

AMP Holding Inc.
Form 10-K
April 12, 2013

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, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

Commission file number: 000-53704

AMP HOLDING INC.
(Name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

26-1394771
(I.R.S. Employer Identification No.)

100 Commerce Drive
Loveland, Ohio 45140
(Address of principal executive offices)

513-360-4704
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE EXCHANGE ACT:
Common Stock, \$0.001 par value per share

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 of Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

No x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company x

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

As of June 29, 2012, the last business day of the Registrant's most recently completed second fiscal quarter, the market value of our common stock held by non-affiliates was \$5,499,297.

The number of shares of the Registrant's common stock, \$0.001 par value per share, outstanding as of April 10, 2013, was 76,622,130. We have no other classes of equity outstanding.

Table of Contents

TABLE OF CONTENTS

PART I

<u>Item 1.</u>	<u>Business</u>	3
<u>Item 1A.</u>	<u>Risk Factors</u>	5
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	10
<u>Item 2.</u>	<u>Properties</u>	10
<u>Item 3.</u>	<u>Legal Proceedings</u>	10
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	10

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
<u>Item 6.</u>	<u>Selected Financial Data</u>	17
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	F-1
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	22
<u>Item 9A.</u>	<u>Controls and Procedures</u>	22
<u>Item 9B.</u>	<u>Other Information</u>	23

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	24
<u>Item 11.</u>	<u>Executive Compensation</u>	26
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	29
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	29
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	30

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	31
-----------------	--	----

<u>Signatures</u>		34
-------------------	--	----

Table of Contents

AMP Holding Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2012

When used in this Report, the words “anticipate”, “expect”, “plan”, “believe”, “seek”, “estimate” and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements about the features, benefits and performance of our products, our ability to introduce new product offerings and increase revenue from existing products, expected expenses including those related to selling and marketing, product development and general and administrative, our beliefs regarding the health and growth of the market for our products, anticipated increase in our customer base, expansion of our products functionalities, expected revenue levels and sources of revenue, expected impact, if any, of legal proceedings, the adequacy of liquidity and capital resource, and expected growth in business. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, market acceptance for our products, our ability to attract and retain customers for existing and new products, our ability to control our expenses, our ability to recruit and retain employees, legislation and government regulation, shifts in technology, global and local business conditions, our ability to effectively maintain and update our product and service portfolio, the strength of competitive offerings, the prices being charged by those competitors and the risks discussed elsewhere herein. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

All references in this Form 10-K that refer to the “Company”, “AMP Holding”, “AMP”, “we,” “us” or “our” are to AMP Holding Inc. and unless otherwise differentiated, its wholly-owned subsidiary, AMP Electric Vehicles Inc.

PART I

Item 1. Business

On December 28, 2009, AMP Holding Inc. entered into and closed a Share Exchange Agreement with the AMP shareholders pursuant to which we acquired 100% of the outstanding securities of AMP in exchange for 14,890,904 shares of our common stock. Considering that, following the merger, the AMP Shareholders control the majority of our outstanding voting common stock and we effectively succeeded our otherwise minimal operations to those that are theirs, AMP is considered the accounting acquirer in this reverse-merger transaction. A reverse-merger transaction is considered, and accounted for as, a capital transaction in substance; it is equivalent to the issuance of AMP securities for our net monetary assets, which are de minimus, accompanied by a recapitalization. Accordingly, we have not recognized any goodwill or other intangible assets in connection with this reverse merger transaction. AMP is the surviving and continuing entities and the historical financials following the reverse merger transaction will be those of AMP. We were a "shell company" (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) immediately prior to our acquisition of AMP pursuant to the terms of the Share Exchange Agreement. As a result of such acquisition, we were initially focused on developing automotive electric drive trains but have subsequently shifted our focus to the design, engineering, marketing and sale of both repowered and new class 3 through 6 commercial trucks with an all-electric drivetrain and battery system. Consequently, we believe that acquisition caused us to cease to be a shell company as we no longer have nominal operations. Since that time, we have devoted the majority of our resources to the development of an all-electric drive system capable of moving heavy large vehicles ranging from full size SUV's up to and including Medium Duty Commercial trucks.

