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Elio Motors, Inc.

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PART II
INFORMATION TO BE INCLUDED IN REPORT

Item 1. Business

Corporate Background and General Overview

Motivated by the belief that America can engineer and build a high quality, reliable, safe, eco-friendly and affordable vehicle for everyone, engineering veteran Paul Elio founded Elio Motors, Inc. in October 2009 as an Arizona corporation. Today, Elio Motors is an American vehicle design and manufacturing company committed to providing safe, affordable and efficient vehicles. Leveraging existing technology, Elio Motors has designed a revolutionary front engine, front-wheel drive, two-seat, gasoline-powered vehicle, with two wheels in the front and one wheel in the rear – *the Elio*. Its unique design makes the vehicle more aerodynamic with significantly higher gas mileage than standard vehicles.

Elio Motors hopes to make a game-changing impact beyond sales; creating thousands of jobs, reducing dependence on foreign oil, reducing emissions, and favorably affecting the trade deficit by reducing foreign oil purchases, exporting vehicles, and providing a significant return for investors.

The Elio

Target vehicle specifications for *the Elio* are as follows:

| <i>The Elio</i> – Target Vehicle Specifications Overview | |
|--|---|
| Body and chassis | |
| Chassis/Body: | Spaceframe & panel |
| Layout: | Front engine, front-wheel drive, 3-wheeled, open front wheel |
| Powertrain | |
| Engine: | 0.9 liter 3 cylinder, 55 horsepower |
| Transmission: | 5 speed manual or automatic |
| Dimensions | |
| Wheelbase: | 110 inches |
| Length: | 160.5 inches |
| Track Width: | 66.8 inches |
| Height: | 54.2 inches |
| Target Curb Weight: | 1350 pounds |
| Trunk Space: | 27 inches x 14 inches x 10 inches (2.2 cubic feet) |
| Performance | |
| 0-60 mph: | 9.6 seconds |
| Top Speed: | 100 miles per hour+ |
| Fuel Economy: | 84 miles per gallon EPA highway; 49 miles per gallon EPA city |
| Range: | Up to 672 miles |
| Other | |
| Fuel: | Unleaded gasoline |
| Fuel Capacity: | 8 gallons |

The range of *the Elio* exceeds the range of electric vehicles (100 to 300 miles) and that of most other vehicles of its size (400 to 500 miles). Configured in a three-wheel format, it is conceived with tandem seating for two passengers to travel in a front-to-back layout. With a targeted retail price of \$6,800¹ per vehicle, we believe that *the Elio* provides the efficiency and environmental friendly benefits without the price premium, driving range anxiety or safety risks of electric or hybrid vehicles. Based on the current prototype and sources for components, the retail price is approximately \$7,600, but we are working to achieve the \$6,800 targeted retail price. Bill-of-materials (BOM) cost is the largest component of the retail price for *the Elio* vehicle. At the prototype phase of any automotive vehicle program it is quite customary to have a gap to a design BOM cost target. The cost targets for *the Elio* have been set based on the management team's collective past experience in sourcing hundreds of automotive components. Actual BOM costs can vary up or down during vehicle development as engineering changes are made and validated through testing. Through continuous product refinement during vehicle development, supplier negotiation closer to production and scale economies post-production, this cost gap is typically bridged. While design-decision driven costs are within our control, the commodity price fluctuations driven by energy prices are beyond our control. Additionally, the estimated \$7,600 retail price is based on a 125,000 annual production volume and a BOM cost target of \$5,654 that management expects to achieve at start of production. At 250,000 annual sales, we believe we can achieve the target \$6,800 retail price due to lowered BOM costs (a target BOM cost of \$5,132) resulting from economies of scale. Our management believes that based on the public response received to date, selling 250,000 vehicles per year at the \$6,800 retail price is achievable.

The tandem seating design is a key component to the achievement of *the Elio's* fuel efficiency; it reduces vehicle body² width by half that of the typical side-by-side seated two to four passenger compact car (68.8 inches wide on average³), minimizing the wind drag on the vehicle by a corresponding one half. Drivers will benefit from the vehicle's three-wheel, two-passenger format, not only for additional practical reasons, but also as it permits them to utilize the High Occupancy Vehicle (HOV) or carpool lanes on roads and highways. By employing the three-wheel design, the vehicle qualifies as a motorcycle⁴, lowering the degree of federal and state compliance requirements, as compared to vehicles with four wheels or more, and drastically reduces the cost of development and launch of the vehicle. Although the vehicle is technically classified as a motorcycle, we have designed *the Elio* to meet the more stringent safety standards of cars.

Features and Options. The vehicle is designed to have the same standard comfort and functional features customers have come to expect in modern automobiles: air conditioning, heat, AM/FM stereo, power windows, power door lock, airbags, auxiliary port(s), anti-lock brakes, and traction control. Other optional luxury features will be available as well, such as leather seats, power seats, and various exterior body aesthetic add-ons. It will also have newer generation options, such as rear view/backup camera, remote engine ignition, GPS-mapping and navigation and web radio.

Customers will be able to select from seven different body color options: Rocket Silver, Sour Apple, Creamsicle, Red Hot, True Blue, Licorice and Marshmallow.

Vehicle Development and Existing Technologies Used. While *the Elio* is unique from what exists in the current market, many of its planned components and technologies are already in use and accessible in today's automotive production market, thus reducing the need for, and costs and execution risks of, vehicle development. Many components utilized in the construction of the vehicle's interior, chassis, powertrain and body, are either available off-the-shelf or can be modified from off-the-shelf items for use in production of the vehicle. "Off-the-shelf" means the components are in current production in other automaker vehicles and the component suppliers either own the production tooling and/or designs to these components or have the permission to sell these components to Elio Motors. The benefits of using off-the-shelf components are proven and durable performance and lowered costs due to economies of scale. We have already established letters of intent with industry-leading suppliers to provide *the Elio's* systems and components.

¹ For a "base" vehicle without destination/delivery charges, taxes, title, registration, and options/installation.

² Based on the width of the vehicle's body from left side panel to right side panel, and distinct from track width.

³ Source: Edmunds.com as of 2007 (http://usatoday30.usatoday.com/money/autos/2007-07-15-little-big-cars_N.htm)

⁴ The National Highway Traffic Safety Administration (NHTSA) defines a motorcycle as "a motor vehicle with motive power having a seat or saddle for the use of the rider and designed to travel on not more than three wheels in contact with the ground."

Automakers generally outsource a significant portion of the vehicle components to third-party suppliers. In fact, according to Oliver Wyman, in order to meet the evolving consumer demands and to remain competitive, suppliers' share of the value creation in vehicle development was 77.3% in 2012 and is projected to increase to 81.1% by 2025.⁵ This means that Elio Motors is not alone in this regard. In addition, automakers single source components for a given vehicle platform, but use multiple suppliers for their portfolio of vehicle platforms in order to have pricing leverage over suppliers. Although we are single sourcing any given automotive component, our purchasing group has a reserve of two or three capable suppliers to protect against pricing or other supply risks. In fact, we have successfully switched suppliers for a few components already.

Spaceframe and Body Panel Design. The *Elio* is designed upon a spaceframe chassis, which utilizes a set of tubular steel struts, custom fitted and arranged in straight or curved geometric patterns for shape and/or strength. Optimally positioned, the struts will promote the greatest rigidity in structure for three-dimensional load-bearing points. By tailoring the spaceframe construction with the use of advanced high strength steels, the result is less weight and lower costs compared to the use of other expensive materials, such as aluminum and carbon fiber. The *Elio's* body panels, which have no structural function, are affixed to the spaceframe to add the aesthetic facets to the vehicle, and are made of sheet molding composite. Composite panels result in a lighter weight, dent-resistant structure, as compared to steel body panels. In addition, the use of composite panels can reduce repair costs, as it facilitates a "replacement" strategy rather than a "repair" strategy. In-mold reinforcements positioned within the panels help to further reduce tooling costs.

This frame and body design contrasts with the unibody frame design, common in the market today and which requires sheet metal stampings to serve as both the safety structure and aesthetic surface for a typical car design. This frame technology is not unique to the *Elio* – spaceframes for automotive applications have been used frequently for decades in the production of motorcycles and racecars, and the spaceframe and body panel architecture are currently utilized in the production of autos ranging from exotic sports cars to more modestly priced models. The advantages of this frame and panel design are the far greater utilization of materials in production, decreased tooling costs, and greater potential for left hand to right hand commonality. As well, by decoupling the aesthetic and functional aspects of the frame, Elio Motors has greater freedom in design of the spaceframe itself.

Engine/Powertrain. Perhaps the most critical aspect to the vehicle's performance is the engine. The *Elio* engine is an inline 0.9 liter combustibile three-cylinder engine, which has been custom-developed for the *Elio* application. Like the rest of the vehicle, it relies heavily on off-the-shelf components and is a great execution of current automotive technology. To achieve the *Elio's* fuel efficiency and power requirements, this version will include existing technologies found in production automobiles today: variable valve lift and exhaust gas recirculation.

Newly Tooled Parts and Components. While much of the vehicle's construction involves readily available, off-the-shelf components and existing technologies, some parts are unique to the vehicle and will require new tooling of equipment to fabricate parts for production. As described above, it has been noted that the engine powertrain for the vehicle will involve a new engine with off-the-shelf parts where possible and unique parts, such as the engine block being manufactured by current market leaders. This system, along with other powertrain, interior, chassis and body components will also require new parts production to accommodate the performance, styling and features of the vehicle.

⁵ Source: Oliver Wyman Automotive Manager 2014 Articles (http://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2014/jul/17-19_AM_2014_Boosting%20Engineering%20Performance.pdf)

Engineering and Development, to Date; Prototype Build and Design Validation. Our development process of *the Elio* comprises five stages: Concept Design, Engineering Analysis, Detailed Design, Prototype Build and Validation Testing. As of this date, we have made considerable progress through the first three stages of the vehicle's development. The current stage of vehicle engineering and development process is prototype build, vehicle test and engineering validation stage. Through this process, the vehicle safety characteristics, the gasoline efficiency and the cost of manufacturing the vehicle will be confirmed.

We are using Technosports Creative, a Livonia, Michigan-based prototype maker, to build *Elio* prototypes and certain other manufactured parts used in the engineering and safety testing process. Technosports will build prototypes using a combination of fabricated and soft-tooled and off-the-shelf components provided by *the Elio* suppliers. Most of the supplier components have been ordered based on engineering drawing release. Once the components are available, the actual vehicle builds will likely take four to six weeks with the first engineering prototype complete in mid-May. During the prototype build process, issues will be tracked and reported back to the component and vehicle engineering teams to be addressed. A series of tests are being planned for the prototypes, with some vehicles to be used for multiple tests. Since *the Elio* is classified as a motorcycle under the Federal Motor Vehicle Safety Standards and Regulations, *the Elio* does not have to meet any destructive safety tests. The crash safety testing for *the Elio* will be done purely as a due care measure and not because of any regulatory requirement. On the other hand, in order to be eligible for the Advanced Technology Vehicles Manufacturing (ATVM) loan (discussed below in "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Plan of Operations*"), *the Elio* has to qualify as an "ultra-efficient vehicle" that achieves at least 75 miles per gallon⁶ while operating on diesel or gasoline. The Department of Energy (DOE) has informed us that Elio Motors has met the technical eligibility criteria for the ATVM loan based on preliminary analysis. However, it is possible that DOE may require physical testing of *the Elio* for validation of miles per gallon prior to disbursement of the ATVM loan.

Cost Estimates Developed with Vendors. We have also made considerable progress towards identifying and procuring component and parts supply partners who will provide the setup for and future production of components in the vehicle at the start of production. To date, we have obtained cost estimates from nearly 75% of our potential parts and components supply partners, with detailed estimates from each supplier for the pre-production equipment tooling and the per part costs (based on vehicle production volumes).

The Market

We will be selling into the North American automobile market, which is highly competitive. We have examined various considerations with regard to *the Elio's* market impact, including driving cost analyses, *the Elio's* unique profile, cost comparisons to existing vehicles in the market, market testing and target consumer markets.

Driving Cost Analyses. We expect the total cost of operating an *Elio* to be substantially below that of any available vehicle due largely to the expected retail price of an *Elio* and its anticipated fuel efficiency.

Unique profile. We have carefully assessed whether a two-passenger vehicle profile will be an impediment to broad market acceptance. According to a survey of 150,000 households completed by the US Department of Transportation's Federal Highway Administration in 2009 (the "2009 National Household Travel Survey"), the average vehicle occupancy across all types of trips (work, shopping, family errands, and social and recreational) totaled 1.67. When traveling to and from work, the average vehicle occupancy declined to just 1.13, suggesting that almost all work commutes by automobile are made with the driver as the sole vehicle occupant. Only social and recreational trips averaged more than two occupants, measuring at 2.2.

⁶ ATVM's 75 miles per gallon is based on the CAFÉ test method, which is a combined highway and city mileage number. *The Elio* is expected to achieve 92 mpg measured under the CAFÉ test method. On the other hand, *the Elio's* projected 84 miles per gallon is a highway mileage number, which is based on EPA's test method, which involves real-world driving conditions.

Cost comparisons to existing vehicles. When compared to internal combustion engine vehicles (i.e., those powered by gasoline or diesel oil), *the Elio* is substantially more attractive on the basis of purchase cost, operating costs and efficiency. When compared to electric vehicle alternatives, *the Elio* still represents a significantly better value proposition on the basis of purchase cost and convenience. Electric vehicles range in purchase cost from \$23,000 (Mitsubishi i-MiEV) to \$70,000 (Tesla Model S), and the lack of available charging stations limits the driving range of many of the models, making them less convenient and impractical for longer trips.

Market testing. Since May 2013, we have been touring a prototype *Elio* across the United States to build awareness, gather feedback and refine the offering. The vehicle has been well received at more than 150 events nationwide. We have been taking reservations through our website for future production models of *the Elio*, which require deposits of \$100 to \$1,000, with the average deposit received per reservation of \$427, with 95% of the reservation dollar amounts being non-refundable. As of March 31, 2016, we had nearly 52,000 reservations totaling over \$22 million.

Target markets. We have surveyed consumers several times to understand the groups most likely to purchase an *Elio*. The results of these surveys indicate that the demographics of an *Elio* purchaser will evolve, as the initial purchasers, or “early adopters,” will have a slightly different demographic profile than the broader group of purchasers anticipated in future years. Based on our analyses, we are targeting the Second Vehicle and Used Car markets, the Clunker Replacement market, and the Third Vehicle market.

Second Vehicle and Used Car Markets – According to the 2009 National Household Travel Survey, there were 1.86 vehicles per household, and greater than 41 million households had two vehicles, accounting for 36.3% of all US households. The 2014 Used Car Industry Report published by the National Independent Automobile Dealers Association indicated that for 2013, 41.99 million used vehicles and 15.58 new vehicles were sold. The 2014 Used Vehicle Market Report prepared by Edmunds.com revealed that the average transaction price for a ten-year old vehicle was \$7,689. We believe that *the Elio* presents an attractive alternative to purchasing a used car for a second vehicle. Given the option of purchasing a used vehicle with 120,000 miles on it for \$7,689 versus a new vehicle with all the guarantees and warranties for under \$7,600, many buyers, especially first-time buyers and college students, will present a solid opportunity.

Clunker Segment - Of the 258⁷ million vehicles on the road in the U.S. today, 120 million are six to 14 years old or older, or “Clunkers.” This segment consists of clunker drivers who today, have no intention of getting a different vehicle. They do not want to (or cannot) purchase a substantially better vehicle. Given the low upfront cost of *the Elio* and its low operating cost, we believe that *the Elio* will stand out as a newer, lost-cost alternative for clunker drivers. If one were to finance the cost of *the Elio* over six years, and replaced a vehicle with 18 miles per gallon or less, the savings on gas from the new *Elio* would entirely pay for the vehicle⁸.

