. On October 25, 2019, we answered the third amended complaint, generally denying the allegations and asserting affirmative defenses. On November 5, 2019, Network 1 and Boustead Securities (together the "Underwriters") filed a cross-complaint against the Company seeking indemnification under the terms of the underwriting agreement the Company and the Underwriters entered for the Company's initial public offering (the "Underwriting Agreement"). On December 10, 2019, the Company filed its answer to the Underwriters' cross-complaint, generally denying the allegations and asserting affirmative defenses. Also on this date, the Company filed a cross-complaint against the Underwriters seeking indemnification under the terms of the Underwriting Agreement. On January 14, 2020, Mr. Monfort filed a cross-complaint against the Underwriters seeking indemnification under the terms of the Underwriting Agreement. On January 15, 2020, Mr. Monfort filed a cross-complaint against the Company seeking indemnification under the terms of the Company's Amended and Restated Bylaws and Section 145 of the Delaware General Corporation Law. On February 18, 2020 we filed an answer to Mr. Monfort's cross-complaint, generally denying the allegations and asserting affirmative defenses. We believe that the purported class action lawsuit is without merit and intend to vigorously defend the action .

On June 19, 2019, Alan K. Brooks, an ADOMANI investor, filed a complaint, captioned *Alan K. Brooks v. ADOMANI, Inc., et al.*, Case No. 1-CV-349153 in the Superior Court of California for the County of Santa Clara, against the Company, certain of the Company's executive officers and directors, two of the underwriters of the Company's offering of common stock under Regulation A in June 2017, and certain of the underwriters' personnel, among others. The complaint alleges that the Company and other defendants breached the terms of an agreement between Mr. Brooks and the Company by refusing to release 1,320,359 shares of ADOMANI, Inc. stock to Mr. Brooks. Mr. Brooks seeks damages of \$13,500,000.00 plus interest and attorney's fees. On September 20, 2019, Mr. Brooks filed his first amended complaint ("FAC") reasserting his breach of contract claim and alleging five additional claims for (i) violations of Cal. Corp. Code Section 25401, (ii) fraud, (iii) negligent misrepresentation, (iv) elder abuse, and (v) unfair competition. We answered the FAC on November 12, 2019, generally denying the allegations in the FAC and asserting affirmative defenses. A case management conference is scheduled in this matter for March 17, 2020. We believe that the lawsuit is without merit and intend to vigorously defend the action.

### 13. Leases

As of December 31, 2019, the Company is a party to three operating leases. All of these leases are office or warehouse leases. As disclosed in Note 2, the Company early adopted ASC 842 to its existing leases. The Company has elected to apply the short-term lease exception to all leases of one year or less. As such, the Company applied the guidance in ASC 842 to its corporate office and equipment leases and has determined that these should be classified as operating leases. Consequently, as a result of the adoption of ASC 842, the Company recognized an operating liability of \$377,129 with a corresponding Right-Of-Use ("ROU") asset of the same amounts based on the present value of the minimum rental payments of such leases. As of December 31, 2019, the ROU asset has a balance of \$218,504 which is included in other non-current assets in the consolidated balance sheets and current liabilities and non-current liabilities relating to the ROU asset were \$70,492, and \$148,012, respectively which are included in accrued liabilities and other non-current liabilities in the consolidated balance sheets, respectively. The discount rate used for leases accounted under ASC 842 is the Company's estimated borrowing rate of 14%. The corporate office lease provides for one three-year option to renew with nine months advanced notice to the landlord. The option to renew the corporate office lease was not considered when assessing the value of the ROU asset because the Company was not reasonably certain that it will assert its option to renew the lease.

As of December 31, 2019, this exception applies to the Stockton, California lease, which is month-to-month, and the Los Altos, California lease, which is for a term of one year.