Additionally, as a subsequent event, in February 2013 AMP Holding formed a new wholly owned subsidiary, AMP Trucks Inc., an Indiana corporation. On March 13, 2013 AMP Trucks Inc. closed on the acquisition of assets of

Workhorse Custom Chassis LLC (“Workhorse”). The assets included in this transaction were: the Workhorse® brand, access to the dealer network of 440 dealers nationwide, intellectual property, and all physical assets which include the approximately 250,000 sq. ft. of facilities on 48 acres of land in Union City, Indiana (the “Workhorse Assets”). We believe this acquisition propels AMP Holding Inc. into the unique position as a medium duty OEM which we believe will be capable of producing new chassis with electric, propane, compressed natural gas, and hybrid configurations, as well as gasoline drive systems.

Overview

Our vision is to bring electrification to medium duty trucks that are popular with fleets and small businesses. 91% of the 300,000 plus step vans on the road today travel fewer than 100 miles per day. A significant number of these are being utilized for fixed route deliveries that have the vehicle returning to the same location on a daily basis. Our initial focus is to either sell a repower solution for these up to 20,000 # GVW (Gross Vehicle Weight) step vans or produce a new chassis with similar specifications that is powered by an all-electric drive system. If the customer requests it, we could provide them with a chassis that is powered by an alternative fuel i.e. propane or CNG. In the event the customer still wants a percentage of their fleet to be gasoline powered vehicles, we will be able to provide those as well. Buses and other similar Class 3 through Class 6 commercial trucks could potentially be part of our future product mix since the newly acquired assembly plant is capable of producing a wide range of vehicles.

We believe our specialization in larger vehicles, specifically medium duty trucks, addresses a need in the best possible market for electric vehicles. The combination of our ability to produce, service and support a full line of vehicles ranging from traditional gasoline up to and including 100% electric power sets us apart from the competition and puts us in a very unique position.

Table of Contents

We intend to take advantage of our unique status and the reputation we have built as a leader in the electrification of larger vehicles to become a world leader in the emerging electric vehicle (EV) marketplace. Our expansion to the commercial medium duty truck segment is a logical step in that the execution of such vehicles allows the Company to leverage the technology and knowledge gained in the development of drivetrains for larger passenger vehicles.

Our powertrains encompass complete motor assemblies, battery packs, computers and software required for vehicle electrification. In the case of a repower, this assembly or kit will be shipped to one of our dealers that have been trained in the proper installation of the electrification system. They will then perform the repower at their facility which is in proximity to the customer's operations and then return the vehicle to the customer in a matter of days. In the event the electrification kit is for a new vehicle, the kit will be assembled at AMP's Loveland, Ohio facility and then shipped to be installed in a new chassis at our newly acquired truck chassis assembly plant.

AMP's approach to the electrification market is to provide 100% electric vehicles with industry-leading technology at a low upfront investment. AMP has developed a very cost effective solution for manufacturing new electric vehicles and repowering existing gasoline and diesel vehicles. This results in a unique market opportunity for AMP, one that is potentially greater than most electric vehicle competitors in the market today. By using the best of breed, award winning existing brands, AMP can focus its resources specifically on advanced electric drive train solutions. Further, by using well designed base vehicles, AMP can leverage the safety, handling and amenities invested into many of today's vehicles while not "reinventing" the base vehicle. The result is a well featured vehicle with the added advantages of having zero emissions, a quieter ride and a fraction of the ongoing operating and maintenance costs.

Market for Electric Vehicles

Most experts agree that the electric vehicle industry is here to stay and is expected to grow, although there have been recent indications that the market for consumer vehicles has been growing at a slower than anticipated rate. There are various infrastructure issues that are being slowly resolved, at different levels of aggressiveness depending on country, state or city. These include providing battery charging stations. The industry has turned to private investment and government support programs for assistance to overcome these hurdles.

Because crude oil is a finite resource, we expect the cost of gasoline will only trend upward over time which in turn will drive market demand for EVs.

