

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-40867

**Volcon, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**84-4882689**

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

**3121 Eagles Nest Street, Suite 120, Round Rock, TX**

(Address of Principal Executive Offices)

**78665**

(Zip Code)

**(512) 400-4271**

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	VLCN	The NASDAQ Stock Market LLC

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

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

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

The registrant had 4,661,782 shares of common stock outstanding at August 5, 2024.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**VOLCON, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<u>June 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,052,175	\$ 7,983,346
Restricted cash	105,000	210,000
Accounts receivable, net of allowance for doubtful accounts of \$53,295 and \$70,359 at June 30, 2024 and December 31, 2023, respectively	301,845	203,303
Inventory	9,586,328	8,973,134
Inventory deposits	1,015,847	258,316
Prepaid expenses and other current assets	963,253	1,904,197
<b>Total current assets</b>	<u>14,024,448</u>	<u>19,532,296</u>
Long term assets:		
Property and equipment, net	625,166	1,258,607
Other long-term assets	199,281	199,281
Right-of-use assets - operating leases	941,303	1,136,213
<b>Total assets</b>	<u>\$ 15,790,198</u>	<u>\$ 22,126,397</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 962,390	\$ 831,184
Accrued liabilities	1,735,981	3,128,906
Vendor settlements - short-term	1,833,937	-
Current portion of notes payable	6,784	15,278
Convertible notes, net of discount and issuance costs	-	30,149,579
May 2024 Notes	1,416,470	-
Warrant liabilities	70,970	5,971,067
Right-of-use operating lease liabilities, short-term	421,034	399,611
Customer deposits	169,777	417,485
<b>Total current liabilities</b>	<u>6,617,343</u>	<u>40,913,110</u>
Notes payable, net of current portion	32,226	69,138
Vendor settlements - long-term	683,493	-
Right-of-use operating lease liabilities, long-term	559,749	775,170
<b>Total liabilities</b>	<u>7,892,811</u>	<u>41,757,418</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
Stockholders' equity (deficit):		
Preferred stock: \$0.00001 par value, 5,000,000 shares authorized, 25,000 shares designated, 6,375 shares outstanding as of June 30, 2024 and no shares issued and outstanding as of December 31, 2023.	-	-
Common stock: \$0.00001 par value, 250,000,000 shares authorized, 1,642,685 shares issued and outstanding as of June 30, 2024 and 10,305 shares issued and outstanding as of December 31, 2023	16	-
Additional paid-in capital	155,357,971	101,175,117
Accumulated deficit	(147,460,600)	(120,806,138)
<b>Total stockholders' equity (deficit)</b>	<u>7,897,387</u>	<u>(19,631,021)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<u>\$ 15,790,198</u>	<u>\$ 22,126,397</u>

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**VOLCON, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
**(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Revenue	\$ 940,863	\$ 519,300	\$ 1,974,411	\$ 1,689,758
Cost of goods sold	(3,113,429)	(334,647)	(4,735,009)	(1,564,628)
Gross margin	(2,172,566)	184,653	(2,760,598)	125,130
Operating expenses:				
Sales and marketing	543,671	2,380,617	1,304,235	4,169,987
Product development	805,550	1,166,732	1,620,495	2,953,083
General and administrative expenses	2,007,514	1,568,700	4,088,308	3,458,791
Total operating expenses	3,356,735	5,116,049	7,013,038	10,581,861
Loss from operations	(5,529,301)	(4,931,396)	(9,773,636)	(10,456,731)
Other income	8,589	10,618	21,443	16,503
Loss on extinguishment of Convertible Notes	-	(22,296,988)	(1,647,608)	(22,296,988)
Gain (loss) on change in fair value of financial liabilities	5,111,291	5,792,788	(14,727,696)	5,792,788
Interest expense	(196,997)	(1,603,216)	(526,965)	(3,383,235)
Total other income (expense)	4,922,883	(18,096,798)	(16,880,826)	(19,870,932)
Loss before provision for income taxes	(606,418)	(23,028,194)	(26,654,462)	(30,327,663)
Provision for income taxes	-	-	-	-
Net loss	\$ (606,418)	\$ (23,028,194)	\$ (26,654,462)	\$ (30,327,663)
Net loss per common share – basic	\$ (1.51)	\$ (19,110.53)	\$ (110.71)	\$ (26,417.82)
Net loss per common share – diluted	\$ (1.51)	\$ (19,110.53)	\$ (110.71)	\$ (26,417.82)
Weighted average common shares outstanding – basic	401,802	1,205	240,759	1,148
Weighted average common shares outstanding – diluted	401,802	1,205	240,759	1,148

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**VOLCON, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2024**  
(Unaudited)