Quantitative information regarding the Company's leases is as follows:

	Year Ended December 31,	
	2019	2018
<b>Lease cost</b>		
Operating lease cost	\$ 109,590	\$ 109,590
Short-term lease cost	\$ 117,857	\$ 35,043
Total lease cost	\$ 227,447	\$ 144,633
<b>Other information</b>		
Cash paid for the amounts included in the measurement of lease liabilities for operating leases:		
Operating cash flows	115,852	82,951
Weighted-average remaining lease term (in years):		
Operating leases	3.16	4.14
Weighted-average discount rate:		
Operating leases	14%	14%

#### 14. Subsequent Events

Effective January 2, 2020, the Company entered into consulting agreement with Suneel Sawant under which Mr. Sawant will perform certain services for ADOMANI, including, among other things, services related to the establishment, maintenance, and management of a network for the sale its zero-emission vehicles and related products and services to customers located in India. As full compensation for the services to be provided by Mr. Sawant under the agreement, the Company agreed to grant Mr. Sawant options to purchase up to 2,000,000 shares of the Company's common stock, all fully vested and exercisable on the grant date. One million of the shares subject to these options have an exercise price of \$0.50 per share and will expire if not exercised on or before December 31, 2020, and the remaining 1,000,000 shares subject to the options have an exercise price of \$1.00 per share and will expire if not exercised on or before December 31, 2021. Should the Company's agreement with Mr. Sawant be terminated for any reason, any unexercised options shall be forfeited.

On January 29, 2020, the Company settled a lawsuit with Edward Monfort, a co-founder of the Company who was terminated in March 2018. No payment was made by the Company to Mr. Monfort, and in addition to the cancellation of all his stock options, he agreed to divest himself of all ADOMANI stock he owned as of that date over a period of 10 weeks. Neither Mr. Monfort nor any defendant in this action took any financial compensation to settle this matter. On February 5, 2020, consistent with the parties' stipulation, the court dismissed the Company's counterclaims with prejudice. This matter is now closed. See Note 9.

On February 3, 2020, the Company sold marketable securities and paid off the balance, including accrued interest, of the Morgan Stanley line of credit. See Note 6.

Also on February 3, 2020, the Company, in a required foreclosure auction sale of the Ebus assets, was the only and winning bidder and acquired legal ownership of all Ebus assets. The Company continues to evaluate several paths to liquidating these assets and recouping the balance still owed on the note. See Note 5.

On February 4, 2020, the Company signed a sublease agreement with Masters Transportation, Inc. ("Masters") for Masters to occupy a portion of the Corona, California, facility that the Company occupied effective January 1, 2020. The effective date of the Masters' sublease is February 1, 2020, and it expires when the Company's lease on the property expires on December 31, 2022. Under the sublease, Masters is obligated to pay the Company monthly rent payments in an amount equal to \$6,000 at commencement and thereafter escalating to \$6,365 by its conclusion. See Note 11.

The Company issued an aggregate of 104,824 shares of its common stock to a consultant engaged by the Company as partial consideration for such consultant's services. See Note 7.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this Annual Report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (a) were effective to ensure that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation, management concluded that our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to exemptions available to issuers that are non-accelerated filers or qualify as "emerging growth companies", as defined in Section 2(a) of the Securities Act, as modified by the JOBS Act.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**Part III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of December 31, 2019.

**Item 11 EXECUTIVE COMPENSATION**

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of December 31, 2019.

**Item 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of December 31, 2019.

**Item 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of December 31, 2019.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of December 31, 2019.

**Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this Annual Report:

(1) **Financial Statements.**

The financial statements filed as part of this Annual Report are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8 of this Annual Report.

(2) **Financial Statement Schedules.**

Schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is given in the consolidated financial statements or the notes thereto.

(3) **Exhibits.**

The following exhibits are filed (or incorporated by reference herein) as part of this Annual Report:

**Exhibit Index**

Exhibit Number	Description of Exhibit	Form	Incorporated by Reference			Filed Herewith
			File No.	Filing Date	Exhibit	
3.1	<a href="#">Amended and Restated Certificate of Incorporation of the Company</a>	1-A POS	024-10656	6/15/2017	2.7	
3.2	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company</a>	8-K	001-38078	6/11/2018	3.1	
3.3	<a href="#">Amended and Restated Bylaws of the Company</a>	1-A POS	024-10656	6/15/2017	2.8	
4.1	<a href="#">Specimen Common Stock Certificate</a>	S-1/A	333-220983	12/15/2017	4.1	
4.2	<a href="#">Form of Secured Promissory Note</a>	1-A	024-10656	12/21/2016	3.1	
4.3	<a href="#">Common Stock Purchase Warrant, dated June 26, 2017, issued to Boustead Securities, LLC</a>	10-Q	001-38078	8/14/2017	4.1	
4.4	<a href="#">Common Stock Purchase Warrant, dated June 19, 2017, issued to Redwood Group International Limited</a>	10-Q	001-38078	8/14/2017	4.2	
4.5	<a href="#">Form of Common Stock Purchase Warrant, dated January 5, 2018</a>	8-K	001-38078	1/8/2018	4.1	
4.6	<a href="#">Form of Placement Agent Warrant, dated January 5, 2018</a>	8-K	001-38078	1/8/2018	4.2	
4.7	<a href="#">Form of Unit Certificate</a>	S-1/A	333-220983	1/4/2018	4.7	
9.1	<a href="#">Voting Trust Agreement, by and among Provident Trust Group FBO Cornelia P. Doherty ROTH IRA, Connie Doherty Living Trust Dated May 1, 1996, Gary Nettles as Voting Trustee, and the Company, dated March 20, 2017</a>	1-A/A	024-10656	4/7/2017	5.1	
10.1+	<a href="#">2012 Stock Option and Stock Incentive Plan, and forms of agreement thereunder</a>	1-A	024-10656	12/21/2016	6.4	
10.2+	<a href="#">Employment Agreement, by and between James L. Reynolds and the Company, dated September 16, 2019</a>	1-A	001-38078	9/20/2019	10.1	X
10.3+	<a href="#">Form of Indemnity Agreement</a>	1-A	024-10656	12/21/2016	6.8	
10.4	<a href="#">Patent License-Use and Manufacturing Agreement, by and between Silicon Turbine Systems, Inc. and the Company, dated November 7, 2014</a>	1-A	024-10656	12/21/2016	6.9	
10.5	<a href="#">Consulting Agreement, by and between Redwood Group International Limited and the Company, dated November 14, 2016</a>	1-A	024-10656	12/21/2016	6.10	
10.6+	<a href="#">Employment Agreement, by and between Michael K. Menerey and the Company, dated January 1, 2017</a>	1-A/A	024-10656	1/17/2017	6.15	

Exhibit Number	Description of Exhibit	Form	Incorporated by Reference		Filed Herewith
			File No.	Filing Date	
10.7+	<a href="#">2017 Equity Incentive Plan</a>	1-A/A	024-10656	4/7/2017	6.17
10.8+	<a href="#">Form of Stock Option Agreement for 2017 Equity Incentive Plan</a>	1-A/A	024-10656	4/7/2017	6.18
10.9+	<a href="#">Form of Notice of Grant of Stock Option for 2017 Equity Incentive Plan</a>	1-A/A	024-10656	4/7/2017	6.19
10.10	<a href="#">Office Lease, dated July 11, 2017, by and between HGN Corona Partners, LLC and the Company</a>	S-1	333-220983	10/16/2017	10.14
10.11	<a href="#">Securities Purchase Agreement, dated January 5, 2018, by and among the Company and certain investors set forth therein</a>	8-K	001-38078	1/8/2018	10.1
10.12	<a href="#">Form of Subscription Agreement</a>	1-A/A	024-10656	2/13/2017	4.1
10.13	<a href="#">Form of Escrow Deposit Agreement</a>	1-A/A	024-10656	2/13/2017	8.1
10.14	<a href="#">Form of Leak-Out Agreement, dated January 5, 2018</a>	8-K	001-38078	1/8/2018	10.2
21.1	<a href="#">Subsidiaries of the Company</a>	S-1	333-220983	10/16/2017	21.1
23.1	<a href="#">Consent of MaloneBailey, LLP, independent registered public accounting firm</a>	10-K	001-38078	2/19/2019	23.1
24.1	<a href="#">Power of Attorney (included on signature page)</a>				X
31.1	<a href="#">Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer</a>				X
31.2	<a href="#">Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer</a>				X
32.1#	<a href="#">18 U.S.C. Section 1350 Certification of Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				X
101.INS	XBRL Instance Document*				X
101.SCH	XBRL Taxonomy Extension Schema Document*				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*				X
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document*				X

+ Indicates a management contract or compensatory plan.