Market Strategy

AMP's initial target was the mid-size and larger SUV market. AMP is leveraging its experience from developing electric SUV's to creating class 3 through 6 commercial electric trucks. Approximately one year ago, AMP signed a development agreement with Navistar International Inc. ("Navistar") to develop a 100% electric drive system for a specific Navistar vehicle that was produced with the VT365 and VT265 diesel engine in 2004 and 2005. One of these development project vehicles will shortly complete durability testing by an independent third party and then move to field testing with a large package delivery company.

Our strategy is to provide infrastructure and logistical support for our vehicles through the 400 plus Workhorse truck dealer network throughout the country that we now have access to following the acquisition of the Workhorse Asset. Additionally, the ability to provide a broad-based multiple fuel solution will provide customers with a one-stop solution for all of their vehicle needs in this class and type of vehicle.

Research and Development

The majority of our research and development is conducted in-house at our facilities near Cincinnati, Ohio. Additionally, we contract with engineering firms to assist with validation and certification requirements as well as specific vehicle integration tasks.

Competition

There are two primary competitors in the medium duty EV truck segment in the US market: Smith Electric Truck, and Electric Vehicles International (EVI). Smith has sold approximately 400 electric trucks since their inception and they are the largest manufacturer in the country. EVI is in the process of delivering 100 vehicles that UPS ordered in 2010 and it is our understanding that this order represents a significant portion of their overall business.

We believe the most dramatic difference between AMP and the other competitors in the medium duty truck market is the price. Our research indicates that our retail price may be approximately 67% of the retail price of a comparable product. We also stand out as the only manufacturer capable of providing a cost effective repower solution for existing vehicles.

While there are many overseas electric car companies, there are only a few overseas companies that have vehicles in the category of medium duty trucks.

Table of Contents

Intellectual Property

The company has multiple pending U.S. patent applications and also plans to pursue appropriate foreign patent protection on those inventions. The company also has five pending trademark applications and two issued trademark registrations in the U.S. with intent to pursue foreign trademark registration as well.

Government Regulation

We are in the business of manufacturing, modifying and selling medium duty trucks, and accordingly we are subject to laws related to truck sales and operation.

The United States' laws related to truck manufacturers regulate registration, safety criteria, type approval, inspection, maintenance, testing, etc. of trucks. Complying with the regulations of truck development and manufacturing is costly and could significantly affect our ability to become profitable. In addition, failure to comply with these laws could subject our Company to penalties, which could include severe fines or the removal of government approval to conduct business. Although we fully intend to comply with all applicable rules and regulations, we cannot assure that we will be able to do so.

Number of Employees

We currently have 22 employees, 20 full time and 2 part-time, of which 4 are administrative/sales, 1 is finance, 1 is human resource, 10 are engineering/R&D, and 6 are manufacturing. None of our employees are represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good. Currently, we have 4 fewer employees compared to December 31, 2011 due primarily to attrition and layoffs to balance resources with our product program development schedule.

Agreements

Momentum Dynamics and BARTA (Berks County Regional Transportation Authority)

On December 29, 2012, the Company entered into an Agreement with Momentum Dynamics to engineer, develop, and produce two development vehicles for BARTA in Reading, Pennsylvania. We are seeking to have this project generate the following:

- promote the use of AMP products for other similar applications i.e. rental car shuttle buses, motel and hotel shuttle buses, school buses, and other hospitality shuttle bus applications,
 - network the AMP products through the Momentum Dynamic sales channel, and
- promote the sale of AMP products to the Departments of Transportation throughout the US.

Navistar International Truck

In April of 2012 we signed a development agreement with Navistar International Truck. The scope of work for this project was to repower two 2004 vintage W1652 vehicles, which were originally produced by Navistar. Their customer, a large package delivery company, has an interest in repowering these vehicles with something other than the current diesel engine that is in this vehicle. Navistar was interested in working with them to repower these vehicles with either electric or some other fuel system. With electric being the most desirable if the customer's price point could be met, AMP was subcontracted by Navistar to perform the electric repower, and in August of 2012 AMP delivered the first vehicle to Navistar. The vehicle passed their initial performance requirements which were based on their end customer's specifications. In October 2012 Navistar turned the project over to AMP to work directly with

them to provide a 100% electric repowered vehicle. Since that time, AMP has been working through the customer requirements and is in the final stages of testing and durability. Once all testing is completed we plan on finalizing purchase orders that are currently in the discussion phase.