Third Vehicle - We had Berline (a Detroit advertising agency), perform a survey to assess the market for *the Elio*. Berline surveyed 2,000 people who watched a video about *the Elio* and then completed a questionnaire. 23.8% of the respondents classified themselves as either “Very Likely” or “Extremely Likely” to purchase an *Elio*, an impressive result for a new vehicle. Even more interesting, 72.7% of this group of “Very Likely” or “Extremely Likely” indicated they would buy an *Elio* in addition to their current vehicles.

⁷ IHS Automotive. (2015). Average Age of Light Vehicles in the U.S. Rises Slightly in 2015 to 11.5 years, IHS Reports [Press release]. Retrieved from <http://press.ihs.com/press-release/automotive/average-age-light-vehicles-us-rises-slightly-2015-11-5-years-ihs-reports>.

⁸ Assumes price of gas is \$2.75 per gallon, vehicle is driven approximately 10,000 miles per year, cost of an *Elio* is \$7,600 and *the Elio* gets 84 miles per gallon.

Reservations for an *Elio*

Since 2013, we have been accepting reservation deposits ranging from \$100 to \$1,000 for purposes of securing vehicle production slots. We offer reservations on a non-refundable and refundable basis at the following levels: \$1,000, \$500, \$250 and \$100. Those holding non-refundable reservations have priority over those holding refundable reservations and within each group, those with higher deposits have greater preference over those with lower deposits. As of December 31, 2015 and 2014, we received refundable deposits of \$1,092,750 and \$913,700, respectively, which are included as current liabilities on our balance sheets. As of December 31, 2015 and 2014, we received nonrefundable deposits of \$19,587,800 and \$14,852,183, respectively, which are included as long-term liabilities on our balance sheets.

Sales and Service Model

Sales Model. The sales model for our vehicle is based on the establishment and operation of our own retail store network, as opposed to the conventional model utilizing factory-authorized dealer franchises. Our distribution model is designed to enable customers to choose specific options for their vehicles at the point-of-sale. Since they will be purchasing directly from the manufacturer, customers would be able to obtain their desired mix of options and features, rather than choosing from pre-set option packages. With seven color choices and the choice of either a manual or automatic transmission, there will be 14 vehicle combinations available. Customers can then select from an extensive list of add-ons to customize their vehicles.

We envision situating our stores as small, stand-alone locations in highly visible community shopping centers of major cities, in which three full-size *Elio* vehicles can be displayed – one inside the store and two (a standard and an automatic) outside the store to accommodate test drives. Customers would access four to six interactive kiosks placed in-store to assist in their vehicle and vehicle options choices, providing such information as option/accessory menus, pricing, warranty information, service locations and financing options. With only three vehicles being displayed, our retail stores are expected to comprise approximately 4,000 square feet of space.

Fulfillment and Delivery. Once a customer has finalized his/her vehicle and option selections, the order would be transmitted to one of several *Elio* marshaling/configuration centers, positioned within nine hours of an *Elio* retail store. These marshaling centers would maintain a stock of base vehicles, provide parts installation of customers' selected option add-ons to the vehicles, and facilitate the delivery of the vehicle to the retail location of purchase. We expect vehicle orders to be transmitted real time throughout the day, then building out and customizing a base vehicle according to the customer's specifications. To provide the marshaling services, we have identified ADESA, Inc., a large national provider of vehicle remarketing services to automotive manufacturers, financial institutions, vehicle rental companies, and fleet management companies.

Service. Since our retail stores are planned only as sales and distribution locations, we have identified an outsourced service partner - The Pep Boys - Manny, Moe & Jack, a publicly-traded, national provider and retailer of automotive aftermarket service and parts. We believe that with an existing base of approximately 800 service centers in 36 states located in 90% of the markets in which we will operate, Pep Boys has the right combination of brand recognition and customer focus for its desired factory authorized service provider. We entered into a preliminary memorandum of understanding as a first step towards securing this working relationship.

Production Plan

Manufacturing Facility. See "Properties" for a description of the manufacturing facility.

Sourcing. We intend to sole-source components initially from major component suppliers under multi-year supply agreements and develop dual sources of certain components as quickly as practical.

Production Plan. Gino Raffin, our Vice President of Manufacturing and Product Launches, and Doug Frick, our Plant Manager of Shreveport operations, have developed the production plan and facility layout. The facility layout has been developed to utilize the existing infrastructure and flexible design of the buildings at the Shreveport facility. A detailed 47-week launch plan has been developed, which includes 25 weeks of pre-production activities, 10 weeks of manufacturing validation and training, and 12 weeks⁹ of increased production to reach optimal production output. Incorporated into the launch is the plan that the first 100 vehicles produced will be sold to a fleet customer to provide feedback.

Management is committed to making this vehicle available to the public as soon as possible. However, we have encountered delays resulting in a slip of approximately two and a half years to the production schedule. Approximately nine months of the delay was attributable to the refinement of project scope as new technical information became available. We note that notwithstanding the sophisticated simulations that have been run to date, it is possible that vehicle testing in the next twelve months may uncover technical issues that may introduce a further program delay.

The additional delay has been a function of missed funding milestones that we believe was largely a result of the venture capital industry having moved away from investing in new vehicle startups. Fortunately, at present the investing public seems to be very interested in this category in general and the Company in particular, as evidenced by the large number of customer reservations and the investment received in the Regulation A+ offering. As disclosed Item 2. “*Management’s Discussion and Analysis of Financial Condition and Results of Operation – Plan of Operations,*” we must raise an estimated \$312 million to fund production. Our anticipated production timetable is therefore highly dependent upon receiving such funding in a timely manner, and delays in obtaining additional funding will delay our production timetable.

Intellectual Property

Patents. In order to minimize the cost of bring *the Elio* to market, we have chosen not to apply for patents for any of our mechanical innovations related to our development of *the Elio*. The design of *the Elio* is copyrighted, but others could design a vehicle similar to *the Elio* and argue that although similar, the design has not been copied. This means that others could develop a vehicle with a similar design and produce a competing product, which would adversely affect our business, prospects, financial condition and operating results. If we are able to successfully launch *the Elio*, we expect that other companies – whether they are traditional auto companies, motorcycle companies, or other startups – would attempt to begin producing their own three-wheeled vehicles. However, we believe Elio Motors would be well positioned due to the following:

- We will be several years ahead of the competition in terms of the design and production schedule.
- We will have established a network of automotive supplier relationships that are not easily duplicated by motorcycle manufacturers or other startups.
- We believe we will have create a sustainable brand loyalty through the manner in which we treat our customers. *The Elio* is being deliberately priced at the \$6,800 base price target even though the market will bear a higher price without any competitors at the outset. By not opportunistically pricing *the Elio*, it will be difficult for competitors to attract *Elio* customers away. We believe that most major auto manufacturers are saddled with legacy costs (pension obligations, etc.) and massive corporate infrastructure and overhead that would make it very difficult for them to compete with our targeted \$6,800 base price.

⁹ 12 weeks to reach steady state production with one shift; 23 weeks to reach steady state with second shift.

Trademark and Trade Name. We have registered the following with the United States Patent and Trademark Office:

- “ELIO and Design” (the logo consisting of the name “Elio” in a circle) – Registered April 8, 2014, registration number 4510655.
- “ELIO MOTORS” (name only) – Registered September 2, 2014, registration number 4598749.

Government Regulation

Many governmental standards and regulations relating to safety, fuel economy, emissions control, noise control, vehicle recycling, substances of concern, vehicle damage, and theft prevention are applicable to new motor vehicles, engines, and equipment manufactured for sale in the United States, Europe, and elsewhere. In addition, manufacturing and other automotive assembly facilities in the United States, Europe, and elsewhere are subject to stringent standards regulating air emissions, water discharges, and the handling and disposal of hazardous substances. The most significant of the standards and regulations affecting us are discussed below:

Mobile Source Emissions Control. The federal Clean Air Act imposes stringent limits on the amount of regulated pollutants that lawfully may be emitted by new vehicles and engines produced for sale in the United States. The current (“Tier 2”) emissions regulations promulgated by the Environmental Protection Agency (EPA) set standards for motorcycles. Tier 2 emissions standards also establish durability requirements for emissions components to 5 years or 30,000 kilometers.

California has received a waiver from EPA to establish its own unique emissions control standards for certain regulated pollutants. New vehicles and engines sold in California must be certified by the California Air Resources Board (CARB). CARB’s emissions standards for motorcycles are in line with those of the EPA.

Motor Vehicle Safety. The National Highway Traffic Safety Administration (NHTSA) defines a motorcycle as “a motor vehicle with motive power having a seat or saddle for the use of the rider and designed to travel on not more than three wheels in contact with the ground.” In order for a manufacturer to sell motorcycles in the US, the manufacturer has to self-certify to meet a certain set of regulatory requirements promulgated by the NHTSA in its Federal Motor Vehicle Safety Standards (FMVSS).

Our FMVSS strategy is designed to meet motorcycle requirements and conform as much as possible to automotive FMVSS requirements while not violating the motorcycle requirements that we must meet.

The National Traffic and Motor Vehicle Safety Act of 1966 (the “Safety Act”) regulates vehicles and vehicle equipment 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 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 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 vehicles, the cost of such recall campaigns could be substantial.

Operator’s License and Helmet Requirements. Since *the Elio* is a motorcycle by NHTSA definition, laws and regulations pertaining to the operation of a motorcycle and wearing a helmet apply to us. We are approaching several state legislatures to seek an exemption from the application of these requirements. As of this date, five states require the use of helmets while operating an enclosed three-wheel vehicle if the operator is under a specified age (generally under 18, although two states require a helmet if under the age of 21) and two states require the use of helmets regardless of age.

The American Association of Motor Vehicle Administrators (AAMVA), which is a tax-exempt, nonprofit organization developing model programs in motor vehicle administration, law enforcement and highway safety, and which represents the state and provincial officials in the United States and Canada who administer and enforce motor vehicle laws, issued a report in October 2013, titled “Best Practices for the Regulation of Three-Wheel Vehicles.” In that report, the AAMVA distinguishes a traditional three-wheel motorcycle from what it calls an “autocycle” – a three-wheel motorcycle that has a steering wheel and seating that does not require the operator to straddle or sit astride it. In addition, the AAMVA issued the following recommendations for autocycles:

- Registering autocycles differently than three-wheel motorcycles – using AU instead of 3W for the body style and creating a distinguishing plate alpha/numeric configuration or using a distinguishing feature on the plate to indicate the vehicle is registered as an autocycle; and
- With respect to driver license requirements, allowing operation of autocycles with a standard automobile license

As of this date, 23 states recognize the definition of autocycle (in most cases, with the added provision that it must be an enclosed or partially enclosed motorcycle).

Pollution Control Costs. We are required to comply with stationary source air and water pollution and hazardous waste control standards that are now in effect or are scheduled to come into effect with respect to our manufacturing operations. We do not yet have an estimate of the cost of compliance.

Motor Vehicle Manufacturer and Dealer Regulation. State laws regulate the manufacture, distribution, and sale of motor vehicles, and generally require motor vehicle manufacturers and dealers to be licensed in order to sell vehicles directly to consumers in the state. As described above in the “Sales and Service Model” section, establishing and operating our own retail store network means that we will need to secure dealer licenses in order to do so. It will not be possible to obtain a dealer license in all 50 states since a few states presently do not permit motor vehicle manufacturers to be licensed as dealers or to act in the capacity as a dealer, or otherwise restrict a manufacturer’s ability to deliver vehicles. Where we are unable to obtain a dealer license, we may have to conduct sales out of the state using our website, phone or mail. We do not yet have an estimate of the cost of compliance with motor vehicle manufacturer and dealer regulations.

The Company will need to initiate a 50-state survey of the regulatory landscape surrounding the direct sales of motorcycles or autocycles. Once the survey is complete, we intend to pursue a legislative approach to amend current laws, which would permit autocycle manufacturers such as Elio Motors to sell autocycles directly to consumers. In those states that would ban direct sales even after all legislative efforts have been exhausted, we plan to open and operate galleries, where customers would be able to view *the Elio* vehicles and then would be directed to the Company’s website to complete their purchase. We expect that certain customers may in fact be deterred from purchasing exclusively online.

Competition

The worldwide automotive market, particularly for economy and alternative fuel vehicles, is highly competitive today and we expect it will become even more so in the future. Other manufacturers have entered the three-wheeled vehicle market and we expect additional competitors to enter this market within the next several years. As they do so we expect that we will experience significant competition. With respect to *the Elio*, we also face strong competition from established automobile manufacturers, including manufacturers of high-MPG vehicles, such as Toyota Prius, Smart, Fiat, Nissan Leaf, and other high efficiency, economy cars.

Most of our current and potential competitors have significantly greater financial, technical, manufacturing, marketing and other resources than we do and 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. In addition, almost all of these companies have longer operating histories and greater name recognition 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.

Furthermore, certain large manufacturers offer financing and leasing options on their vehicles and also have the ability to market vehicles at a substantial discount, provided that the vehicles are financed through their affiliated financing company. We do not currently offer any form of direct financing on our vehicles. The lack of our direct financing options and the absence of customary vehicle discounts could put us at a competitive disadvantage.

We expect competition in our industry to intensify in the future in light of increased demand for alternative fuel vehicles, continuing 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 a 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 our market share. There can be no assurances that we will be able to compete successfully in our markets. If our competitors introduce new cars or services that compete with or surpass the quality, price or performance of our vehicles 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. Increased competition could result in price reductions and revenue shortfalls, loss of customers and loss of market share, which could harm our business, prospects, financial condition and operating results.

Research and Development

During the fiscal years ended December 31, 2015 and 2014, we spent \$2,058,566 and \$5,715,716, respectively, on engineering, research and development activities. The decrease in engineering was driven by lack of funding.

Employees

As of December 31, 2015, we employed a total of 19 full-time and no part-time people. None of our employees are covered by a collective bargaining agreement. Most of the significant engineering work on *the Elio* design has occurred through our prospective suppliers and partners and engineering consultants.

Legal Proceedings

There are no legal proceedings material to our business or financial condition pending and, to the best of our knowledge, there are no such legal proceedings contemplated or threatened.

Properties

Our principal office is located at 2942 North 24th Street, Suite 114-700, Phoenix, Arizona, which is a mailing address of an executive suite leased on a month-to-month basis for \$46 per month. In August 2015, we entered into a one-year lease agreement for administrative offices located at 2266 South Dobson Road, Suite 263, Mesa, Arizona for a total of \$1,599 per month.

In 2013, we acquired the former General Motors (GM) light truck assembly plant in Shreveport, Louisiana to house our manufacturing operations. The property was one of the facilities transferred to the Revitalizing Auto Communities Environmental Response (“Racer”) Trust in March 2011, which was created to redevelop and sell 89 former GM facilities. The facility equipment was purchased by us from the Racer Trust, with all of the GM manufacturing equipment in place, for \$3 million in cash and a \$23 million promissory note. The real property was purchased by an affiliate of Industrial Realty Group, LLC (“IRG”), the Shreveport Business Park, LLC, for \$7.5 million. IRG and Shreveport Business Park, LLC are entities owned and controlled by Stuart Lichter, one of our directors and significant stockholders.

A portion of the purchased machinery and equipment secures a promissory note due to CH Capital Lending, LLC in the principal amount of \$9,850,000. CH Capital Lending purchased the note from GemCap Lending I, LLC in August 2014. GemCap Lending originally made the loan to us in February 2013. Interest accrues on the note at 10% per annum, which was due on July 31, 2015. We entered into a forbearance agreement with CH Capital Lending, LLC in which CH Capital Lending, LLC has agreed to forbear on enforcing the payment of the note until July 31, 2016. CH Capital Lending, LLC is an affiliate of Stuart Lichter and Mr. Lichter has guaranteed the repayment of this note. At December 31, 2015, the unpaid principal balance of the note was \$8,165,725. See Note 6. Long-Term Debt of the Notes to Financial Statements for more information regarding this debt obligation.

The note to Racer Trust is secured by a lien subordinated to the lien of CH Capital Lending on certain machinery and equipment and is non-interest bearing. The note, as amended, requires monthly principal payments of \$173,500 from January 1, 2016 through July 1, 2017, with the remaining outstanding principal due on July 1, 2017. As of December 31, 2015, the outstanding principal balance was \$21,126,147. See Note 6. Long-Term Debt of the Notes to Financial Statements for more information regarding this debt obligation.