# The information in Exhibit 32.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section,

nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act (including this report), unless the Registrant specifically incorporates the foregoing information into those documents by reference.

\* In accordance with Rule 402 of Regulation S-T, this interactive data file is deemed not filed or part of this Annual Report on Form 10-K for purposes of Sections 11 or 12 of the Securities Act or Section 18 of the Exchange Act and otherwise is not subject to liability under these sections.

**Item 16. Form 10-K Summary**

None.

**SIGNATURES**

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

**ADOMANI, INC.**

Date: March 10, 2020

By: /s/ James L. Reynolds  
James L. Reynolds  
Chief Executive Officer and President

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James L. Reynolds and Michael K. Menerey, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James L. Reynolds</u> James L. Reynolds	Chief Executive Officer, President, Chairman of the Board (Principal Executive Officer)	March 10, 2020
<u>/s/ Michael K. Menerey</u> Michael K. Menerey	Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)	March 10, 2020
<u>/s/ Gary W. Nettles</u> Gary W. Nettles	Director	March 10, 2020
<u>/s/ Janet Boydell</u> Janet Boydell	Director	March 10, 2020
<u>/s/ John F. Perkowski</u> John F. Perkowski	Director	March 10, 2020

**JAMES L. REYNOLDS**  
**EMPLOYMENT AGREEMENT WITH ADOMANI, INC.**

This **EMPLOYMENT AGREEMENT** is entered into by and between **ADOMANI, INC.**, a Delaware corporation (the "Company"), with its corporate headquarters located at 4740 Green River Road, Corona, California 92880 and **JAMES L. REYNOLDS**, the undersigned individual ("Executive"), with his address located at 10459 Apache River Avenue, Fountain Valley, California 92708.

**RECITAL**

The Company and Executive desire to enter into an **EMPLOYMENT AGREEMENT** setting forth the terms and conditions of Executive's employment with the Company.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements hereinafter set forth, the Company and Executive agree as follows:

**1. Employment.**

(a) **Term.** The Company hereby employs Executive to serve as its Chief Executive Officer/President of the Company. The employment with the Company is for a five-year period. The Executive is free to terminate the employment relationship at any time, subject to the other provisions of this Agreement.

(b) **Duties and Responsibilities.** Executive will report to the Company's Board of Directors. Within the limitations established by the Bylaws of the Company, the Executive shall have each and all of the duties and responsibilities of the Executive's position and such other duties on behalf of the Company as may be reasonably assigned from time to time by the Company's Board of Directors.

(c) **Location.** The location at which Executive shall perform services for the Company shall be 4740 Green River Road, Corona, California 92880, or at any other location where the Company designates its corporate office. Executive agrees to perform the services of Chief Executive Officer/President at said corporate office unless the Board of Directors agrees that

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the executive may perform his services of Chief Executive Officer/President at another location.

## 2. Compensation.

(a) **Base Salary.** Executive shall be paid a base salary ("Base Salary") at the annual rate of Two Hundred Ninety Four Thousand Dollars (\$294,000.00), payable in monthly installments consistent with the Company's payroll practices. The annual Base Salary shall be reviewed on or before December 31 of each year, unless Employee's employment hereunder shall have been terminated earlier pursuant to this Agreement.

By December 31 of each year, the Board of Directors of the Company shall determine if such Base Salary should be increased for the following year in recognition of services to the Company. The Company agrees to begin compensating the Employee under this Employment commencing September 16, 2019.

As an additional Base Pay, Executive shall also be entitled to receive five percent (5%) of the Net Profits of the Company on an annual basis. The determination of Net Profits shall be in accordance with the definition of Net Profits as described in Generally Accepted Accounting Principles (GAAP) which is the Company's income, less cost of goods, less operating expenses. The computation of Net Income for the purpose of this paragraph shall be prior to state and federal corporate income taxes.