Item 1A. Risk Factors

We require capital for our operations as we are currently significantly undercapitalized and if we are unable to raise capital in the near future we will cease operations.

Our cash balance by mid-April 2013 may be near zero. This will impact the payment of our outstanding accounts payable balance. If we do not raise capital in the immediate future, we will be required to lay off additional employees. We are currently evaluating several options for financing, but there are no guarantees that we will raise capital or that if we do raise the capital it will be on acceptable terms.

Our limited operating history makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of our future performance.

We have basically been a research and development company since beginning operations in February 2007. We have a limited operating history and have generated limited revenue. As we move more toward a manufacturing environment it is difficult, if not impossible, to forecast our future results based upon our historical data. Because of the uncertainties related to our lack of historical operations, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in revenues or expenses. If we make poor budgetary decisions as a result of unreliable historical data, we could be less profitable or incur losses, which may result in a decline in our stock price.

Table of Contents

Failure to successfully integrate the Workhorse ® brand, logo, intellectual property, patents and assembly plant in Union City, Indiana into our operations could adversely affect our business and results of operations.

As part of our strategy to become an OEM, in March 2013, we have acquired Workhorse and the Workhorse Assets including the Workhorse ® brand, logo, intellectual property, patents and assembly plant in Union City, Indiana. The Workhorse acquisition may expose us to operational challenges and risks, including the diversion of management's attention from our existing business, the failure to retain key Workhorse dealers and our ability to commence operations at the plant in Union City, Indiana. Our ability to sustain our growth and maintain our competitive position may be affected by our ability to successfully integrate the Workhorse Assets.

AMP's results of operations have not resulted in profitability and we may not be able to achieve profitability going forward.

AMP has incurred net losses amounting to \$21,371,258 for the period from inception (February 20, 2007) through December 31, 2012. In addition, as of December 31, 2012, AMP has a working capital deficiency of \$2,344,694. If we incur additional significant operating losses, our stock price may decline, perhaps significantly.

Our management is developing plans to alleviate the negative trends and conditions described above. Our business plan has changed from concentrating on EV SUV's to EV medium duty trucks, but is still speculative and unproven. There is no assurance that even if we successfully implement our business plan, that we will be able to curtail our losses. Further, as we are a development stage enterprise, we expect that net losses and the working capital deficiency will continue.

Our business, prospects, financial condition and operating results will be adversely affected if we cannot reduce and adequately control the costs and expenses associated with operating our business, including our material and production costs.

We incur significant costs and expenses related to procuring the materials, components and services required to develop and produce our electric vehicles. As a result, our current cost projections are considerably higher than the projected revenue stream that such vehicles will produce. As a result we are continually working on initiatives to reduce our cost structure so that we may effectively compete.

We currently do not have long-term supply contracts with guaranteed pricing which exposes us to fluctuations in component, materials and equipment prices. Substantial increases in these prices would increase our operating costs and could adversely affect our business, prospects, financial condition and operating results.

Because we currently do not have long-term supply contracts with guaranteed pricing, we are subject to fluctuations in the prices of the raw materials, parts and components and equipment we use in the production of our vehicles. 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 vehicle prices. Any attempts to increase the announced or expected prices of our vehicles in response to increased costs could be viewed negatively by our customers and could adversely affect our business, prospects, financial condition and operating results.

We depend upon key personnel and need additional personnel.

Our success depends on the continuing services of James E. Taylor, Chairman of the Board, Stephen Burns, CEO, and Martin J. Rucidlo, President. The loss of any of these individuals could have a material and adverse effect on our business operations. Additionally, the success of the Company's operations will largely depend upon its ability to

successfully attract and maintain competent and qualified key management personnel. As with any company with limited resources, there can be no guarantee that the Company will be able to attract such individuals or that the presence of such individuals will necessarily translate into profitability for the Company. Our inability to attract and retain key personnel may materially and adversely affect our business operations.