We identified equipment in the Shreveport plant that will not be used in production of *the Elio* and made the equipment available for sale. In 2015, \$3.6M of equipment was sold and the net proceeds used as payment on the CH Capital Lending note. As of December 31, 2015, an additional \$2.1M in equipment was available for sale in 2016.

GM invested \$1.5 billion during the 2002 expansion of the facility and as a result, it is one of the most modern automobile manufacturing facilities in North America, with fully integrated chassis conveyors, and moving workstations for engine, interior, body, and glass installation and fluid filling. We believe that the use of this facility by us greatly lowers start-up production risks of the project, prospectively saving as much as \$350 million in facility and equipment costs prior to the start of production.

The facility is located on approximately 437 acres in Caddo Parish, in an industrial park southwest of Shreveport, Louisiana. There are three main structures on the property, excluding the wastewater treatment and power generation facilities. The three structures include the general assembly building (to be used by us), the former metal stamping and body manufacturing building (not to be used by us) and the original manufacturing building and paint shop (to be partially used by us). Of the approximately 3.2 million square feet of manufacturing space, we will utilize less than a third.

The facility is located 2 miles from Interstate 20 and approximately 12 miles from downtown Shreveport. It is serviced by 7 active rail spurs, utilized for delivery of raw material and component supplies to the factory floor, as well as for the loading and rail transport of finished vehicles in the marshaling and shipping yard (to be used by us) at the northern end of the property.

In December 2013, we entered into an agreement with Shreveport Business Park, LLC to lease 997,375 rentable square feet of manufacturing and warehouse space for a 25-year term, which provides for a rent-free period until the earlier of four months after the start of production or August 1, 2015, after which the base rent will be \$249,344 per month. We have two options to extend the term of the lease for 25 additional years each, as well as an option to expand into additional space. Since December 2013, we have been obligated to pay taxes, insurance expenses and common expenses with respect to this space. On July 31, 2015, we entered into an amendment to the lease which extended the base rent commencement date to February 1, 2016 and deferred payment of the base rent for the period February 1, 2016 through July 31, 2016 until August 1, 2016.

Among the terms of our purchase agreement with Racer Trust was our agreement to use and develop the property so as to create at least 1,500 new jobs. We agreed that if we had not created 1,500 new jobs by February 28, 2016, we would pay Racer Trust \$5,000 for each full-time, permanent direct job that fell below the required number. This commitment was extended until July 1, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Since our incorporation in October 2009, we have been engaged primarily in design and development of *the Elio* and obtained loans, investments and reservations to fund that development. We are considered to be a development stage company, since we devote substantially all of our efforts to the establishment of our business and planned principal operations have not commenced. We completed the initial design for *the Elio* as well as our business model in December 2012. In 2013, we began accepting reservations for *the Elio*, purchased manufacturing equipment, built two prototypes and secured a manufacturing facility. During 2014, we sourced suppliers and services providers, built a fourth prototype and applied for the ATVM loan (described below). In 2015, we built an additional prototype, issued convertible subordinated note offering, and filed an offering statement with the SEC under Regulation A, which was approved on November 20, 2015.

Cash investment has totaled \$22,798,456, net of related expenses, from incorporation through December 31, 2015 and loans have totaled \$45,118,219 from incorporation through December 31, 2015. We have also obtained reservation deposits from persons desiring to reserve an *Elio* totaling \$20,680,550 through December 31, 2015.

Operating Results

We have not yet generated any revenues and do not anticipate doing so until late in 2016 at the earliest, but more likely in 2017.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014. Operating expenses for the 2015 fiscal year decreased by 25% over the 2014 fiscal year, despite the increase in the number of employees during 2015. We had 19 full-time employees at December 31, 2015 who started with us at various times during the 2015 fiscal year, as compared to 13 full-time employees at December 31, 2014, most of whom were us for the entire 2014 fiscal year. Engineering costs decreased from \$5,715,716 in 2014 to \$2,058,566 in 2015. The decrease was caused by lack of funding. Marketing costs decreased by 3% from \$3,800,353 to \$3,701,493 due to decreased in outside consultants for advertising and social media. General and administrative expenses for the 2015 fiscal year increased from \$5,148,108 to \$5,371,464 (4%), with the increase due to additional manpower.

Interest expense for the 2015 fiscal year was \$10,448,703, a 5% increase over the 2014 fiscal year. See Note 6. Long-Term Debt of the Notes to Financial Statements for more information regarding our debt obligations.

As a result, our net loss for the 2015 fiscal year was \$21,476,386, as compared to \$24,481,441 for the 2014 fiscal year, a decrease of 12%. Our accumulated deficit was \$66,252,625 at December 31, 2015.

Liquidity and Capital Resources

December 31, 2015. As of December 31, 2015, we had cash of \$6,870,044 and a working capital deficit of \$6,443,499, as compared to cash of \$374,652 and a working capital deficit of \$8,191,517 at December 31, 2014. The decrease in the working capital deficit was due primarily increase in cash from the sale of our common stock in the Regulation A offering and the sale and availability for sale of fixed assets, which together more than offset the increase in current liabilities resulting from the current portion of notes payable due to related party, approximately \$9.7 million.

We commenced our offering of common stock pursuant to Regulation A in November 2015 and had sold 1,242,822 shares for cash proceeds of \$14,199,112, net of offering costs, as of December 31, 2015. We sold an additional 167,226 shares in the offering in January and February 2016.

Our convertible subordinated secured notes, which were offered and sold only to accredited investors, are convertible into shares of our common stock at any time prior to their maturity in 2022 at a conversion price equal to \$5.98 per share for the first \$5,000,000 in notes and at a conversion price of \$9.64 for the next tier of notes. Interest of 5% per annum accrues on the unpaid principal balance and all unpaid principal and interest are to be paid at maturity. The notes are secured, but subordinated to the liens of CH Capital Lending and the Racer Trust. We have granted unlimited piggyback registration rights covering the shares issuable upon conversion of the notes and holders of the notes have a right of participation for an amount equal to 25% of future equity or convertible financings ("Subsequent Financings") undertaken by us at the valuation of such future financings. If a note holder decides not to participate in a Subsequent Financing, the note holder will lose its right to participate in future Subsequent Financings.

We obtained a forbearance agreement until July 31, 2016 with respect to a \$9,850,000 loan due July 31, 2015, secured by a first position in equipment in the Shreveport, Louisiana manufacturing facility. The lender, CH Capital Lending, is an affiliate of Stuart Lichter, one of our directors and significant stockholders. We have three loans from Mr. Lichter totaling \$1,900,500 which are also now due July 31, 2016. We also obtained a deferral of the lease payments on the Shreveport facility until August 1, 2016. Such payments were to have commenced on August 1, 2015. The lessor, Shreveport Business Park, is an affiliate of Mr. Lichter. See Note 6. Long-Term Debt of the Notes to Financial Statements for more information regarding this debt obligation.

We also have a long-term loan of \$23,000,000 from the Racer Trust which was incurred in March 2013 in connection with the purchase of the equipment at the Shreveport facility. This loan was to be repaid in monthly installments of \$173,500 beginning on November 1, 2013, with the entire remaining balance due September 1, 2016. We were delinquent on the first payment, which triggered default interest to be charged on the loan at 18% per annum. Payments made in 2014 were applied to this interest. In March 2015, we entered into an amendment to the promissory note which deferred the installment payments until January 1, 2016 and extended the maturity date to July 1, 2017. See Note 6. Long-Term Debt of the Notes to Financial Statements for more information regarding this debt obligation.

Plan of Operations

Much of the vehicle engineering has been completed, and we are finalizing our engineering simulations, which suggest that the important vehicle performance milestones can be achieved. To date, \$22.3 million has been invested in vehicle engineering and development. We obtained approximately \$16.0 million in net proceeds from our Regulation A offering to build prototypes. Upon completion of this phase, the vehicle production costs, as well as the performance and safety profiles, will be understood to a level that will allow for the kick-off of hard tooling. With the development risks addressed, we will then be in a position to raise larger amounts of capital - to be up to another estimated \$312 million to fund production activities.

We are in the process of refining our production plans with suppliers to start production in 15 months. The key milestones for the 15-month schedule are as follows (with E1, S1 and V1 referring to various vehicle prototype phases):

- \$16.0M, net proceeds Regulation A offering
- E1 Engineering drawing release – Month 2
- E1 Builds begin – Month 3
- E1 Testing – Month 4
- S1 Production drawing release & tooling kickoff – Month 7
- Order long lead equipment – Month 9
- Shreveport plant integration – Month 9
- Initial 10 retail locations selected – Month 10
- Retail lease agreements signed – Month 11
- Service partner agreements signed – Month 11
- S1 Builds and production validation – Month 13
- Initial 10 retail stores build out complete – Month 14
- EPA/CARB certification complete – Month 14
- Start of Production V1 – Month 15

The anticipated budgets required to achieve the milestones are provided in the table below:

| Uses (amounts in thousands) | Amount |
|----------------------------------|-------------------|
| Prototype Build/Test/Validation | 7,315 |
| Engineering Design & Development | 34,060 |
| Advertising | 11,165 |
| Other Expenses/Working Capital | 32,859 |
| Production Tooling | 99,470 |
| Plant Equipment & Setup | 126,457 |
| Total Uses | \$ 311,327 |

We will need to raise additional funds to complete prototypes, testing and move into production. As noted in the chart above, we need to raise an additional estimated \$312 million to fund production activities in the next 15 months and are pursuing multiple options for such funding. The funding will come from a combination of sources discussed below, as well as more traditional sources (not discussed), such as venture equity, debt arrangements and capital leasing on equipment.

Customer Reservations. Customer reservations have provided significant funding for us in the past and we expect reservations to be a significant source of short-term liquidity in the future. With each progressive step in our development, we have experienced a surge in reservations. Through December 31, 2015, we have received over \$20.6 million in reservations, an average of \$574,460 per month. As we achieve each additional milestone in the development of *the Elio*, customer confidence increases. Accordingly, we expect to see surges in reservations as the following milestones are achieved and announced: completion of prototypes, testing results, confirmation of mileage, guarantee of the sales price, hiring at the manufacturing facility, and, hopefully before production commences, scarcity.

Sale of Excess Equipment. We will not use all of the equipment purchased at the Shreveport facility. Through December 31, 2015, sales of excess equipment has yielded approximately \$3.6 million. We will continue to sell excess equipment and use the proceeds to pay down the CH Capital Lending loan.

Release of Reservation Holdbacks. We currently have \$4.7 million held by former credit card processing companies as a percentage of non-refundable reservations. These funds are expected to be released in the next twelve months.

Advanced Technology Vehicles Manufacturing (ATVM) Loan Program. In 2007, the Advanced Technology Vehicles Manufacturing (ATVM) Program was established by Congress to support the production of fuel-efficient, advanced technology vehicles and components in the United States. To date, the program, which is administered by the U.S. Department of Energy's Loan Programs Office, has made over \$8 billion in loans, including loans to Ford (\$5.9 billion), Nissan (\$1.45 billion) and Tesla (\$465 million). This loan program provides direct loans to automotive or component manufacturers for re-equipping, expanding, or establishing manufacturing facilities in the United States that produce fuel-efficient advanced technology vehicles (ATVs) or qualifying components, or for engineering integration performed in the U.S. for ATVs or qualifying components. The ATVM loans are made attractive to applicants due to their low interest rates (set at U.S. Treasury rates (approximately 2% to 4%), minimal fees (no application fees or interest rate spread and only a closing fee of 0.1% of loan principal amount), and long loan term life of up to 25 years (set at the assets' useful life). In order to qualify, auto manufacturers must be able to deliver "light duty vehicles" having 25% greater fuel economy than comparable models produced in 2005 or "ultra-efficient vehicles" that achieve at least 75 miles per gallon. In addition, ATVM borrowers must remain financially viable over the life of the loan without the receipt of additional federal funding associated with the proposed project.

The ATVM application process is comprised of 4 stages:

1. Application – Part I: Determine basic eligibility
2. Application – Part II: Confirmatory due diligence
3. Conditional Commitment: Negotiate term sheet
4. Loan Guarantee: Negotiate final agreements

Elio Motors has completed the first stage by submitting an application for an ATVM loan of approximately \$185 million, the proceeds of which would be used to partly fund the purchase of equipment and equipment installation into the Shreveport facility prior to and ramp up after the start of production. As of January 15, 2015, the Department of Energy (DOE) has confirmed that the Company has achieved the technical criteria for the loan. Due diligence has been pending upon the confirmation of the Company's financial backing. The Company has shared its production timing plans with the DOE, including the financing milestones to be achieved to kickoff production tooling in order to meet the Company's start of production date. While the DOE has acknowledged and seems to be sensitive to the Company's requirements, it has not made any commitments regarding its ability to meet these funding milestones. The specific terms and conditions of the ATVM loan will be negotiated with each applicant during the conditional commitment stage. If the Company is unable to obtain a loan under the ATVM Program, it will rely on funding through customer reservations, selling debt and/or equity securities, and possibly CAFE credits.

CAFE Credits. In 1975 in response to the Arab oil embargo, the U.S. Congress enacted Corporate Average Fuel Economy (CAFE) standards in an effort to reduce U.S. dependence on foreign oil and save on fuel costs through the improvement of U.S. automobile fuel efficiencies. The National Highway Traffic Safety Administration (NHTSA) is responsible for administering the CAFE program, which was amended in 2007 to establish a trading credit program to incentivize auto manufacturers to further improve vehicle fuel efficiencies. Auto manufacturers may earn CAFE credits (or be penalized) by exceeding (or failing to meet) increasingly more ambitious compliance standards for the model year of each passenger car or light duty truck produced. Accumulated CAFE credits are transferable and saleable to other auto manufacturers and can be carried forward up to five years. Credits (or penalties) are totaled for the manufacturer's entire production fleet for a particular model year, and are applied at a rate of \$55 per 1 mpg above (or below) the standard. The CAFE standard has been amended to increase mpg for cars and light trucks to 48.7 to 49.7 mpg by 2025.

According to the estimated fuel economy of *the Elio*, it is expected that we could be well positioned to earn a substantial number of credits, from which we could generate extensive future revenues through the sale and transfer of these credits to other auto industry manufacturers. We have received indications from auto industry manufacturers that they would purchase our credits upon confirmation that we can participate in the CAFE program. Currently, we do not qualify for participation in the CAFE program, since *the Elio* is not an automobile. We have been working with members of Congress and with the former acting head of the NHTSA to permit participation in the program by autocycles.

Item 3. Directors and Officers

Our directors, executive officers and significant employees, and their ages as of March 31, 2016, are as follows:

| Name | Position | Age | Term of Office |
|-------------------------------|--|-----|----------------|
| Executive Officers: | | | |
| Paul Elio | Chairman and Chief Executive Officer | 52 | October 2009 |
| Hari Iyer | Chief Operating Officer | 51 | January 2014 |
| Connie Grennan | Chief Financial Officer | 68 | March 2013 |
| Directors: | | | |
| Paul Elio | Director | 52 | October 2009 |
| James Holden | Director | 64 | November 2012 |
| Hari Iyer | Director | 51 | November 2012 |
| Stuart Lichter | Director | 67 | November 2012 |
| David C. Schembri | Director | 62 | November 2012 |
| Kenneth L. Way | Director | 76 | November 2012 |
| Significant Employees: | | | |
| Gino Raffin | VP of Manufacturing and Product Launches | 73 | March 2013 |
| Steven Semansky | VP of Supply Chain Management | 52 | March 2013 |
| Jeff Johnston | VP of Engineering | 54 | February 2016 |
| Tim Andrews | Senior Vice President of Marketing | 49 | November 2013 |
| Chip Stempeck | Vice President of Customer Experience | 50 | March 2013 |
| Jerome Vassallo | Vice President of Sales | 50 | April 2013 |
| Joel Sheltrown | Vice President of Governmental Affairs | 68 | March 2013 |
| Don Harris | Vice President of Retail Operations | 60 | April 2014 |

All of our executive officers and significant employees work full-time for us. There are no family relationships between any director, executive officer or significant employee. During the past five years, none of the persons identified above has been involved in any bankruptcy or insolvency proceeding or convicted in a criminal proceeding, excluding traffic violations and other minor offenses.