(b) **Car Allowance.** Executive shall be provided a Car Allowance at the annual rate of Eighteen Thousand Dollars (\$18,000.00, payable in monthly installments. The Car Allowance shall be used at Executive's discretion toward the purchase/lease of an electric vehicle of Executive's choice. Executive understands that the Car Allowance will be treated as taxable income and will be paid regardless of the amount of Executive's monthly car payments.

(c) **Payment.** Payment of all compensation to Executive hereunder shall be made in accordance with the relevant Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable employment and withholding taxes.

(d) **Bonus.** Executive may also be entitled to a bonus determined at the sole discretion of the Board of Directors.

3. **Other Employment Benefits.**

- (a) **Business Expenses.** Upon submission of itemized expense statements in the manner specified by the Company, Executive shall be entitled to reimbursement for reasonable travel and other reasonable business expenses duly incurred by Executive in the performance of his duties under this Agreement. However, Company shall furnish Executive with a debit and/or credit card for payment of business expenses. Executive agrees to comply with all reporting requirements of Section 274 of the Internal Revenue Code of 1986 and all changes thereto in addition to the Treasury Regulations and rulings promulgated thereunder.
- (b) **Benefit Plans.** Executive shall be entitled to participate in the Company's benefit plans offered by the Company to its employees during the term of this Agreement. Nothing in this Agreement shall preclude the Company from terminating or amending any employee benefit plan or program from time to time. The Company also agrees to include the Executive in any insurance plan it incorporates, including, but not limited to, medical insurance, dental insurance, long-term disability insurance, and life insurance. If Executive is paying for medical insurance or dental insurance and the Company has not instituted either or both a medical insurance plan or dental insurance plan, then Company shall reimburse Executive his out of pocket payments for medical insurance and dental insurance.
- (c) **Vacation and Sick Pay.** Executive shall be entitled to three (3) weeks total of vacation and sick pay each year of full employment, exclusive of legal holidays, as long as the scheduling of Executive's vacation does not interfere with the Company's normal business operations.
- (d) **Holidays.** Employee shall be entitled to the following Holidays: New Years Day, President's Day, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving, and Christmas.
- (f) **No Other Benefits.** Subject to Section 5(b), Executive understands and acknowledges that the compensation specified in Sections 2 and 3 of this Agreement shall be in lieu of any and all other compensation, benefits and plans. However, Executive understands that the Company, from time to time, shall be adopting Stock Option Plans and will be entitled to receive

additional stock option grants at the determination of the Board of Directors of the Company.

4. **Executive's Business Activities.** Executive shall devote his entire business time, attention and energy to the business and affairs of the Company. Executive may serve as a member of the Board of Directors of other organizations that do not compete with the Company, and may participate in other professional, civic, governmental organizations, and activities that do not materially affect his ability to carry out his duties hereunder.

5. **Termination of Employment.**

(a) **For Cause.** Notwithstanding anything herein to the contrary, the Company may terminate Executive's employment hereunder for cause for any one of the following reasons: (1) conviction of a felony, or a misdemeanor where imprisonment is imposed, (2) commission of any act of theft, fraud, or falsification of any employment or Company records in any material way, (3) Executive's failure or inability to perform any material reasonably assigned duties after written notice from the Company of, and a reasonable opportunity to cure, such failure or inability, or (4) material breach of this Agreement which breach is not cured within ten (10) days following written notice of such breach. Upon termination of Executive's employment with the Company for cause, the Company shall be under no further obligation to Executive for salary or bonus, except to pay all accrued but unpaid base salary, accrued bonus (if any) and accrued vacation to the date of termination thereof.

(b) **Without Cause.** The Company may not terminate hereunder at any time without cause.  
Executive's employment

(c) **Cooperation.** After notice of termination, Executive shall cooperate with the Company, as reasonably requested by the Company, to affect a transition of Executive's responsibilities and to ensure that the Company is aware of all matters being handled by Executive.