We must effectively manage the growth of our operations or our company will suffer.

To manage our growth, we believe we must continue to implement and improve our operational, manufacturing, and research and development departments. We may not have adequately evaluated the costs and risks associated with this expansion, and our systems, procedures, and controls may not be adequate to support our operations. In addition, our management may not be able to achieve the rapid execution necessary to successfully offer our products and services and implement our business plan on a profitable basis. The success of our future operating activities will also depend upon our ability to expand our support system to meet the demands of our growing business. Any failure by our management to effectively anticipate, implement, and manage the changes required to sustain our growth would have a material adverse effect on our business, financial condition, and results of operations.

Our business requires substantial capital, and if we are unable to maintain adequate financing sources our profitability and financial condition will suffer and jeopardize our ability to continue operations.

We require substantial capital to support our operations. If we are unable to maintain adequate financing, or other sources of capital are not available, we could be forced to suspend, curtail or reduce our operations, which could harm our revenues, ability to achieve profitability, financial condition and business prospects.

Table of Contents

We face competition. A few of our competitors have greater financial or other resources, longer operating histories and greater name recognition than we do and one or more of these competitors could use their greater resources and/or name recognition to gain market share at our expense or could make it very difficult for us to establish market share.

In the electric medium duty truck market in the United States, we compete with a few other manufacturers, including EVI and Smith Electric, who have more significant financial resources, established market positions, long-standing relationships with customers and dealers, and who have more significant name recognition, technical, marketing, sales, financial and other resources than we do. Each of these companies is currently selling an electric vehicle or is working to develop, market and sell advanced technology vehicles in the United States market. The resources available to our competitors to develop new products and introduce them into the marketplace exceed the resources currently available to us. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period of time that we can. This intense competitive environment may require us to make changes in our products, pricing, licensing, services, distribution, or marketing to develop a market position. Each of these competitors has the potential to capture market share in our target markets which could have an adverse effect on our position in our industry and on our business and operating results.

If we are unable to keep up with advances in electric vehicle technology, we may suffer a decline in our competitive position.

There are companies in the electric vehicle industry that have developed or are developing vehicles and technologies that compete or will compete with our vehicles. We cannot assure that our competitors will not be able to duplicate our technology or provide products and services similar to ours more efficiently. If for any reason we are unable to keep pace with changes in electric vehicle technology, particularly battery technology, our competitive position may be adversely affected. We plan to upgrade or adapt our vehicles and introduce new models in order to continue to provide electric vehicles that incorporate the latest technology. However, there is no assurance that our research and development efforts will keep pace with those of our competitors.

Our electric vehicles compete for market share with vehicles powered by other vehicle technologies that may prove to be more attractive than ours.

Our target market currently is serviced by manufacturers with existing customers and suppliers using proven and widely accepted fuel technologies. Additionally, our competitors are working on developing technologies that may be introduced in our target market. If any of these alternative technology vehicles can provide lower fuel costs, greater efficiencies, greater reliability or otherwise benefit from other factors resulting in an overall lower total cost of ownership, this may negatively affect the commercial success of our vehicles or make our vehicles uncompetitive or obsolete.

We currently have a limited customer base and expect that a significant portion of our future sales will be from a limited number of customers and the loss of any of these high volume customers could materially harm our business.

A significant portion of our projected future revenue, if any, is generated from a limited number of vehicle customers. Additionally, much of our business model is focused on building relationships with large customers. Currently we have no contracts with customers that include long-term commitments or minimum volumes that ensure future sales of vehicles. As such, a customer may take actions that affect us for reasons that we cannot anticipate or control, such as reasons related to the customer's financial condition, changes in the customer's business strategy or operations or as the result of the perceived performance or cost-effectiveness of our vehicles. The loss of or a reduction in sales or anticipated sales to our most significant customers could have an adverse effect on our business, prospects, financial condition and operating results.

Changes in the market for electric vehicles could cause our products to become obsolete or lose popularity.