Executive Officers

Paul Elio, Chief Executive Officer and Elio Motors Board Chairman. Mr. Elio founded Elio Motors and has been its CEO and Chairman since the Company's inception. He has over 18 years of experience in business management and engineering, most recently as founder and CEO, from 1998 to 2011, of Elio Engineering, dba ESG Engineering. ESG was a Tempe, Arizona company which designed, engineered and prototyped products using state-of-the-art design tools and techniques, evaluated them for engineering feasibility and designed them for high volume manufacturing and assembly. Mr. Elio held various positions at Johnson Controls from 1992 to 1997. He holds numerous patents related to various mechanisms. He graduated from the General Motors Institute of Engineering & Management (now Kettering University) with a Bachelor of Science in Mechanical Engineering in 1995.

Hari Iyer, Chief Operating Officer and Elio Motors Director. Mr. Iyer has been with Elio Motors since January 2014 and brings nearly 25 years of product development, business strategy and operations expertise in the automotive industry. From January 2011 to August 2013, Mr. Iyer was Executive Vice President at Envia Systems, a Silicon Valley battery manufacturer, where he led all aspects of business strategy and product commercialization. From October 2009 to November 2010 (and as a full-time consultant from ESG Engineering from October 2006 to September 2009), he served as Vice President of Engineering at Next Autoworks Company. At Next Autoworks, Mr. Iyer developed the original vehicle architecture, led the selection of vehicle technologies and suppliers and was responsible for all module engineering teams. From June 1999 to September 2009, Mr. Iyer was co-founder and Chief Operating Officer at ESG Engineering, a product development firm specializing in the automotive and cleantech space. Mr. Iyer held various positions at Johnson Controls, Automotive Systems Group from January 1989 to August 1997. He received his M.S. in Mechanical Engineering from Penn State and his M.B.A. from Stanford Graduate School of Business.

Connie Grennan, Chief Financial Officer. Ms. Grennan has been the Chief Financial Officer of Elio Motors since March 2013, and has over 30 years of financial and operational experience in similar positions in several startup organizations, as well as valuable experience in the large corporate environment with a division of Lockheed Martin as Director of Finance and Administration. Her experience includes management of accounting and finance, banking and investor relationships, human resources, facilities, information systems, and contract management. From March 2010 to February 2013, Ms. Grennan consulted as the chief financial officer for OzMo Inc., a company based in Palo Alto, California, which developed and provided Wi-Fi compatible communication technology products. She received her Bachelor of Science in Accounting from Arizona State.

Directors

James Holden, Director. Mr. Holden is the former Chief Executive Officer of DaimlerChrysler, where he worked in various leadership positions for 19 years until November 2000. He has been a director of Sirius XM Radio, Inc. since August 2001, of Speedway Motorsports, Inc. since 2004, and of Snap-on, Inc. since 2009. Mr. Holden was a director of Motors Liquidation Company until its dissolution in December 2011. Mr. Holden earned a B.S. in political science from Western Michigan University and a MBA degree from Michigan State University.

Stuart Lichter, Director. Mr. Lichter is President and Chairman of the Board for Industrial Realty Group, LLC (IRG), a privately-held real estate development and investment firm specializing in the acquisition, development and management of commercial and industrial real estate across the United States. IRG's core competency is retrofitting otherwise obsolete buildings, corporate campuses, former military bases and industrial complexes. Mr. Lichter oversees all critical aspects of the business, including acquisitions, leasing, and property management at IRG, which he founded 40 years ago.

David C. Schembri, Director. Since August 2012, Mr. Schembri has been the CEO of the Active Aero Group, of Belleville, Michigan, a supply-chain solutions provider focused on transportation logistics for customers with sensitive or time-critical freight, principally in the United States and Mexico. From February 2010 to August 2012, he was the CEO of Vehicle Production Group, a company based in Allen Park, Michigan, that made vans for the disabled. From July 2006 to January 2010, Mr. Schembri was the President of Smart USA, a Penske Automotive Group company. He was responsible for the successful launch of Smart USA (a division of Mercedes-Benz), which included establishing and maintaining a sales and service retail network, customer relations, logistics, advertising, marketing, PR, government relations, and a parts distribution network. Much of his career was spent in various executive positions at Mercedes-Benz (1994 to 2005) and Volkswagen (1979 to 1993). He attended the University of Detroit, where he earned both his Bachelor's degree and his MBA.

Kenneth L. Way, Director. Mr. Way served as the Chief Executive Officer of Lear Corporation from 1988 to September 2000 and Chairman of the Board from 1988 to December 2002. Mr. Way served with Lear Corporation and its predecessor companies for 37 years in various engineering, manufacturing and general management capacities. During his career he has served as a director for several organizations. At present, he is a director of CMS Energy of Jackson, Mississippi, and of Cooper Standard Auto, of Novi, Michigan, positions he has held since 1997 and 2004, respectively.

Significant Employees

Gino Raffin, Vice President of Manufacturing and Product Launches. Mr. Raffin emerged from retirement to join Elio Motors. He worked for Chrysler from 1968 to 2006 and was involved with major automotive product and automotive manufacturing process launches involving hundreds of millions of dollars in tooling, equipment, facility and launch costs of new product, process and modified facility designs. As part of these initiatives, Mr. Raffin was responsible for all aspects of program launch including safety, quality, delivery and costs, overseeing engineering and purchasing teams for features such as dimensional management, sealing, underbody, side aperture, framing-body, closure panels – panel alignment, trim, chassis, powertrain and electrical. In addition to major product and process launches, Mr. Raffin has also been involved in advanced manufacturing engineering. He has led teams that designed, developed and executed the manufacturing production processes for tooling, equipment, facility, processing (both direct and indirect labor), material logistics, and controls and mechanicals at the operational assembly plant. Mr. Raffin is a graduate of the Lawrence Institute of Technology with a degree in Mechanical Engineering.

Steven Semansky, Vice President of Supply Chain Management. Mr. Semansky brings to Elio Motors experience in Interiors and Styling design and production, component engineering, sales, component sourcing and logistics, and international manufacturing and supplier networks. In 2001, Mr. Semansky formed Jmarc Engineering and Sales, in Wixom, Michigan, to represent manufacturers of component products supplied to Tier 1 and Tier 2 automotive companies. Products sourced included aluminum die-casting, roll form, stamping, plastic injection molded components, fasteners, and CNC machined products. In building the company to peak annual sales of \$89 million and 8 sales representatives covering the USA, China and Mexico, Mr. Semansky and his team aimed to match components for fit and function, while recommending aggressive design and process changes to reduce total cost of assembly. When he joined us in March 2013, he turned day-to-day management of the company to his wife. Over his career, Mr. Semansky has completed projects for the International Sales Management (ISM) on behalf of Chrysler for lighting, electronics, storage and other interiors components used in Chrysler vehicles. Mr. Semansky received his B.S. in marketing from Wayne State University and has completed coursework towards his Mechanical Engineering degree.

Jeff Johnston, Vice President of Engineering. Mr. Johnston recently joined us in February 2016, bringing more than 30 years of experience working in the international automotive arena. He began his career at General Motors in 1985, working first as a technician and later as an engineer. In 1993, he accepted an engineering position with TRW Automotive to work with occupant restraints, where he played a key role in the early stages of airbag system development for the automotive industry. From June 1993 to November 2006, he worked for Morton ASP (now known as Autoliv), utilizing his experience and skills in occupant restraints and airbags. He last worked in a sales capacity for Takata Corporation, Auburn Hills, MI, a global supplier of occupant restraints, including seat belt systems and airbag systems, from November 2006 to February 2016. Mr. Johnston began his education in automotive technology by attending the Mo-tech Automotive Education Center, a vocational school that was a subsidiary of the Chrysler Corporation, while working in a variety of prototype and job shops. He later received his Bachelor of Science degree in mechanical engineering from Lawrence Technological University.

Tim Andrews, Senior Vice President of Marketing. Mr. Andrews brings over 18 years executive management experience and over 22 years marketing experience working with various fortune 500 brands in the categories of automotive, communications, healthcare and travel. From September 2007 to December 2010, he served as Chief Strategy Officer of TLA Marketing Communications, a firm specializing in strategic planning and marketing management. He received industry acclaim for developing the “Hybrid Direct Marketing” strategy that enabled Cox Communications to successfully launch the concept of “bundling,” which resulted in increased market share, establishing Cox as a leader in the digital spectrum. He has also helped build three major startups providing operational and marketing leadership and followed them into established companies. Prior to joining Elio Motors in November 2013, he taught at Grand Canyon University and Rio Salado Community College. Mr. Andrews is a graduate of Arizona State University with a Bachelor of Arts degree in Journalism with an emphasis in Marketing and Advertising from the Walter Cronkite School of Communications. He completed an MBA degree at the University of Phoenix.

Chip Stempeck, Vice President of Customer Experience. Mr. Stempeck brings over 25 years of automotive experience in sales, marketing and program launch to Elio Motors. Immediately prior to joining Elio Motors in March 2013, he operated a consulting business, CJS Consulting, which was started in January 2006, advising clients on sales and operations management. Mr. Stempeck also served as the vice president online operations for Brookline College from January 2010 through June 2011. He graduated from Oregon State University with a Bachelor of Science in Management and Psychology.

Jerome Vassallo, VP of Sales. Mr. Vassallo brings over 20 years of experience in the automotive and pleasure boating industries, working for notable automotive companies, such as Suzuki, Volkswagen of America and Mitsubishi. Prior to joining Elio Motors Inc. in April 2013, Mr. Vassallo most recently served as Zone Manager for Suzuki Motor Corporation from January 2012 to November 2012 and as Mitsubishi District Manager from November 2005 to January 2012 where he oversaw wholesale and retail vehicle sales as well as fixed operations within the district. Additionally, Mr. Vassallo is well-versed in all aspects of the sales process including new product launches, sales training and development, financial forecasting and reviews, distribution/logistics, dealer and supplier relationship-driven programs, contract negotiations, production planning and event marketing activities.

Joel Sheltroun, VP of Governmental Affairs. Mr. Sheltroun joined Elio Motors in March 2013 to manage governmental affairs and remain knowledgeable of any state or federal statutes or regulations that may impact the Company. He was a state representative for the 103rd district in the Michigan House of Representatives from 2005 to January 2011 and was a professional lobbyist from February 2011 to February 2013 with deep roots in the automotive industry. He provides language and legislative guidance to legislators and regulatory agencies in numerous states. He also lobbies for the elimination of helmet and motorcycle endorsement requirements. Mr. Sheltroun attended Western Michigan University and also Kirtland Community College.

Don Harris, Vice President of Retail Operations. Mr. Harris began his career in the automotive space in retail sales nearly 34 years ago, and brings a range of experience stemming from his firm background with retail and wholesale auto dealerships and automotive auction platforms. Mr. Harris joined Elio Motors in April 2014 to set up the distribution of the vehicles from the point of manufacture to their retail locations. He is knowledgeable regarding the licensing needs of various states in the realm of retail operations, and is versed in the utilization of marshaling yards nationwide for the Company’s distribution model to handle 20,000 vehicles monthly. In January 2005, Mr. Harris invested in and assisted with the development of a large new concept called Automotive Consignment, in Charlotte, North Carolina, an automotive retail platform which assisted private sellers in the consignment sale of their vehicles. He continued with Automotive Consignment until March 2012, when he was approached to help develop a new business opportunity named CarBuyCo, which was developed to enable the private sellers of automobiles to get an instant purchase offer for their car via the internet. Mr. Harris led CarBuyCo to become a nationwide service by setting up buying centers across the US with the proper DMV licenses, management and processes, later generating purchase offers for thousands of prospective vehicle sellers weekly and millions of dollars of purchases each week.

Compensation of Directors and Executive Officers

The following table sets forth information about the annual compensation of each of our three highest paid persons who were executive officers or directors during our last completed fiscal year.

| Name | Capacities in which compensation was received | Cash compensation (\$) | Other compensation (\$) | Total compensation (\$) |
|----------------|---|------------------------|-------------------------|-------------------------|
| Paul Elio | Chief Executive Officer | 250,000 | -0- | 250,000 |
| Hari Iyer | Chief Operating Officer | 250,000 | -0- | 250,000 |
| Connie Grennan | Chief Financial Officer | 150,000 | -0- | 150,000 |

Compensation of Directors

We do not compensate our directors for attendance at meetings. We reimburse our officers and directors for reasonable expenses incurred during the course of their performance. We have no long-term incentive plans.

Future Compensation

Compensation to Connie Grennan was increased to \$175,000 on January 1, 2016. The remaining individuals listed above are at the same rate for 2016.

Item 4. Security Ownership of Management and Certain Securityholders

Set forth below is information regarding the beneficial ownership of our common stock, our only outstanding class of capital stock, as of March 31, 2016 by (i) each person whom we know owned, beneficially, more than 10% of the outstanding shares of our common stock, and (ii) all of the current directors and executive officers as a group. We believe that, except as otherwise noted below, each named beneficial owner has sole voting and investment power with respect to the shares listed. Unless otherwise indicated herein, beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and includes voting or investment power with respect to shares beneficially owned.

| Name and address of beneficial owner (1) | Amount of nature of beneficial ownership (2) | Amount and nature of beneficial ownership acquirable | Percent of class(3) |
|---|--|--|---------------------|
| Paul Elio | 17,995,000 (4) | -0- | 67.9% |
| Elio Engineering, Inc. | 12,750,000 | -0- | 48.1% |
| Stuart Lichter | 5,000,000 | 2,322,517 (5) | 25.4% |
| All directors and officers as a group (7 persons) | 23,272,500 (4) | 2,322,517 (5) | 88.8% |

(1) The address of those listed is c/o Elio Motors, Inc., 2942 North 24th Street, Suite 114-700, Phoenix, Arizona 85016.

(2) Unless otherwise indicated, all shares are owned directly by the beneficial owner.

(3) Based on 26,509,288 shares outstanding as of March 31, 2016. Shares of common stock subject to options, warrants or other convertible securities currently exercisable or exercisable within 60 days of March 31, 2016 are deemed outstanding for purposes of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

(4) Includes 12,750,000 shares owned of record by Elio Engineering, Inc. of which Mr. Elio is the President, a director and significant stockholder.

(5) Mr. Lichter has purchased \$1,955,000 of convertible subordinated notes payable, which are convertible into 326,923 shares of common stock. If Mr. Lichter were to exercise the option held by him to acquire up to 7% of the Company as of March 31, 2016, exclusive of his then existing ownership, he would acquire an additional 1,995,594 shares. See "Interest of Management and Others in Certain Transactions."

Item 5. Interest of Management and Others in Certain Transactions

Paul Elio and ESG Engineering

The original design for *the Elio* was conceived by Paul Elio and Elio Engineering, Inc., dba ESG Engineering, a company partially owned and controlled by Paul Elio. ESG Engineering transferred all rights to the design to the Company, valued at \$5,000,000, as consideration for 25,000,000 shares of common stock in the Company. In addition, we assumed approximately \$1,277,187 of payables that ESG Engineering had incurred on behalf of Elio Motors. At December 31, 2015 and 2014, these outstanding payables were \$-0- and \$164,827, respectively. ESG Engineering transferred 12,250,000 shares of common stock in the Company to Paul Elio in November 2012 in consideration for his services in forming and organizing Elio.

Transfer of Consumer Financing Rights

In 2012, we transferred the right to provide consumer financing for the purchase of *the Elio* to Carr Finance Company, LLC in consideration of Paul Elio's efforts to devote his time and attention to developing the business of the Company with only limited compensation. Mr. Elio is a member of Carr Finance Company, LLC.