6. **Disability of Executive.** The Company may terminate this Agreement without liability if Executive shall be permanently prevented from properly performing his essential duties hereunder with reasonable accommodation by reason of illness or other physical or mental incapacity for a period of

more than 120 consecutive days.

In the event of the disability of Executive and his termination in accordance with this Section, the Company's obligations hereunder shall automatically cease and terminate; provided, however, that within 15 days the Company shall pay to Executive's heirs or personal representatives Executive's Base Salary and accrued vacation accrued to the date of termination. However, if Executive's employment is terminated by the Company under this section for disability, then all stock options that have not vested for Executive shall vest on the date of termination.

Executive shall have ninety days (90) to pay for such stock options which have received accelerated vesting after notification is received from the Company by the Executive, his Personal Representative or Heirs at the address noted herein.

7. **Death of Executive.** In the event of the death of Executive, the Company's obligations hereunder shall automatically cease and terminate; provided, however, that within 15 days the Company shall pay to Executive's heirs or personal representatives Executive's Base Salary and accrued vacation accrued to the date of death. However, if Executive's employment is terminated by the Company under this section for death, then all stock options that have not vested for Executive shall vest on the date of termination. Executive's personal representative or heirs shall have ninety days (90) to pay for such stock options which have received accelerated vesting after notification is received by the Executive's personal representative or heirs from the Company at the address noted herein.

8. **Confidential Information and Invention Assignments.** Executive understands that the Company possesses Proprietary Information as defined below which is important to its business and that this Agreement creates a relationship of confidence and trust between Executive and the Company with regard to Proprietary Information.

(a) **Proprietary Information.** For purposes of this Agreement, "Proprietary Information" is information that was or will be developed, created or discovered by or on behalf of the Company, or is developed, created or discovered by Executive while performing Services, or which became or will become known by, or was or is conveyed to the Company which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, trade secrets, designs, technology, know-how, works of authorship, source and object

code, data, computer programs, ideas, techniques, business and product development plans, and other information concerning the Company's actual or anticipated business, research or development, personnel information, terms of compensation and performance levels of Company employees, inventions (as defined in subsection (e) below), or that is received in confidence by or for the Company from any other person. Executive understands and agrees that this employment relationship creates a relationship of confidence and trust between the Company and Executive with respect to Proprietary Information.

(b) **Confidentiality.** At all times, both during the term of this Agreement and after its termination, Executive will keep in confidence and trust, and will not use or disclose any Proprietary Information without the prior written consent of the Company, except as may be necessary in the ordinary course of performing the Services under this Agreement.

(c) **Company Documents.** Executive understands that the Company possesses or will possess Company Documents that are important to its business. For purposes of this Agreement, "Company Documents" are documents or other media or tangible items that contain or embody Proprietary Information or any other information concerning the business, operations or plans of the Company, whether such documents have been prepared by Executive or by others. "Company Documents" include, but are not limited to, drawings, photographs, charts, graphs, research data, notebooks, computer disks, tapes or printouts, sound recordings and other printed, typewritten or handwritten documents. All Company Documents are and shall remain the sole property of the Company. Executive agrees not to remove any Company Documents from the business premises of the Company or deliver any Company Documents to any person or entity outside the Company, except as required in connection with performance of the Services under this Agreement. Executive further agrees that, immediately upon the Company's request and in any event upon completion of the Services or the termination of this Agreement, Executive shall deliver to the Company all Company Documents, apparatus, equipment and other physical property or any reproduction of such property, excepting only Executive's copy of this Agreement.

(d) **Solicitation of Company Employees.** During the term of this Agreement and for two years thereafter, Executive will not encourage or solicit any employee of the Company to leave the Company for any reason.