The modern electric vehicle industry is in its infancy and has experienced substantial change in the last few years. To date, demand for and interest in electric vehicles has been slower than forecasted by industry experts. As a result, growth in the electric vehicle industry depends on many factors, including, but not limited to:

- continued development of product technology, especially batteries
- the environmental consciousness of customers
- the ability of electric vehicles to successfully compete with vehicles powered by internal combustion engines
- limitation of widespread electricity shortages; and
- whether future regulation and legislation requiring increased use of non-polluting vehicles is enacted

We cannot assume that growth in the electric vehicle industry will continue. Our business may suffer if the electric vehicle industry does not grow or grows more slowly than it has in recent years or if we are unable to maintain the pace of industry demands.

Table of Contents

The unavailability, reduction, elimination or adverse application of government subsidies, incentives and regulations could have an adverse effect on our business, prospects, financial condition and operating results.

We believe that, currently, the availability of government subsidies and incentives is an important factor considered by our customers when purchasing our vehicles, and that our growth depends in part on the availability and amounts of these subsidies and incentives. Any reduction, elimination or discriminatory application of government subsidies and incentives because of budgetary challenges, policy changes, the reduced need for such subsidies and incentives due to the perceived success of electric vehicles or other reasons may result in the diminished price competitiveness of the alternative fuel vehicle industry.

We may be unable to keep up with changes in electric vehicle technology and, as a result, may suffer a decline in our competitive position.

Our current products are designed for use with, and are dependent upon, existing electric vehicle technology. As technologies change, we plan to upgrade or adapt our products in order to continue to provide products with the latest technology. However, our products may become obsolete or our research and development efforts may not be sufficient to adapt to changes in or to create the necessary technology. As a result, our potential inability to adapt and develop the necessary technology may harm our competitive position.

The failure of certain key suppliers to provide us with components could have a severe and negative impact upon our business.

We rely on a small group of suppliers to provide us with components for our products. If these suppliers become unwilling or unable to provide components, there are a limited number of alternative suppliers who could provide them. Changes in business conditions, wars, governmental changes, and other factors beyond our control or which we do not presently anticipate could affect our ability to receive components from our suppliers. Further, it could be difficult to find replacement components if our current suppliers fail to provide the parts needed for these products. A failure by our major suppliers to provide these components could severely restrict our ability to manufacture our products and prevent us from fulfilling customer orders in a timely fashion.

Product liability or other claims could have a material adverse effect on our business.

The risk of product liability claims, product recalls, and associated adverse publicity is inherent in the manufacturing, marketing, and sale of electrical vehicles. Although we have product liability insurance for our consumer and commercial products, that insurance may be inadequate to cover all potential product claims. We also carry liability insurance on our products. Any product recall or lawsuit seeking significant monetary damages either in excess of our coverage, or outside of our coverage, may have a material adverse effect on our business and financial condition. We may not be able to secure additional product liability insurance coverage on acceptable terms or at reasonable costs when needed. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates. We cannot provide assurance that such claims and/or recalls will not be made in the future.

We may have to devote substantial resources to implementing a retail product distribution network.

Dealers are often hesitant to provide their own financing to contribute to our product distribution network. As a result, we anticipate that we may have to provide financing or other consignment sale arrangements for dealers. A capital investment such as this presents many risks, foremost among them being that we may not realize a significant return on our investment if the network is not profitable. Our inability to collect receivables from dealers could cause us to

suffer losses. Lastly, the amount of time that our management will need to devote to this project may divert them from performing other functions necessary to assure the success of our business.

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

Sales of our vehicles are subject to international, state and local vehicle dealer and distribution laws. To the extent such laws prevent us from selling our vehicle 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.

Regulatory requirements may have a negative impact upon our business.

While our products are subject to substantial regulation under federal, state, and local laws, we believe that our products are or will be materially in compliance with all applicable laws. However, to the extent the laws change, or if we introduce new products in the future, some or all of our products may not comply with applicable federal, state, or local laws. Further, certain federal, state, and local laws and industrial standards currently regulate electrical and electronics equipment. Although standards for electric vehicles are not yet generally available or accepted as industry standards, our products may become subject to federal, state, and local regulation in the future. Compliance with these regulations could be burdensome, time consuming, and expensive.