Guaranty of Loan Repayment Provided by Stuart Lichter; Loan from CH Capital Lending

On February 28, 2013, in connection with the acquisition of certain machinery and equipment at the Shreveport facility, we entered into a promissory note with GemCap Lending I, LLC for \$9,850,000, the payment of which is secured by a first lien on our equipment at the Shreveport facility. Stuart Lichter personally guaranteed the payment of this note. CH Capital Lending, LLC purchased the loan from GemCap on August 1, 2014. CH Capital Lending is an affiliate of Stuart Lichter. On July 31, 2015, we entered into a forbearance agreement with CH Capital Lending in which CH Capital Lending has agreed to forbear on enforcing the payment of this note until July 31, 2016.

Lease with Shreveport Business Park, LLC

Our equipment is located in a plant in Shreveport, Louisiana, which is leased by Shreveport Business Park, LLC, an entity owned and controlled by Stuart Lichter, one of Elio's directors and significant stockholders. We entered into an agreement with Shreveport Business Park in December 2013 to sublease 997,375 square feet of manufacturing and warehouse space for a 25-year term, which provides for a rent-free period until the earlier of four months after the start of production or August 1, 2015, after which the base rent will be \$249,344 per month. Since December 2013, the Company has been obligated to pay taxes, insurance expenses and common expenses with respect to this space and is past due in paying these amounts. On July 31, 2015, we entered into an amendment to the lease which extended the base rent commencement date to February 1, 2016 and deferred payment of the base rent for the period February 1, 2016 through July 31, 2016 until August 1, 2016.

Advances to Paul Elio

During 2015 and 2014, we advanced a total of \$328,014 and \$74,966, respectively, to Paul Elio, our Chief Executive Officer. The advance accrued interest at the Federal Funds rate per annum, is due on demand and is reflected on the balance sheets as other current assets.

Loans Made by Stuart Lichter

Stuart Lichter has made several loans to us, the proceeds of which were used for working capital and to pay amounts owed to GemCap Lending I, LLC. The promissory notes evidencing the loans are as follows:

| Date | Amount | Maturity | Payment Terms | Interest Expense for 2015 | Interest Expense for 2014 |
|---------------|-------------|------------------|---|---------------------------|---------------------------|
| March 6, 2014 | \$1,000,500 | January 31, 2017 | Unsecured; interest accrues at 10% per annum; all accrued interest and unpaid principal are payable upon maturity; \$500 drawn March 6, 2014; \$1,000,000 drawn December 2, 2014 | \$101,440 | \$8,097 |
| May 30, 2014 | \$300,000 | January 31, 2017 | Unsecured; interest accrues at 10% per annum; all accrued interest and unpaid principal are payable upon maturity; \$100,000 drawn May 30, 2014; \$200,000 drawn November 10, 2014 | \$30,416 | \$8,806 |
| June 19, 2014 | \$600,000 | January 31, 2017 | Secured by Elio Motors' reservation accounts and deposit held by Racer Trust; interest accrues at 10% per annum; all accrued interest and unpaid principal are payable upon maturity; \$100,000 drawn April 17, 2014; \$500,000 drawn June 20, 2014 | \$60,834 | \$34,111 |

In addition to the loans described in the table above, during 2015, Mr. Lichter purchased convertible subordinated secured notes due September 30, 2022 in the aggregate principal amount of \$1,955,000 on the same terms offered to other accredited investors in this offering made pursuant to Rule 506(c) under the Securities Act of 1933. These notes are convertible into shares of our common stock at any time prior to their maturity in 2022 at a conversion price equal to \$5.98 per share.

Options Granted to Stuart Lichter

In consideration for the March 6, 2014 loan of \$1,000,500 and the guaranty of the \$9,850,000 loan originally made to us by GemCap Lending I, LLC, we granted Stuart Lichter an option to purchase a number of shares of common stock in Elio Motors sufficient to give him a 5% ownership interest, exclusive of his existing ownership (the "5% Option"). Mr. Lichter may exercise the 5% Option at any time and from time to time until December 15, 2024 for \$7,500,000.

We granted a second option to Mr. Lichter in consideration of the May 30, 2014 loan of \$300,000. This second option permits Mr. Lichter to purchase a number of shares of common stock in Elio Motors sufficient to give him a 2% ownership interest, exclusive of his existing ownership (the "2% Option"). Mr. Lichter may exercise the 2% Option at any time and from time to time until June 29, 2025 for \$3,000,000.

Future Transactions

All future affiliated transactions will be made or entered into on terms that are no less favorable to us than those that can be obtained from any unaffiliated third party. A majority of the independent, disinterested members of our board of directors will approve future affiliated transactions, and we will maintain at least two independent directors on our board of directors to review all material transactions with affiliates.

Item 6. Other Information

None.

Item 7. Financial Statements

See pages F-1 through F-28.

| | |
|--|-----|
| Report of Independent Registered Public Accounting Firm | F-1 |
| Balance Sheets at December 31, 2015 and 2014 | F-3 |
| Statements of Operations for the years ended December 31, 2015 and 2014 | F-4 |
| Statement of Stockholders' Deficit for the two years ended December 31, 2015 | F-5 |
| Statements of Cash Flows for the years ended December 31, 2015 and 2014 | F-6 |
| Notes to Financial Statements December 31, 2015 and 2014 | F-7 |

Item 8. Exhibits

| Exhibit Number | Description | Incorporated by Reference to |
|-----------------------|---|--|
| 2.1 | Articles of Incorporation, as amended | Exhibit 2.1 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 2.2 | Amended and Restated Bylaws | Exhibit 2.2 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 3.1 | Form of Convertible Subordinated Secured Note due September 30, 2022 | Exhibit 3.1 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 3.2 | Form of Registration Rights Agreement | Exhibit 3.2 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 3.3 | Form of Pledge and Security Agreement | Exhibit 3.3 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 3.4 | Form of StartEngine Warrant | Exhibit 3.4 to Offering Statement filed October 21, 2015 (File No. 024-10473) |
| 6.1 | Loan and Security Agreement with GemCap Lending I, LLC dated February 28, 2013 | Exhibit 6.1 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.2 | Loan Agreement Schedule with GemCap Lending I, LLC dated February 28, 2013 | Exhibit 6.2 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.3 | Continuing Guarantee from Stuart Lichter dated February 28, 2013 | Exhibit 6.3 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.4(i) | Amendment Number 4 to the Loan and Security Agreement and Loan Agreement Schedule with CH Capital Lending, LLC dated August 1, 2014 | Exhibit 6.4(i) to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.4(ii) | Fourth Amended and Restated Secured Promissory Note (Term Loan) to CH Capital Lending, LLC dated August 1, 2014 | Exhibit 6.4(ii) to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.5 | Forbearance Agreement with CH Capital Lending, LLC dated July 31, 2015 | Exhibit 6.5 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.6 | Promissory Note to Racer Trust | Exhibit 6.6 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.7 | Security Agreement with Racer Trust | Exhibit 6.7 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.8 | First Amendment to Promissory Note | Exhibit 6.8 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.9 | Lease with Shreveport Business Park, LLC dated December 27, 2014 | Exhibit 6.9 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.10 | First Amendment to Lease with Shreveport Business Park, LLC dated July 31, 2015 | Exhibit 6.10 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.11 | Promissory Note and Security Agreement to IAV Automotive Engineering, Inc. dated December 5, 2014 | Exhibit 6.11 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.12 | Installment Payment Agreement with IAV Automotive Engineering, Inc. dated March 13, 2015 | Exhibit 6.12 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.13 | Promissory Note to Stuart Lichter dated March 6, 2014 | Exhibit 6.13 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.14 | Promissory Note to Stuart Lichter dated May 30, 2014 | Exhibit 6.14 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.15 | Secured Promissory Note to Stuart Lichter dated June 19, 2014 | Exhibit 6.15 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.16 | First Amendment to Secured Promissory Note to Stuart Lichter dated July 20, 2015 | Exhibit 6.16 to Offering Statement filed August 28, 2015 (File No. 024-10473) |

| Exhibit Number | Description | Incorporated by Reference to |
|-----------------------|---|---|
| 6.17 | Option Agreement with Stuart Lichter dated as of December 15, 2014 | Exhibit 6.17 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.18 | Option Agreement with Stuart Lichter dated as of June 29, 2015 | Exhibit 6.18 to Offering Statement filed August 28, 2015 (File No. 024-10473) |
| 6.19 | Form of Broker-Dealer Services Agreement with FundAmerica Securities, LLC | Exhibit 6.19 to Offering Statement filed November 18, 2015 (File No. 024-10473) |
| 6.20 | Form of Technology Services Agreement with FundAmerica Technologies, LLC | Exhibit 6.20 to Offering Statement filed October 21, 2015 (File No. 024-10473) |
| 11.1 | Consent of Berline | Exhibit 11.1 to Offering Statement filed August 28, 2015 (File No. 024-10473) |

SIGNATURES

Pursuant to the requirements of Regulation A, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunder duly authorized.

ELIO MOTORS, INC.

Date: April 29, 2016

By: /s/ Paul Elio
Paul Elio, Chief Executive Officer

Pursuant to the requirements of Regulation A, this report has been signed below by the following persons on behalf of the issuer and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|--|----------------|
| <u>/s/ Paul Elio</u> Paul Elio | Chief Executive Officer and Director (Principal Executive Officer) | April 29, 2016 |
| <u>/s/ Connie Grennan</u> Connie Grennan | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | April 29, 2016 |
| <u>/s/ Hari Iyer</u> Hari Iyer | Director | April 29, 2016 |
| <u>/s/ James Holden</u> James Holden | Director | April 29, 2016 |
| <u>/s/ Stuart Lichter</u> Stuart Lichter | Director | April 29, 2016 |
| <u>/s/ David C. Schembri</u> David C. Schembri | Director | April 29, 2016 |
| <u>/s/ Kenneth L. Way</u> Kenneth L. Way | Director | April 29, 2016 |



Independent Auditor's Report

To the Board of Directors of
Elio Motors, Inc.:

We have audited the accompanying financial statements of Elio Motors, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elio Motors, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Camarillo, CA | Costa Mesa, CA | Encino, CA | Fort Worth, TX | Long Beach, CA | Los Angeles, CA
Park City, UT | Pasadena, CA | Walnut Creek, CA | Westlake Village, CA



Independent Auditor's Report
(Continued)

Correction of Error

As discussed in Note 2 to the financial statements, certain errors resulting in the overstatement of advances due to related party and the overstatement of general and administrative expenses as of and for the year ended December 31, 2014, respectively, were discovered by management of the Company during the current year. Accordingly, amounts reported for advances due to related party and general and administrative expenses have been restated in the 2014 financial statements now presented to correct the error. Our opinion is not modified with respect to that matter.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1, the Company has not generated any revenue, has incurred losses since inception, has a working capital deficiency of \$6,443,499 and may be unable to raise further equity. At December 31, 2015 the Company had incurred accumulated losses of \$66,252,625 since inception. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are described in Note 1. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

Los Angeles, California
April 23, 2016

Camarillo, CA | Costa Mesa, CA | Encino, CA | Fort Worth, TX | Long Beach, CA | Los Angeles, CA
Park City, UT | Pasadena, CA | Walnut Creek, CA | Westlake Village, CA

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

| | <u>Assets</u> | <u>2015</u> | | <u>2014</u> <u>(As Restated)</u> |
|---|---------------|-----------------------------|----|-------------------------------------|
| Current Assets | | | | |
| Cash and cash equivalents | | \$ 6,870,044 | \$ | 374,652 |
| Restricted cash held in escrow | | 3,806,378 | | 476,055 |
| Prepaid expenses | | 471,170 | | 104,383 |
| Other current assets | | 336,733 | | 74,966 |
| Assets held for sale | | <u>2,100,000</u> | | <u>-</u> |
| Total Current Assets | | 13,584,325 | | 1,030,056 |
| Restricted cash held for customer deposits | | 5,816,407 | | 4,855,499 |
| Machinery and equipment, net | | 14,499,340 | | 20,124,788 |
| Facility under capital sublease, net | | <u>5,448,964</u> | | <u>7,200,000</u> |
| Total Assets | | <u>\$ 39,349,036</u> | | <u>\$ 33,210,343</u> |
| <u>Liabilities and Stockholders' Deficit</u> | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | | \$ 3,618,403 | \$ | 4,420,104 |
| Refundable customer deposits | | 1,092,750 | | 913,700 |
| Advances due to related party | | - | | 164,827 |
| Interest payable, current portion | | 4,959,444 | | 2,122,942 |
| Derivative liabilities - fair value of warrants | | 655,244 | | - |
| Note payable, net of discount | | - | | 1,600,000 |
| Notes payable due to related party, net of discount | | <u>9,701,983</u> | | <u>-</u> |
| Total Current Liabilities | | 20,027,824 | | 9,221,573 |
| Nonrefundable customer deposits | | 19,587,800 | | 14,852,183 |
| Interest payable, net of current portion | | 6,757,983 | | 2,241,134 |
| Convertible notes payable, net of discount | | 2,504,346 | | - |
| Notes payable, net of current portion and discount | | 19,565,099 | | 18,546,911 |
| Notes payable due to related party, net of current portion and discount | | - | | 10,549,348 |
| Capital sublease obligation | | <u>6,022,677</u> | | <u>7,500,000</u> |
| Total Liabilities | | <u>74,465,729</u> | | <u>62,911,149</u> |
| Commitments and contingencies (see notes to financial statements) | | | | |
| Stockholders' Deficit: | | | | |
| Common stock, no par value, 100,000,000 shares authorized, 26,320,322 and 25,077,500 shares issued and outstanding in 2015 and 2014, respectively | | 31,135,932 | | 15,075,433 |
| Accumulated deficit | | <u>(66,252,625)</u> | | <u>(44,776,239)</u> |
| Total Stockholders' Deficit | | <u>(35,116,693)</u> | | <u>(29,700,806)</u> |
| Total Liabilities and Stockholders Deficit | | <u>\$ 39,349,036</u> | | <u>\$ 33,210,343</u> |

See accompanying notes to financial statements

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> (As Restated) |
|--|------------------------|------------------------------|
| Costs and Expenses: | | |
| Engineering, research and development costs | \$ 2,058,566 | \$ 5,715,716 |
| General and administrative expenses | 5,371,464 | 5,148,108 |
| Sales and marketing expenses | <u>3,701,493</u> | <u>3,800,353</u> |
| Total costs and expenses | <u>11,131,523</u> | <u>14,664,177</u> |
| Loss From Operations | <u>(11,131,523)</u> | <u>(14,664,177)</u> |
| Other income (expense): | | |
| Gain on forgiveness of debt | 68,399 | - |
| Other income | 35,441 | 213,382 |
| Interest expense | (10,448,703) | (9,998,630) |
| Other expense | - | (32,016) |
| Total other expenses, net | <u>(10,344,863)</u> | <u>(9,817,264)</u> |
| Net Loss | <u>\$ (21,476,386)</u> | <u>\$ (24,481,441)</u> |
| Weighted-average number of common shares outstanding | 25,127,495 | 25,040,164 |
| Basic loss per common share: | <u>\$ (0.85)</u> | <u>\$ (0.98)</u> |

See accompanying notes to financial statement

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

| | Common Stock | | Accumulated Deficit | Total Stockholders' Deficit |
|--|-------------------|----------------------|------------------------|-----------------------------------|
| | Shares | Amount | | |
| Balance at December 31, 2013 | 25,000,000 | \$ 13,112,506 | \$(20,294,798) | \$ (7,182,292) |
| Net loss, as restated (Note 2) | - | - | (24,481,441) | (24,481,441) |
| Convertible notes payable converted to equity (Note 6) | - | 336,838 | - | 336,838 |
| Issuance of stock warrants (Note 8) | - | 1,101,089 | - | 1,101,089 |
| Issuance of common stock (Note 10) | <u>77,500</u> | <u>525,000</u> | <u>-</u> | <u>525,000</u> |
| Balance at December 31, 2014, as restated | 25,077,500 | 15,075,433 | (44,776,239) | (29,700,806) |
| Net loss | - | - | (21,476,386) | (21,476,386) |
| Discount on convertible notes from beneficial conversion feature (Note 6) | - | 1,900,710 | - | 1,900,710 |
| Issuance of common stock, net of issuance costs (Note 10) | <u>1,242,822</u> | <u>14,159,789</u> | <u>-</u> | <u>14,159,789</u> |
| Balance at December 31, 2015 | <u>26,320,322</u> | <u>\$ 31,135,932</u> | <u>\$(66,252,625)</u> | <u>\$ (35,116,693)</u> |