(e) **Work for Hire.** It is understood and agreed that if Executive has rendered or is rendering services to and for the benefit of the Company, including developing software or other technology, or creating improvements, inventions, designs, formulas, works of authorship, trade secrets, technology, ideas, processes, techniques, know-how and data, whether or not patentable (together, the "Inventions"), then those Inventions are for the sole and exclusive use of the Company, and that the Company shall be deemed the sole and exclusive owner of all right, title and interest in and to such Inventions, including any designs, source code, object code, enhancements and modifications, all files including input and output materials, all documentation relating to such Inventions, all media upon which any such computer programs, files and documentation are located (including tapes, disks and other storage media) and including all copyright, patent, trademark and other proprietary rights therein and relating thereto. All Inventions developed by Executive and any supporting documentation therefor shall be considered "Works for Hire" [as that term is defined under the United States Copyright Act (17 U.S.C., Section 101)] and, as such, shall be owned by and for the benefit of the Company.

(f) **Disclosure of Inventions.** Executive will promptly disclose in writing to the Company all Inventions made or conceived or reduced to practice or developed by Executive, either alone or jointly with others, during the term of this Agreement in connection with the Services that relate to any Proprietary Information.

(g) **Title to Intellectual Property.** All Proprietary Information and all title, patents, patent rights, copyrights, trade secret rights and other intellectual property and rights anywhere in the world (collectively "Rights") in connection therewith shall be the sole property of the Company.

(h) **Assignment of Inventions.** In the event that it should be determined that any of the Inventions, Rights or supporting documentation therefor do not qualify as Works for Hire, Executive will and hereby does assign to the Company for no additional consideration, all right, title, and interest that he may possess in such Inventions and/or Rights and documentation including, but not limited to, all copyright and proprietary rights relating thereto. Executive hereby assigns to the Company any Rights Executive may have or acquire in such Proprietary Information.

(i) **Cooperation with Company.** Executive agrees to perform, during and after the term of this Agreement, all acts deemed necessary or desirable by the Company to permit and assist it, in evidencing, perfecting, obtaining, maintaining, defending and enforcing Rights and/or Executive's assignment with respect to such Inventions in any and all countries. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings. Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as Executive's agents and attorneys-in-fact to act for and on behalf and instead of Executive, to execute and file any documents and to do all other lawfully permitted acts to further the above purposes with the same legal force and effect as if executed by Executive.

(j) **Prior Confidentiality Agreements.** Executive represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence Proprietary Information acquired by Executive in confidence or in trust prior to the execution of this Agreement. Executive has not entered into, and Executive agrees not to enter into, any agreement either written or oral that conflicts or might conflict with Executive's performance of the Services under this Agreement.

(k) **Right to License.** If any Rights or Inventions assigned hereunder are based on, or incorporated, or are improvements or derivatives of, or cannot be reasonably made, used, reproduced and distributed without using or violating technology or Rights owned or licensed by Executive and not assigned hereunder, Executive hereby grants the Company a perpetual, worldwide, non-exclusive sublicensable right and license to exploit and exercise all such technology and Rights in support of the Company's exercise or exploitation of any assigned Rights or Inventions (including any modifications, improvements and derivatives thereof).

9. **Exclusive Employment.** During employment with the Company, Executive will not do anything to compete with the Company's present or contemplated business, nor will he plan or organize any competitive business activity. Executive will not during his employment or within two (2) years after it ends, without the Company's express written consent, solicit or encourage any employee, agent, independent contractor, supplier, Executive, investor, or alliance partner to terminate or alter a relationship with the Company. After this agreement is

terminated and for two (2) years thereafter, Executive shall not, compete with the Company without the Company's express written consent

10. **Assignment and Transfer.** Executive's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void.

11. **No Inconsistent Obligations.** Executive is aware of no obligations, legal or otherwise, inconsistent with the terms of this Agreement or with his undertaking employment with the Company. Executive will not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others.

**12. Miscellaneous.**

(a) **Attorneys' Fees.** Should either party hereto, or any heir, personal representative, successor or assign of either party hereto, resort to legal proceedings in connection with this Agreement or Executive's employment with the Company, the party or parties prevailing in such legal proceedings shall be entitled, in addition to such other relief as may be granted, to recover its or their reasonable attorneys' fees and costs in such legal proceedings from the non-prevailing party or parties; provided, however, that nothing herein is intended to affect the provisions of Section 12(1).

(b) **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflict of law principles.