Our products are subject to environmental and safety compliance with various federal and state regulations, including regulations promulgated by the EPA, NHTSA, and various state boards, and compliance certification is required for each new model year. The cost of these compliance activities and the delays and risks associated with obtaining approval can be substantial. The risks, delays, and expenses incurred in connection with such compliance could be substantial.

Table of Contents

Our success may be dependent on protecting our intellectual property rights.

We rely on trade secret protections to protect our proprietary technology. Our success will, in part, depend on our ability to obtain trademarks and patents. We are working on obtaining patents and trademarks registered with the United States Patent and Trademark Office but have not finalized any as of this date. Although we have entered into confidentiality agreements with our employees and consultants, we cannot be certain that others will not gain access to these trade secrets. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

We may be exposed to liability for infringing upon the intellectual property rights of other companies.

Our success will, in part, depend on our ability to operate without infringing on the proprietary rights of others. Although we have conducted searches and are not aware of any patents and trademarks which our products or their use might infringe, we cannot be certain that infringement has not or will not occur. We could incur substantial costs, in addition to the great amount of time lost, in defending any patent or trademark infringement suits or in asserting any patent or trademark rights, in a suit with another party.

Our electric vehicles make use 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 such events occur in our electric vehicles, we could face liability for damage or injury, adverse publicity and a potential safety recall, any of which could adversely affect our business, prospects, financial condition and operating results.

The battery packs in our electric vehicles use lithium-ion cells, which have been used for years in laptop computers and cell phones. 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.

Our facilities could be damaged or adversely affected as a result of disasters or other unpredictable events. Any prolonged disruption in the operations of our facility would adversely affect our business, prospects, financial condition and operating results.

We engineer and assemble our electric vehicles in a facility in Loveland, Ohio. Any prolonged disruption in the operations of our facility, whether due to technical, information systems, communication networks, accidents, weather conditions or other natural disaster, or otherwise, whether short or long-term, would adversely affect our business, prospects, financial condition and operating results.

We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting the company at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on investment will only occur due to stock price appreciation.

Our stock price and trading volume may be volatile, which could result in substantial losses for our stockholders.

The equity trading markets may experience periods of volatility, which could result in highly variable and unpredictable pricing of equity securities. The market price of our common stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. In addition, the

trading volume in our common stock may fluctuate and cause significant price variations to occur. We have experienced significant volatility in the price of our stock. We cannot assure that the market price of our common stock will not fluctuate or decline significantly in the future. In addition, the stock markets in general can experience considerable price and volume fluctuations.

We have not voluntarily implemented various corporate governance measures, in the absence of which, shareholders may have more limited protections against interested director transactions, conflict of interest and similar matters.

Recent Federal legislation, including the Sarbanes-Oxley Act of 2002, has resulted in the adoption of various corporate governance measures designed to promote the integrity of the corporate management and the securities markets. Some of these measures have been adopted in response to legal requirements. Others have been adopted by companies in response to the requirements of national securities exchanges, such as the NYSE or the NASDAQ, on which their securities are listed. Prospective investors should bear in mind our current lack of Sarbanes Oxley measures in formulating their investment decisions.

Table of Contents

We may be exposed to potential risks relating to our internal controls over financial reporting and our ability to have those controls attested to by our independent auditors.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"), the Securities and Exchange Commission adopted rules requiring smaller reporting companies, such as our company, to include a report of management on the company's internal controls over financial reporting in their annual reports for fiscal years ending on or after December 15, 2007. We were required to include the management report in annual reports starting with the year ending December 31, 2009. Previous SEC rules required a non-accelerated filer to include an attestation report in its annual report for years ending on or after June 15, 2010. Section 989G of the Dodd-Frank Act added SOX Section 404(c) to exempt from the attestation requirement smaller issuers that are neither accelerated filers nor large accelerated filers under Rule 12b-2. Under Rule 12b-2, subject to periodic and annual reporting criteria, an "accelerated filer" is an issuer with market value of \$75 million, but less than \$700 million; a "large accelerated filer" is an issuer with market value of \$700 million or greater. As a result, the exemption effectively applies to companies with less than \$75 million in market capitalization. Item 9a of this filing,