See accompanying notes to financial statements

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> <u>(As Restated)</u> |
|---|---------------------|-------------------------------------|
| <u>Cash Flows From Operating Activities</u> | | |
| Net Loss | \$(21,476,386) | \$(24,481,441) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 278,753 | 300,000 |
| Amortization of discount on notes payable | 712,200 | 2,107,366 |
| Amortization of deferred financing costs | 202,987 | 264,628 |
| Accrued interest on capital sublease obligation | 4,374,766 | 2,241,134 |
| Gain on forgiveness of debt | (68,399) | - |
| Change in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | (375,506) | 256,310 |
| Accounts payable and accrued liabilities | (801,701) | 5,495,653 |
| Interest payable | 3,946,784 | 2,127,217 |
| Net Cash Used in Operating Activities | <u>(13,206,502)</u> | <u>(11,689,133)</u> |
| <u>Cash Flows From Investing Activities</u> | | |
| Change in restricted cash | (4,291,231) | (3,359,796) |
| Purchases of machinery and equipment | (94,255) | - |
| Proceeds from sale of machinery and equipment | 3,614,663 | 215,381 |
| Net Cash Used in Investing Activities | <u>(770,823)</u> | <u>(3,144,415)</u> |
| <u>Cash Flows From Financing Activities</u> | | |
| Customer deposits | 4,914,667 | 12,949,433 |
| Issuance of common stock | 14,913,864 | 150,000 |
| Common stock issuance costs | (714,752) | - |
| Repayments of notes payable | (1,600,000) | (9,850,000) |
| Payment of deferred financing costs | (427,159) | (364,274) |
| Proceeds from convertible notes | 5,341,560 | - |
| Advances received from related party | - | 11,750,500 |
| Repayments of advances from related party | (1,702,415) | (221,600) |
| Advances to related party | (253,048) | (74,966) |
| Net Cash Provided by Financing Activities | <u>20,472,717</u> | <u>14,339,093</u> |
| Net Change in Cash and Cash Equivalents | 6,495,392 | (494,455) |
| Cash and Cash Equivalents at Beginning of Year | 374,652 | 869,107 |
| Cash and Cash Equivalents at End of Year | <u>\$ 6,870,044</u> | <u>\$ 374,652</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ 1,615,417</u> | <u>\$ 5,561,257</u> |
| Cash paid during the year for income taxes | <u>\$ 850</u> | <u>\$ -</u> |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Amendment of capital lease resulting in change in lease payments | <u>\$ 1,477,323</u> | <u>\$ -</u> |
| Issuance of warrants, stock issuance | <u>\$ 39,323</u> | <u>\$ -</u> |
| Issuance of warrants, convertible subordinated notes | <u>\$ 615,921</u> | <u>\$ -</u> |
| Convertible notes payable converted to equity | <u>\$ -</u> | <u>\$ 336,838</u> |

| | | |
|--|-------------|-------------------|
| Conversion of accounts payable to note payable | \$ - | \$ 1,600,000 |
| Expense recognized under equity grant | <u>\$ -</u> | <u>\$ 375,000</u> |

See accompanying notes to financial statements

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Business Activities

Elio Motors, Inc., an Arizona Corporation, (the “Company”), was formed on October 26, 2009. The Company was created to provide affordable transportation to those commuters seeking an alternative to today’s offering; at the same time provide vital American jobs. The Company is in the process of designing a three wheeled vehicle for mass production in the U.S. that achieves ultra-high fuel economy, exceeds safety standards and a targeted base price of \$6,800, which excludes options, destination/delivery charges, taxes, title and registration.

Pursuant to the articles of incorporation, the Company is authorized to issue 100,000,000 shares of common stock and 10,000,000 preferred shares, of which 100,000 preferred shares are designated as Series A Convertible Preferred shares (“Series A shares”). The Company’s common stock and preferred shares have no par value. The Series A shares are convertible into an equal number of common shares, subject to certain dilution adjustments, at the holder’s election. The Series A shares rank senior and prior to the common shares and any other class of preferred shares with respect to dividend rights, and rights upon liquidation, winding up or dissolution. Issued Series A shares shall accrue and accumulate an 8% cumulative preferential cash dividend based on the purchase price per share. Such dividends are payable when declared by the Board of Directors of the Company. There were no preferred shares issued at December 31, 2015 and 2014.

Liquidity and Capital Resources

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. From inception, the Company has financed its business activities through customer deposits, debt issuance and contributions from stockholders. The Company expects to obtain funding through additional debt and equity placement offerings until it consistently achieves positive cash flow from operations after starting production. Management expects that cash on hand combined with anticipated funding sources will provide the Company with adequate funding through December 31, 2016. There are no assurances that the Company will be able to raise adequate funds, achieve, or sustain profitability or positive cash flows from its operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty and whether the Company can continue as a going concern past 2016.

Through December 31, 2015, the Company has not recorded any revenues for the sale of its vehicle product nor does it expect to record revenues of any significant amount of product prior to commercialization of its vehicle. Once the Company’s planned principal operations commence, its focus will be on the manufacturing and marketing of its vehicles and the continued research and development of new products. The Company may not be profitable even if it succeeds in commercializing its product. The Company expects to make substantial expenditures and to incur additional operating losses for at least the next several years as it continues to develop the vehicle, increase manufacturing capacity for production, and enter into production and marketing collaborations with other companies, if available on commercially reasonable terms, or develop these capabilities internally.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as contained within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Significant estimates include the valuation of services provided in exchange for common stock, the utilization and realization of machinery and equipment held for production, the valuation of assets held for sale, the fair value of derivative instruments, and the discount on debt for warrants granted in connection with the issuance of promissory notes. Actual results could differ from those estimates.

Financial Instruments

FASB ASC Subtopic 825-10, *Financial Instruments*, requires disclosure of fair value information about financial instruments. The Company’s financial instruments include cash and cash equivalents, accounts payable, other current assets and liabilities, long-term debt and derivative instruments. The fair value of these instruments approximates their carrying value due to their relatively short maturities. The fair value of the Company’s debt instruments approximates their fair values as the interest is tied to or approximates market rates. For fair value of derivative instruments refer to Note 5.

Concentrations of Business and Credit Risk

The business is subject to significant risks, including, but not limited to, the risks in the regulatory approval process, the results of research and development efforts, and competition from other vehicles.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company has its cash and cash equivalents on deposit with various financial institutions. Accounts at each U.S. institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. Cash may at times exceed the amount covered by FDIC insurance; however management does not believe the Company has significant risk in this area.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid unrestricted investments with an original maturity of three months or less to be cash equivalents.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash held in escrow as of December 31, 2015 includes \$1,097,831 deposited in escrow accounts with financial institutions for future payment of property taxes and principal payments on notes payable from the sale of machinery and equipment. In addition, \$2,708,547 of the proceeds from the Company's Regulation A offering were held in escrow as of December 31, 2015. These funds were released in February and April 2016. In addition, the Company has recorded \$5,816,407 as restricted cash held for customer deposits as of December 31, 2015. This includes amounts held as restricted that relate to refundable customer deposits, as well as amounts held as reserves by credit card processors.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Property and equipment held for sale is recorded at the lower of cost or fair value less cost to sell. Major improvements are capitalized while expenditures for maintenance, repairs and minor improvements are charged to expense. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts, and any resulting gain or loss is reflected in operations. Property and equipment held for use are depreciated and amortized using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for property and equipment are as follows:

| | |
|---------------------------------|------------|
| Facility under capital sublease | 25 years |
| Machinery and equipment | 3-10 years |
| Vehicles | 3-5 years |
| Computer equipment and software | 2-5 years |

Assets Held For Sale

In connection with a strategy to reduce debt, the Company decided to sell machinery and equipment held at its Shreveport, Louisiana facility that will not be used during production. The carrying value of the machinery and equipment held for sale is stated at its lower of cost or fair value less cost to sell of \$2,100,000, which is shown as "Assets held for sale" at December 31, 2015 in the accompanying balance sheets in accordance with FASB ASC Topic 360, *Property, Plant, and Equipment*. The estimated value is based on negotiations with potential buyers. The amount that the Company will ultimately realize could differ materially from the amount recorded in the financial statements.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Impairment of Long-Lived Assets

In accordance with FASB ASC Subtopic 360-10, *Property, Plant, and Equipment – Impairment or Disposal of Long Lived Assets*, property and equipment and identifiable intangible assets with estimable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment losses were recognized for the years ended December 31, 2015 and 2014.

Warrants

The Company accounts for warrants with anti-dilution (“down-round”) provisions under the guidance of FASB ASC Topic 815, *Derivatives and Hedging*, (“ASC 815”) which require such warrants to be recorded as a liability and adjusted to fair value at each reporting period.

The Company accounts for the issuance of common stock purchase warrants issued in connection with capital financing transactions in accordance with the provisions of ASC 815. Based upon the provisions of ASC 815, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

Accounting for Debt/Proceeds Allocation

The Company accounts for the issuance of debt with detachable warrants under FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options* (“ASC 470-20”). Pursuant to ASC 470-20, the warrants issued in connection with the related party debt (Note 6) are accounted for as equity due to the stock settlement available to the holder. The Company used the Black-Scholes option pricing model as the valuation model to estimate the fair value of the warrants. These warrants were fair valued on the issuance date and recorded at the relative fair value of the warrants and underlying related party promissory notes. The warrants are not subsequently revalued.

Debt Issuance Costs

Deferred financing costs are legal and other costs incurred in connection with obtaining new financing. During 2015, FASB Accounting Standards Update 2015-03, *Interest—Imputation of Interest (Subtopic 835-30)* (“ASU 2015-03”) was issued. ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the accompanying balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company has elected to early adopt such guidance in order to simplify the accounting for its debt issuance costs.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Debt Issuance Costs (Continued)

ASU 2015-03 does not change the accounting for amortization of the debt issuance costs. The Company amortizes the debt issuance costs to interest expense over the term of the respective note payable using the effective yield method. Deferred financing costs amortized to interest expense amounted to \$202,987 and \$264,628 for the years ended December 31, 2015 and 2014, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Such costs, which amounted to \$3,701,493 and \$3,800,353 for the years ended December 31, 2015 and 2014, respectively, are included in sales and marketing expenses in the accompanying statements of operations.

Beneficial Conversion Feature

From time to time, the Company may issue convertible notes that may have conversion prices that create an embedded beneficial conversion feature pursuant to FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options*. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible is in excess of the conversion price.

In accordance with this guidance, the intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to common stock. The debt discount is amortized to interest expense over the life of the note using the effective interest method.

Stock Split

On July 9, 2015, the Company completed a 500-for-1 stock split for all outstanding common stock. References made to outstanding share or per share amounts in the accompanying financial statements and applicable disclosures have been retroactively adjusted to reflect this 500-for-1 stock split. The number of authorized shares as reflected on the accompanying balance sheets was not affected by the stock split and accordingly has not been adjusted.

Loss per Common Share

The Company computes loss per common share, in accordance with FASB ASC Topic 260, *Earnings Per Share*, which requires dual presentation of basic and diluted earnings per share.

Basic income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding, plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants. These potentially dilutive securities were not included in the calculation of loss per common share for the years ended December 31, 2015 or 2014 because their effect would be anti-dilutive.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loss per Common Share (Continued)

As of December 31, 2015, potentially dilutive securities consist of outstanding stock options and warrants to acquire 2,948,364 shares of common stock. As of December 31, 2014, potentially dilutive securities consisted of outstanding stock options and warrants to acquire 1,755,425 shares of common stock.

Research and Development Costs

In accordance with FASB ASC Topic 730, *Research and Development*, research and development costs are expensed as incurred. Research and development expenses consist of purchased technology, purchased research and development rights and outside services for research and development activities associated with product development. In accordance with ASC Topic 730, the cost to purchase such technology and research and development rights are required to be charged to expense if there is currently no alternative future use for this technology and, therefore, no separate economic value.

Income Taxes

The Company is taxed as a C corporation in the United States of America. The Company uses the asset and liability method of accounting for income taxes in accordance with FASB ASC 740, *Income Taxes* ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is established as necessary.

The Company follows the requirements of ASC 740, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, the Company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position. Management believes that the Company has taken no uncertain tax positions as of December 31, 2015 and 2014 and therefore no accruals have been made in the financial statements related to uncertain tax positions.

NOTE 2 **RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

During the year ended December 31, 2015, certain errors resulting in the overstatement of advances due to related party and the overstatement of general and administrative expenses totaling \$180,000 as of and for the year ended December 31, 2014, respectively, were discovered by the Company. Accordingly, amounts reported for advances due to related party and general and administrative expenses have been restated in the 2014 financial statements now presented to correct the error.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

**BALANCE SHEET
DECEMBER 31, 2014**

| <u>Assets</u> | As Previously Reported | Adjustment | As Restated |
|---|---------------------------|------------|---------------|
| Current Assets | | | |
| Cash and cash equivalents | \$ 374,652 | \$ - | \$ 374,652 |
| Restricted cash held in escrow | 476,055 | - | 476,055 |
| Prepaid expenses | 104,383 | - | 104,383 |
| Other current assets | 74,966 | - | 74,966 |
| Total Current Assets | 1,030,056 | - | 1,030,056 |
| Restricted cash held for customer deposits | 4,855,499 | - | 4,855,499 |
| Machinery and equipment, net | 20,124,788 | - | 20,124,788 |
| Facility under capital sublease, net | 7,200,000 | - | 7,200,000 |
| Total Assets | \$ 33,210,343 | \$ - | \$ 33,210,343 |
| <u>Liabilities and Stockholders' Deficit</u> | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 4,420,104 | \$ - | \$ 4,420,104 |
| Refundable customer deposits | 913,700 | - | 913,700 |
| Advances due to related party | 344,827 | (180,000) | 164,827 |
| Interest payable, current portion | 2,122,942 | - | 2,122,942 |
| Note payable, net of discount | 1,600,000 | - | 1,600,000 |
| Total Current Liabilities | 9,401,573 | (180,000) | 9,221,573 |
| Nonrefundable customer deposits | 14,852,183 | - | 14,852,183 |
| Interest payable, net of current portion | 2,241,134 | - | 2,241,134 |
| Notes payable, net of current portion and discount | 18,546,911 | - | 18,546,911 |
| Notes payable due to related party, net of current portion and discount | 10,549,348 | - | 10,549,348 |
| Capital sublease obligation | 7,500,000 | - | 7,500,000 |
| Total Liabilities | 63,091,149 | (180,000) | 62,911,149 |
| Commitments and contingencies (see notes to financial statements) | | | |
| Stockholders' Deficit: | | | |
| Common stock, no par value, 100,000,000 shares authorized, 25,077,500 shares issued and outstanding in 2014. | 15,075,433 | - | 15,075,433 |
| Accumulated deficit | (44,956,239) | 180,000 | (44,776,239) |
| Total Stockholders' Deficit | (29,880,806) | 180,000 | (29,700,806) |
| Total Liabilities and Stockholders Deficit | \$ 33,210,343 | \$ - | \$ 33,210,343 |

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

**STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | As Previously Reported | Adjustment | As Restated |
|---|---------------------------|---------------------|------------------------|
| Costs and Expenses: | | | |
| Engineering, research and development costs | \$ 5,715,716 | \$ - | \$ 5,715,716 |
| General and administrative expenses | 5,328,108 | (180,000) | 5,148,108 |
| Sales and marketing expenses | <u>3,800,353</u> | <u>-</u> | <u>3,800,353</u> |
| Total costs and expenses | <u>14,844,177</u> | <u>(180,000)</u> | <u>14,664,177</u> |
| Loss From Operations | <u>(14,844,177)</u> | <u>(180,000)</u> | <u>(14,664,177)</u> |
| Other income (expense): | | | |
| Other income | 213,382 | - | 213,382 |
| Interest expense | (9,998,630) | - | (9,998,630) |
| Other expense | <u>(32,016)</u> | <u>-</u> | <u>(32,016)</u> |
| Total other expenses, net | <u>(9,817,264)</u> | <u>-</u> | <u>(9,817,264)</u> |
| Net Loss | <u>\$ (24,661,441)</u> | <u>\$ (180,000)</u> | <u>\$ (24,481,441)</u> |
| Weighted-average number of common shares outstanding | <u>25,040,164</u> | | <u>25,040,164</u> |
| Basic loss per common share: | <u>\$ (0.98)</u> | | <u>\$ (0.98)</u> |