(c) **Entire Agreement.** This Agreement contains the entire agreement and understanding between the parties hereto and supersedes any prior or contemporaneous written or oral agreements, representations and warranties between them respecting the subject matter hereof.

(d) **Amendment.** This Agreement may be amended only by a writing signed by Executive and by a duly authorized representative of the Company after approval of the Company's Board of Directors.

(e) **Severability.** If any term, provision, covenant or condition of this Agreement, or the application thereof to any person, place or circumstance, shall be held to be invalid,

unenforceable or void, the remainder of this Agreement and such term, provision, covenant or condition as applied to other persons, places and circumstances shall remain in full force and effect.

(f) **Construction.** The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting this Agreement. The language in all parts of this Agreement shall be in all cases construed according to its fair meaning and not strictly for or against the Company or Executive.

(g) **Rights Cumulative.** The rights and remedies provided by this Agreement are cumulative, and the exercise of any right or remedy by either party hereto (or by its successor), whether pursuant to this Agreement, to any other agreement, or to law, shall not preclude or waive its right to exercise any or all other rights and remedies.

(h) **Nonwaiver.** No failure or neglect of either party hereto in any instance to exercise any right, power or privilege hereunder or under law shall constitute a waiver of any other right, power or privilege or of the same right, power or privilege in any other instance. All waivers by either party hereto must be contained in a written instrument signed by the party to be charged and, in the case of the Company, by an officer of the Company (other than Executive) or other person duly authorized by the Company's Board of Directors.

(i) **Notices.** Any notice, request, consent or approval required or permitted to be given under this Agreement or pursuant to law shall be sufficient if in writing, and if and when sent by certified or registered mail, with postage prepaid, to Executive's residence (as noted in the Company's records), or to the Company's principal office, as the case may be.

(j) **Assistance in Litigation.** Executive shall, during and after termination of employment, upon reasonable notice, furnish such information and proper assistance to the Company as may reasonably be required by the Company in connection with any litigation in which it or any of its subsidiaries or affiliates is, or may become a party; provided, however, that such assistance following termination shall be furnished at mutually agreeable times and for mutually agreeable compensation.

(k) **Disputes.** Any controversy, claim or dispute arising out of or relating to this Agreement or the employment relationship, either during the existence of the employment relationship or afterwards, between the parties hereto, shall be litigated solely in state or federal court in San Francisco, California. Each party (1) submits to the jurisdiction of such court, (2) waives the defense of an inconvenient forum, and (3) agrees that valid consent to service may be made by mailing or delivery of such service to the party at the party's last known address, if personal service delivery cannot be easily effected.

(1) Waiver of Jury Trial. **EACH PARTY, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AS TO ANY ISSUE RELATING HERETO IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER MATTER INVOLVING THE PARTIES HERETO.**

**IN WITNESS WHEREOF**, the parties hereto have duly executed this Agreement as of the date set forth below.

Dated: September 16, 2019

**ADOMANI , INC.:**



**EXECUTIVE:**

**JAMES L. REYNOLDS**

**Board of Directors:**

**Jack Perkowski Chairman  
Compensation Committee**

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James L. Reynolds, certify that:

1. I have reviewed this Annual Report on Form 10-K of ADOMANI, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2020

*/s/ James L. Reynolds*

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James L. Reynolds  
Chief Executive Officer, President and Chairman of the Board  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael K. Menerey, certify that:

1. I have reviewed this Annual Report on Form 10-K of ADOMANI, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2020

*/s/ Michael K. Menerey*

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Michael K. Menerey  
Chief Financial Officer and Director  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his respective capacity as an officer of ADOMANI, Inc., that the Annual Report on Form 10-K of ADOMANI, Inc. for the year ended December 31, 2019 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of ADOMANI, Inc.

Date: March 10, 2020

By: /s/ James L. Reynolds

James L. Reynolds

Chief Executive Officer, President and Chairman of the Board  
(Principal Executive Officer)

Date: March 10, 2020

By: /s/ Michael K. Menerey

Michael K. Menerey

Chief Financial Officer and Director  
(Principal Financial and Accounting Officer)