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | As Previously Reported | Adjustment | As Restated |
|--|---------------------------|------------------|------------------------|
| Cash Flows From Operating Activities | | | |
| Net Loss | \$ (24,661,441) | \$ 180,000 | \$(24,481,441) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 300,000 | - | 300,000 |
| Amortization of discount on notes payable | 2,107,366 | - | 2,107,366 |
| Amortization of deferred financing costs | 264,628 | - | 264,628 |
| Accrued interest on capital sublease obligation | 2,241,134 | - | 2,241,134 |
| Change in operating assets and liabilities: | | | |
| Prepaid expenses and other current assets | 256,310 | - | 256,310 |
| Accounts payable and accrued liabilities | 5,495,653 | - | 5,495,653 |
| Interest payable | 2,127,217 | - | 2,127,217 |
| Net Cash Used in Operating Activities | (11,869,133) | 180,000 | (11,689,133) |
| Cash Flows From Investing Activities | | | |
| Change in restricted cash | (3,359,796) | - | (3,359,796) |
| Purchases of machinery and equipment | - | - | - |
| Proceeds from sale of machinery and equipment | 215,381 | - | 215,381 |
| Net Cash Used in Investing Activities | (3,144,415) | - | (3,144,415) |
| Cash Flows From Financing Activities | | | |
| Customer deposits | 12,949,433 | - | 12,949,433 |
| Issuance of common stock | 150,000 | - | 150,000 |
| Repayments of notes payable | (9,850,000) | - | (9,850,000) |
| Payment of deferred financing costs | (364,274) | - | (364,274) |
| Advances received from related party | 11,750,500 | - | 11,750,500 |
| Repayments of advances from related party | (41,600) | (180,000) | (221,600) |
| Advances to related party | (74,966) | - | (74,966) |
| Net Cash Provided by Financing Activities | 1,569,660 | (180,000) | 1,389,660 |
| Net Change in Cash and Cash Equivalents | (13,443,888) | - | (13,443,888) |
| Cash and Cash Equivalents at Beginning of Year | 869,107 | - | 869,107 |
| Cash and Cash Equivalents at End of Year | \$ (12,574,781) | \$ - | \$ (12,574,781) |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for interest | \$ 5,561,257 | \$ - | \$ 5,561,257 |
| Cash paid during the year for income taxes | \$ - | \$ - | \$ - |
| Supplemental disclosures of non-cash financing activities: | | | |
| Convertible notes payable converted to equity | \$ 336,838 | \$ - | \$ 336,838 |
| Conversion of accounts payable to note payable | \$ 1,600,000 | \$ - | \$ 1,600,000 |

Expense recognized under equity grant \$ 375,000 \$ - \$ 375,000

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Facility under capital sublease | \$ 6,022,677 | \$ 7,500,000 |
| Machinery and equipment | 14,415,717 | 20,124,788 |
| Vehicles | 39,500 | - |
| Computer equipment and software | 49,163 | - |
| Total property and equipment | <u>20,527,057</u> | <u>27,624,788</u> |
| Less: accumulated depreciation and amortization | <u>(578,753)</u> | <u>(300,000)</u> |
| Property and equipment, net | <u>\$ 19,948,304</u> | <u>\$ 27,324,788</u> |

Depreciation and amortization of property and equipment held for use amounted to \$278,753 and \$300,000 for the years ended December 31, 2015 and 2014, respectively. There was no depreciation and amortization expense related to manufacturing machinery and equipment held for future production at the Company's Shreveport, Louisiana facility. For the years ended December 31, 2015 and 2014, the Shreveport manufacturing machinery and equipment held for future production totaled \$14,415,717 and \$20,124,788, respectively. The Company plans to start production in the fourth quarter of 2016 at which time the manufacturing machinery and equipment will be placed in service.

NOTE 4 CUSTOMER DEPOSITS

The Company has received customer deposits ranging from \$100 to \$1,000 per order for purposes of securing their vehicle production slot. As of December 31, 2015 and 2014, the Company received refundable deposits of \$1,092,750 and \$913,700, respectively, which are refundable upon demand. Refundable deposits are included in current liabilities in the accompanying balance sheets. As of December 31, 2015 and 2014, the Company received nonrefundable deposits of \$19,587,800 and \$14,852,183, respectively. The nonrefundable deposits are included in long term liabilities in the accompanying balance sheets since production is expected to begin in the fourth quarter of 2016.

NOTE 5 FAIR VALUES OF ASSETS AND LIABILITIES

The Company groups its assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1—Valuation is based on quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2—Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 5 FAIR VALUES OF ASSETS AND LIABILITIES (Continued)

Level 3—Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses valuation methods and assumptions that consider among other factors the fair value of the underlying stock, risk-free interest rate, volatility, expected life and dividend rates in estimating fair value for the warrants considered to be derivative instruments.

The following table presents the Company’s fair value hierarchy for applicable assets and liabilities measured at fair value on a recurring basis as of December 31, 2015.

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------|---------|---------|------------|------------|
| Warrant liabilities | \$ - | \$ - | \$ 655,244 | \$ 655,244 |

The Company’s recurring Level 3 instruments consisted of a stock warrant liability, which was valued using the Black-Scholes option pricing model. The significant unobservable inputs used in the fair value measurement of the stock warrant liability are risk-free interest rate over the term of the instrument, time to liquidity event, dividend yield, and volatility of equity. The change in any of those inputs in isolation would result in a significant change of fair value measurement. The following table describes the valuation techniques used to calculate the fair values for the financial instruments in the Level 3 hierarchy:

| | Fair Value at December 31, 2015 | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|---------------------|---------------------------------------|-------------------------------------|---|--------------------------------------|
| Warrant liabilities | \$ 655,244 | Black-Scholes option pricing method | Risk-free rate Time to liquidity event Dividend yield Volatility | 0.20% 3-5 yrs. 0.00% 53.70% |

As of December 31, 2014 there were no applicable assets and liabilities measured at fair value.

NOTE 6 LONG-TERM DEBT

Senior Promissory Note

On February 28, 2013, in connection with the acquisition of certain machinery and equipment, the Company entered into a promissory note with GemCap Lending I, LLC, (“GemCap”), for \$9,850,000. The note was secured by a first priority lien on certain machinery and equipment with an original value of \$11,659,705 and was personally guaranteed by a stockholder. The note incurred interest at 15% per annum, payable monthly. All outstanding principal and interest was due upon maturity on February 28, 2014.

ELIO MOTORS, INC.
(AN ARIZONA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 6 **LONG-TERM DEBT (Continued)**

Senior Promissory Note (Continued)

On February 27, 2014, the Company entered into the second amendment to the promissory note, which extended the maturity date to May 31, 2014 and reduced the interest rate to 12% per annum. On May 31, 2014, the Company entered into the third amendment to the promissory note, which extended the maturity date to July 31, 2014.

On August 1, 2014, CH Capital Lending, LLC, (“CH Capital”) owned by a director and stockholder, purchased the \$9,850,000 promissory note from GemCap. On August 1, 2014, the Company and CH Capital entered into the fourth amendment to the promissory note, which extended the maturity date to July 31, 2015 and reduced the interest rate to 10% per annum.

On July 31, 2015, the Company entered into a forbearance agreement with CH Capital, which defers the enforcement of the collection of the promissory note until July 31, 2016. At December 31, 2015 the note is included in current liabilities on the accompanying balance sheets.

Interest expense incurred on this note for the years ended December 31, 2015 and 2014 amounted to \$966,016 and \$1,238,155, respectively.

The senior promissory note is reflected net of debt issuance costs of \$78,287 and \$212,493 in the accompanying balance sheets at December 31, 2015 and 2014, respectively.

Subordinated Promissory Notes

On March 3, 2013, in connection with the acquisition of certain machinery and equipment, the Company entered into a promissory note with the Revitalizing Auto Communities Environmental Response Trust (“RACER”) for \$23,000,000. The promissory note is secured by a subordinated lien on the manufacturing machinery and equipment held in Shreveport, Louisiana. The note is non-interest bearing. In accordance with FASB ASC Subtopic 835-30, *Imputation of Interest*, a discount of \$5,659,831 was recorded to reflect an imputed interest rate of 12% per annum which was based on the Company’s credit, collateral, terms of repayment and similar prevailing market rates at the time the loan agreement was executed.

The outstanding balance and unamortized debt discount amounted to \$21,126,147 and \$1,508,358, respectively, at December 31, 2015. The outstanding balance and unamortized debt discount amounted to \$21,126,147 and \$2,476,557 at December 31, 2014, respectively.

On November 1, 2013, the Company missed a required monthly minimum payment triggering default interest of 18% per annum in accordance with the promissory note agreement. The default was cured in December 2013; however, default interest remained in effect throughout 2014. On January 1, 2015, the Company missed a required monthly minimum payment triggering interest of 18% per annum in accordance with the promissory note agreement. On March 17, 2015, the Company entered into the first amendment to the subordinated promissory note with RACER. The first amendment delayed the monthly minimum payments from January 1, 2015 until January 1, 2016. The first amendment also extended the maturity date from September 1, 2016 to July 1, 2017.

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NOTE 6 **LONG-TERM DEBT (Continued)**

Subordinated Promissory Notes (Continued)

The outstanding principal balance shall continue to bear default interest of 18% per annum until the payments are resumed on January 1, 2016. Accrued default interest under the subordinated promissory note amounted to \$6,317,033 and \$1,942,267 at December 31, 2015 and 2014, respectively. Default interest expense incurred amounted to approximately \$4,548,266 and \$4,016,000 for the years ended December 31, 2015 and 2014, respectively.

The subordinated promissory notes are reflected net of debt issuance costs of \$52,691 and \$102,679 on the accompanying balance sheets at December 31, 2015 and 2014, respectively.

On December 5, 2014, the Company converted \$1,600,000 of payables owed to one of the research and development vendors to a promissory note. The note incurred interest at the Federal Funds rate per annum. The note was paid in full on December 10, 2015. Interest expense incurred on the note for the years ended December 31, 2015 and 2014 amounted to \$4,197 and \$255, respectively.

Convertible Subordinated Notes Payable

On March 2, 2015, the Company offered up to \$30,000,000 of 5% Convertible Subordinated Secured Notes (the "Convertible Notes"), due September 30, 2022, unless earlier converted to common shares by the holder pursuant to their terms, in a private placement to accredited investors. The first \$5,000,000 (Tier 1) in Convertible Notes have a conversion price of \$5.98, the next \$10,000,000 (Tier 2) in Convertible Notes have a \$9.64 conversion price, and the last \$15,000,000 (Tier 3) in Convertible Notes have a \$12.98 conversion price. As of December 31, 2015, the Company issued \$5,000,560 of Tier 1 Convertible Notes and \$341,000 of Tier 2 Convertible notes. Net proceeds from the Convertible Notes were \$4,628,151 for Tier 1 and \$286,250 for Tier 2, net of transaction fees. The Convertible Notes are senior secured obligations of the Company, subordinate only to a first lien obligation to CH Capital Lending, LLC and a second lien obligation to Racer Properties, LLC. Holders may tender their Convertible Notes for conversion at any time subsequent to the issuance of the note.

As of December 31, 2015, no Convertible Subordinate Notes were converted.

A beneficial conversion feature discount of \$1,817,560 and \$83,149 was recorded for the Tier 1 and Tier 2 Convertible Notes, respectively. The unamortized balance of the beneficial conversion feature discount amounted to \$1,729,777 and \$83,150 for Tier 1 and Tier 2, respectively, at year end December 31, 2015. The beneficial conversion feature discount is being amortized as interest expense over the terms of the Convertible Notes using the effective interest method.

There were no convertible notes issued with beneficial conversion features at December 31, 2014.

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NOTE 6 **LONG-TERM DEBT (Continued)**

Convertible Subordinated Notes Payable (Continued)

Issuance costs attributable to the debt component were recorded as a direct deduction to the related debt liability and are being amortized as interest expense over the term of the Convertible Notes. Net issuance costs, amounted to \$949,750 and \$74,537 as of December 31, 2015 for Tier 1 Convertible Notes and Tier 2 Convertible Notes, respectively.

Convertible Unsecured Notes Payable

The Company had executed various unsecured convertible notes payable to multiple individuals and trusts. The convertible notes incurred interest, payable upon maturity, at 9% per annum on the principal amount. The convertible notes convert to common stock based on 200% of the ratio of the convertible note principal amount over the value of the Company.

During February 2014, the outstanding convertible notes and accrued interest were converted to 412,500 shares of common stock, which were transferred from the President and Chief Executive Officer's ("CEO") personal holdings to the convertible note holders. The President and CEO did not receive any compensation for this transfer of shares. There are no outstanding unsecured convertible notes payable at December 31, 2015 and 2014.

Related Party Subordinated Promissory Notes

On June 19, 2014, the Company entered into a promissory note agreement with a director and stockholder of the Company for \$600,000. The promissory note incurs interest at 10% per annum. All accrued interest and unpaid principal are payable upon maturity. The note matured on December 31, 2014, but was amended and the maturity date was extended to July 31, 2016. The outstanding principal and interest amounted to \$600,000 and \$94,944, respectively, at December 31, 2015, and \$600,000 and \$34,111, respectively, at December 31, 2014. Interest expense incurred on the note for the years ended December 31, 2015 and 2014 amounted to \$60,833 and \$34,111, respectively.

On March 6, 2014, the Company entered into a promissory note agreement with a director and stockholder of the Company for \$1,000,500. The promissory note incurs interest at 10% per annum. All accrued interest and unpaid principal are payable upon maturity at July 31, 2016. The outstanding principal and interest amounted to \$1,000,500 and \$109,537, respectively, at December 31, 2015, and \$1,000,500 and \$8,097, respectively, at December 31, 2014. Interest expense incurred on the note for the years ended December 31, 2015 and 2014 amounted to \$101,440 and \$8,097, respectively.

On May 30, 2014, the Company entered into a promissory note agreement with a director and stockholder of the Company for \$300,000. The promissory note incurs interest at 10% per annum. All accrued interest and unpaid principal are payable upon maturity at July 31, 2016. The outstanding principal and interest amounted to \$300,000 and \$39,222, respectively, at December 31, 2015, and \$300,000 and \$8,806, respectively, at December 31, 2014. Interest expense incurred on the note for the years ended December 31, 2015 and 2014 amounted to \$30,416 and \$8,806, respectively.

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NOTE 6 **LONG-TERM DEBT (Continued)**

Related Party Subordinated Promissory Notes (Continued)

The \$1,000,500 and \$300,000 promissory notes described above were issued with detachable warrants. The promissory notes have been discounted using the relative fair value approach for the fair value of the warrants and the fair value of the debt. As of December 31, 2015 and 2014, the unamortized discount amounted to \$364,243 and \$988,659, respectively. Amortization of the discount amounted to \$624,416 and \$112,430 during 2015 and 2014, respectively, using the effective interest method, which is included in interest expense on the accompanying statements of operations. See Note 8 for additional information regarding the warrants.

Annual principal maturities of long-term debt are as follows:

| Years ending December 31, | |
|---|----------------------|
| 2016 | \$ 10,144,512 |
| 2017 | 21,126,147 |
| 2018 | - |
| 2019 | - |
| 2020 | - |
| Thereafter | 5,341,560 |
| Total | 36,612,219 |
| Less: amount representing imputed interest | (1,508,357) |
| Less: amount representing deferred financing costs | (1,155,265) |
| Less: amounts representing discount on debt | (364,242) |
| Less: amount representing beneficial conversion feature | (1,812,927) |
| | 31,771,428 |
| Less: current portion, net of discount | (9,701,983) |
| | <u>\$ 22,069,445</u> |

NOTE 7 **CAPITAL SUBLEASE OBLIGATION**

On December 27, 2013, the Company entered into a noncancelable long term capital sublease agreement with a related party for its manufacturing facility in Shreveport, Louisiana with an aggregate cost of \$7,500,000, which is based on the recent selling price of the property. The imputed interest under the capital sublease amounted to 26.4%. Initial sublease payments are waived until the earlier of the start of production or August 1, 2015, after which sublease payments of \$249,343 are payable monthly. The capital sublease payments increase by 3% on each 10 year anniversary of the sublease commencement date. The sublease expires on December 27, 2038 and includes two 25 year options to extend. The Company recognized \$2,740,795 and \$2,241,134 in interest expense under this sublease agreement for the years ended December 31, 2015 and 2014, respectively, which is included in current and long term interest payable on the accompanying balance sheets at December 31, 2015, and 2014.

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NOTE 7 CAPITAL SUBLEASE OBLIGATION (Continued)

On July 31, 2015, the Company entered into an amendment to the capital sublease agreement. The amendment abated the monthly sublease payments of \$249,343 from August 1, 2015 through January 1, 2016. Monthly payments for the period February 1, 2016 through July 31, 2016 were deferred and now payable in full on August 1, 2016 under the amendment. As a result of the sublease amendment, the Company recorded an adjustment to reduce the capital sublease obligation and the respective facility under capital sublease by \$1,477,323, which represents the change in the present value of the amended minimum lease payments in accordance with FASB ASC Subtopic 840-30-35, *Capital Leases*.

In connection with the capital sublease agreement, the sublessor, who is a related party stockholder, may obtain third party financing in the approximate amount of \$7,500,000 (the “sublessor loan”), which shall be secured by a leasehold interest. As stated in the capital sublease agreement, the related party sublessor will loan the proceeds of approximately \$7,500,000 to the Company pursuant to a separate loan agreement between the related party sublessor and the Company. As of December 31, 2015, the sublessor has not obtained financing from a third party and therefore, no funds have been loaned to the Company.

Future minimum sublease payments under the noncancelable capital sublease are as follows:

| Years ending December 31, | |
|------------------------------------|---------------------|
| 2016 | \$ 2,742,773 |
| 2017 | 2,992,116 |
| 2018 | 2,992,116 |
| 2019 | 2,992,116 |
| 2020 | 2,992,116 |
| Thereafter | 55,849,042 |
| Total minimum sublease payments | 70,560,279 |
| Less: amount representing interest | (64,537,602) |
| | <u>\$ 6,022,677</u> |

NOTE 8 WARRANTS AND WARRANTS LIABILITY

The Company follows FASB ASC Subtopic 815-40, *Contract in An Entity’s Own Equity*, as it relates to outstanding warrants.

In connection with the November 2015 Regulation A stock offering of 1,242,822 shares of the Company's common stock at a price of \$ 12.00 per share, the Company issued an aggregate of warrants to purchase 8,754 shares of common stock at an exercise price of \$12.00 per share to the intermediary technology platform provider. These warrants expire December 2018. These warrants contain provisions that protect holders from a decline in the issue price of the Company’s common stock (“down-round” provision). Due to these down-round provisions, the Company accounted for these warrants as liabilities instead of equity in the accompanying balance sheets. The Company will revalue the fair value adjustment of this derivative instrument at each reporting period. As of December 31, 2015 the fair value adjustment was \$39,323.

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NOTE 8 WARRANTS AND WARRANTS LIABILITY (Continued)

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|---------|
| Dividend yield | 0.0% |
| Volatility | 55.70% |
| Risk free interest rate | 0.2% |
| Expected life | 3 years |

As of December 31, 2015, none of the warrants had been exercised.

In connection with the private placement of the Convertible Subordinated Secured Notes, which occurred through December 17, 2015, the Company issued an aggregate of warrants to purchase 83,621 shares of common stock at an exercise price of \$7.18 per share, and 3,534 shares of common stock at an exercise price of \$11.58 per share. These warrants expire December 2020. These warrants contain provisions that protect holders from a decline in the issue price of the Company's common stock ("down-round" provision). Due to these down-round provisions, the Company accounted for these warrants as liabilities instead of equity in the accompanying balance sheets. The Company will revalue the fair value adjustment of this derivative instrument at each reporting period. As of December 31, 2015 the fair value adjustment was \$615,921.

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|---------|
| Dividend yield | 0.0% |
| Volatility | 53.50% |
| Risk free interest rate | 0.2% |
| Expected life | 5 years |

As of December 31, 2015, none of the warrants had been exercised.

During 2014, in connection with obtaining subordinated promissory notes for \$1,000,500 from a director and stockholder, the Company issued detachable warrants for the purchase of up to an aggregate of 5% of the Company's common stock as of the date of the option agreement at an exercise price of \$7,500,000. These warrants are exercisable, in whole or in part at any time up until the expiration of the warrant agreement at December 15, 2024. The aggregate fair value attributed to these detachable warrants was \$839,375 at the grant date. These warrants are classified as equity in the accompanying balance sheets.

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|----------|
| Dividend yield | 0.0% |
| Volatility | 55.30% |
| Risk free interest rate | 0.4% |
| Expected life | 10 years |

As of December 31, 2015, none of the warrants had been exercised.

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NOTE 8 WARRANTS AND WARRANTS LIABILITY (Continued)

During 2014, in connection with obtaining subordinated promissory notes for \$300,000 from a director and stockholder, the Company issued detachable warrants for the purchase of up to an aggregate of 2% of the Company's common stock as of the date of the option agreement at an exercise price of \$3,000,000. These warrants are exercisable, in whole or part at any time up until the expiration of the warrant agreement June, 29, 2025. The aggregate fair value attributed to these detachable warrants was \$261,714 at the grant date. These warrants are classified as equity in the accompanying balance sheets.

The fair value for the warrant issued was calculated using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|----------|
| Dividend yield | 0.0% |
| Volatility | 55.30% |
| Risk free interest rate | 0.5% |
| Expected life | 10 years |

As of December 31, 2015, none of the warrants had been exercised.

NOTE 9 INCOME TAXES

For the years ended December 31, 2015 and 2014, no income tax expense was recorded.

The Company's effective tax rate differs from the federal statutory rate of 34.0% primarily due to the impact of state income taxes and the valuation allowance recorded against its deferred tax assets.

Reconciliation of the federal statutory rate to the effective tax rate is as follows:

| | 2015 | 2014 (As Restated) |
|--|--------|-----------------------|
| Federal statutory rate | 34.0% | 34.0% |
| State income taxes, net of federal tax benefit | 1.5 | 1.5 |
| Permanent differences | (1.2) | 0.0 |
| Valuation allowance adjustments | (34.0) | (35.5) |
| Others | (0.3) | - |
| Effective tax rate | 0.0% | 0.0% |

In November 2015, FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which changes how deferred taxes are classified on a company's balance sheets and is effective for financial statements issued for annual periods beginning after December 15, 2016, with early adoption permitted. ASU 2015-17 requires all deferred tax assets and liabilities to be classified as non-current. The Company has elected to early adopt such guidance in order to simplify the accounting for its deferred tax assets and liabilities. ASU 2015-17 may be applied to all periods presented retrospectively, and accordingly, all deferred tax assets and liabilities have been classified as non-current as of December 31, 2015 and 2014.

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NOTE 9 INCOME TAXES (Continued)

The principal components of deferred tax assets and liabilities are as follows as of December 31:

| | 2015 | 2014 (As Restated) |
|--|-------------------|-----------------------|
| Non-current deferred tax assets: | | |
| Property and equipment | \$ 2,155,000 | \$ 2,100,000 |
| Nonrefundable customer deposits | 5,405,000 | 5,401,000 |
| Net operating losses | 14,585,000 | 7,452,000 |
| Others | - | 84,000 |
| Total non-current deferred tax assets | <u>22,145,000</u> | <u>15,037,000</u> |
| Valuation allowance | (21,072,000) | (13,776,000) |
| Non-current deferred tax liabilities: | | |
| Imputed interest | (548,000) | (901,000) |
| Deferred state taxes | <u>(525,000)</u> | <u>(360,000)</u> |
| Total non-current deferred tax liabilities | (1,073,000) | (1,261,000) |
| Total non-current deferred tax assets | <u>\$ -</u> | <u>\$ -</u> |
| Net deferred income taxes | <u>\$ -</u> | <u>\$ -</u> |

As of December 31, 2015, the Company has approximately \$39.7 million and \$16.5 million of federal and state net operating loss carryovers, respectively. These net operating loss carryovers will begin to expire in 2031 and 2024 for federal and state income tax purposes, respectively. The actual utilization of the federal and state net operating losses may be limited by the provisions of Internal Revenue Code Section 382.

Given the lack of book income in the history of the Company and the uncertainty as to the likelihood of future taxable income, the Company has recorded a full valuation allowance against all its deferred tax assets because it is more likely than not that any of its deferred tax assets would be realized. The Company will evaluate the appropriateness of the valuation allowance on an annual basis and adjust the allowance as considered necessary. The Company is subject to U.S. federal and state income tax examinations for all years from inception. No examinations are currently pending.

NOTE 10 COMMON STOCK

During December 2013, in connection with an investor's capital contribution of \$7,422,506, net of equity issuance fees of \$77,494, the President and CEO transferred 5,000,000 shares of common stock from his personal holdings to the investor. The President and CEO did not receive any compensation for this transfer of shares. The Company's total shares issued and outstanding did not change as a result of this transfer during 2013.

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NOTE 10 **COMMON STOCK (Continued)**

During 2009, the Company received lobbying services from Black Swan, LLC (“Black Swan”). In exchange for these lobbying services, the Company issued a contingent equity grant. Black Swan is entitled to receive up to 4% of outstanding common stock of the Company if the Company receives funding in excess of \$10,000,000 under the Advanced Technology Vehicle Manufacturing program. On July 17, 2014, the Company entered into an amended agreement where Black Swan relinquished their contingent equity grant in exchange for 62,500 shares of common stock. The Company recorded the common stock granted to Black Swan using the relative fair value approach based on the Company’s estimated fair value. The grant vested immediately and \$375,000 was recorded to general and administrative expenses in the accompanying statement of operations for the year ended December 31, 2014. The Company recorded a prior period adjustment to restate the financial statements as of and for the year ended December 31, 2014 as discussed in Note 2.

During December 2014, two of the Company’s directors contributed \$150,000 in exchange for 15,000 shares of common stock.

The Company filed an offering statement pursuant to Regulation A of the Securities Act of 1933, which was qualified by the Securities and Exchange Commission on November 20, 2015. The Company offered a minimum of 1,050,000 shares of common stock and a maximum of 2,090,000 shares of common stock on a “best efforts” basis, at a price of \$12.00 per share. The offering was authorized to continue until the earlier of March 31, 2016 (which could have been extended at the Company’s option) or the date when all shares have been sold.

The Company reserved the right to accept subscriptions for up to an additional 418,000 shares, for an additional \$5,016,000 in gross proceeds. As of December 31, 2015 the Company sold 1,242,822 shares of common stock for cash proceeds of \$14,199,112, net of offering costs. In addition, the Company incurred non-cash offering costs of \$39,323 related to the issuance of warrant liabilities as discussed in Note 8.

On February 16, 2016, the Company closed the Regulation A offering, after issuing an additional 167,226 shares of common stock during 2016. At the close of the offering, the Company sold 1,410,048 shares of common stock for cash proceeds of \$16,027,321, net of offering expenses. As of February 16, 2016, the Company incurred additional non-cash offering costs of \$76,579, for a total of \$115,902 related to the issuance of warrant liabilities as discussed in Note 13.

NOTE 11 **COMMITMENTS AND CONTINGENCIES**

Litigation

In management’s opinion, the Company is not currently involved in any legal proceedings, which, individually or in the aggregate, could have a material effect on its financial condition, operations and/or cash flows.

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NOTE 11 COMMITMENTS AND CONTINGENCIES (Continued)

Sales Discounts

The Company provides a sales discount for nonrefundable deposit customers equal to 50% of the nonrefundable deposit, up to \$500 per deposit. The deposit will be applied toward the purchase of the vehicle at the time of the customer purchase. No liability has been recorded for the nonrefundable deposit sales discount since revenues have not commenced and the utilization cannot be reasonably estimated at this time. Future committed sales discounts offered amounted to approximately \$10,340,000 and \$7,435,000 as of December 31, 2015 and 2014, respectively.

Creation of New Jobs

Among the terms of the Company's purchase agreement with Racer was an agreement to use and develop the property so as to create at least 1,500 new jobs. The Company agreed that if it had not created 1,500 new jobs by February 28, 2016, it would pay Racer \$5,000 for each full-time, permanent direct job that fell below the required number. On March 17, 2015, the Company entered into the second amendment and extended the deadline of this agreement to July 1, 2017.

Commitments

As of December 31, 2015, the Company had approximately \$750,000 of open purchase orders relating to ongoing research and development expenses.

NOTE 12 RELATED PARTY TRANSACTIONS

During 2015 and 2014, the Company advanced to its President and CEO \$328,014 and \$74,966, respectively. This advance is reflected on the accompanying balance sheets in other current assets. The note incurs interest at the Federal Funds rate per annum and is due on demand. As of December 31, 2015, the Federal Funds rate was 0.56%.

During 2012, as part of the acquisition of the design rights for the vehicle, the Company assumed \$426,159 in payables from a stockholder, ESG Engineering. There were no scheduled repayment terms, and the payables were non-interest bearing. During 2015, the Company repaid \$96,428 of the outstanding balance and the remaining \$68,399 was forgiven by ESG Engineering on December 31, 2015. The assumed payables are included in current liabilities on the accompanying balance sheets at December 31, 2014.

During 2015, a director and stockholder of the Company purchased a total of \$1,955,000 of the Tier 1 Convertible Subordinated Notes described in Note 6.

On August 1, 2014, CH Lending, a related party owned by a director and stockholder, purchased the promissory note from GemCap as further described in Note 6. The Company entered into a forbearance agreement, which defers the enforcement of the collection of the promissory note until July 31, 2016.

During 2013, the Company entered into a capital sublease with a related party owned by a director and stockholder as described in Note 7. On July 31, 2015 the Company entered into an amendment to the capital sublease agreement as further discussed in Note 7.

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NOTE 12 RELATED PARTY TRANSACTIONS (Continued)

During 2014, the Company entered into three subordinated promissory notes with a director and stockholder of the Company for total proceeds of \$1,900,500 as further discussed in Note 6 above. The secured promissory notes included detachable warrants as discussed in Note 6 and Note 8 above.

NOTE 13 SUBSEQUENT EVENTS

The Company has evaluated subsequent events that have occurred through April 23, 2016 which is the date that the financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements except as discussed in Note 10 and below.

In connection with the Regulation A stock offering of 1,410,048 shares of the Company's common stock at a price per share of \$12.00, the Company issued an aggregate of warrants to purchase 12,646 shares of common stock at an exercise price of \$12.00 per share to the intermediary technology platform provider. These warrants expire between January 2019 and February 2023.

On February 19, 2016, the Company began trading its shares on the OTCQX market under the stock symbol ELIO.

The Company has received additional refundable and nonrefundable customer deposits for purposes of securing their vehicle production slot. As of April 23, 2016, refundable and nonrefundable deposits of approximately \$1,142,000 and \$22,319,000, respectively, have been received.

Subsequent to December 31, 2015, the Company converted \$150,500 of principal and \$5,686 of accrued interest from its Tier 1 Convertible Subordinated Notes into 25,240 shares of the Company's common stock at a conversion price of \$5.98. There have been no Tier 2 Convertible Subordinated Notes converted subsequent to December 31, 2015. The Company has \$4,850,060 outstanding of the Tier 1 and \$341,000 outstanding of the Tier 2 Convertible Subordinated Secured Notes as of the date the financial statements were available to be issued.