	Series A Convertible Preferred Stock		Common stock		Additional paid-in capital	Accumulated deficit	Total
	Number of Shares	Amount	Number Shares	Amount			
<b>Balance at January 1, 2024</b>	–	\$ –	10,305	\$ –	\$ 101,175,117	\$ (120,806,138)	\$ (19,631,021)
Issuance of common stock for exercise of pre-funded warrants	–	–	739	–	–	–	–
Issuance of common stock for exercise of Series A warrants	–	–	138,593	–	17,352,653	–	17,352,653
Proceeds received for exercise of buydown warrants	–	–	78	–	3,500	–	3,500
Common stock issued for conversion of convertible notes	–	–	39,762	–	7,395,907	–	7,395,907
Conversion of Convertible Notes	24,698	–	–	–	24,716,118	–	24,716,118
Conversion of Preferred Stock for common stock	(18,323)	–	1,244,081	15	(15)	–	–
Issuance of common stock for exercise of Series B Warrants	–	–	117,605	1	–	–	1
Reclassification of warrant liability to equity	–	–	–	–	3,405,662	–	3,405,662
Proceeds received for Issuance of warrants with May 2024 Notes, net of issuance costs of \$111,194	–	–	–	–	1,023,200	–	1,023,200
Stock-based compensation	–	–	–	–	285,829	–	285,829
Common stock issued for reverse stock split due to rounding	–	–	91,522	–	–	–	–
Net loss	–	–	–	–	–	(26,654,462)	(26,654,462)
<b>Balance at June 30, 2024</b>	<u>6,375</u>	<u>\$ –</u>	<u>1,642,685</u>	<u>\$ 16</u>	<u>\$ 155,357,971</u>	<u>\$ (147,460,600)</u>	<u>\$ 7,897,387</u>

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**VOLCON, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2023**  
(Unaudited)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>			
<b>Balance at January 1, 2023</b>	1,086	\$ –	\$ 76,369,940	\$ (75,734,927)	\$ 635,013
Issuance of common stock for exercise of stock options and vesting of restricted stock units	2	–	25,000	–	25,000
Issuance of common stock for public offering, net of issuance costs of \$501,300	267	–	3,998,700	–	3,998,700
Stock-based compensation	6	–	1,682,827	–	1,682,827
Net loss	–	–	–	(30,327,663)	(30,327,663)
<b>Balance at June 30, 2023</b>	<u>1,361</u>	<u>\$ –</u>	<u>\$ 82,076,467</u>	<u>\$ (106,062,590)</u>	<u>\$ (23,986,123)</u>

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**VOLCON, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
(Unaudited)

	June 30, 2024	June 30, 2023
<b>Cash flow from operating activities:</b>		
Net loss	\$ (26,654,462)	\$ (30,327,663)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Loss on extinguishment of convertible notes	1,314,065	22,296,988
Loss (gain) on change in fair value of financial liabilities	14,893,051	(5,792,788)
Gain on exercise of Series B Warrants	(165,355)	–
Loss on conversion of notes to common stock	333,544	–
Stock-based compensation	285,829	1,682,827
Loss on write down of inventory and inventory deposits	57,262	165,324
Loss (gain) on sale/write off of property & equipment	618,738	(6,423)
Bad debt (recovery) expense	(16,378)	51,198
Non-cash interest expense	498,657	3,385,204
Amortization of right-of-use assets	194,910	181,677
Depreciation and amortization	197,237	106,625
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(82,162)	580,155
Inventory	(347,144)	786,821
Inventory deposits	(1,080,843)	(1,847,714)
Prepaid assets and other current assets	940,944	(954,117)
Accounts payable	131,205	(381,252)
Accrued liabilities and vendor settlements	1,124,505	(626,788)
Right-of-use liabilities - operating leases	(193,998)	(174,365)
Customer deposits	(247,708)	295,739
<b>Net cash used in operating activities</b>	<b>(8,198,103)</b>	<b>(10,578,552)</b>
<b>Cash flow from investing activities:</b>		
Purchase of property and equipment	(255,754)	(393,291)
Proceeds from sale of property and equipment	15,157	–
Proceeds from insurance settlement	58,058	–
Proceeds from sale of vehicles	–	89,000
<b>Net cash used in investing activities</b>	<b>(182,539)</b>	<b>(304,291)</b>
<b>Cash flow from financing activities:</b>		
Repayment of notes payable	(45,402)	(72,859)
Proceeds from issuance of May 2024 Notes and warrants, net of issuance costs of \$245,150	2,255,851	–
Proceeds from exercise of Series B Warrants	130,522	–
Proceeds from exercise of buy down warrants	3,500	–
Proceeds from issuance of common stock from public offering, net of issuance costs of \$501,300	–	3,998,700
Proceeds from issuance of convertible notes and warrants, net of issuance costs of \$586,968	–	3,913,032
Proceeds from exercise of stock options	–	25,000
<b>Net cash provided by financing activities</b>	<b>2,344,471</b>	<b>7,863,873</b>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>(6,036,171)</b>	<b>(3,018,970)</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD</b>	<b>8,193,346</b>	<b>11,537,842</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 2,157,175</b>	<b>\$ 8,518,872</b>

**SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>2024</u>	<u>2023</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 26,267	\$ 4,648
Cash paid for income taxes	\$ —	\$ —
Non-cash transactions		
Conversion of Convertible Notes for common stock	\$ 7,414,025	\$ —
Exchange of Convertible Notes for Preferred Stock	\$ 24,716,118	\$ —
Reclassification of warrant liability to equity for cashless exercise of Series A Warrants	\$ 17,352,653	\$ —
Reclassification of warrant liability to equity for modification of Series B Warrants	\$ 3,405,662	\$ —
Exchange of finished goods inventory with vendor for raw materials inventory	\$ 323,312	\$ —
Acquisition of property and equipment with note payable	\$ —	\$ 96,024

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**VOLCON, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 – ORGANIZATION, NATURE OF OPERATIONS AND GOING CONCERN**

*Organization and Nature of Operations*

Volcon, Inc. (“Volcon” or the “Company”) was formed on February 21, 2020, as a Delaware corporation, under the name Frog ePowersports, Inc. The Company was renamed Volcon, Inc. on October 1, 2020. Volcon designs and sells all-electric off-road powersport vehicles.

On January 5, 2021, the Company created Volcon ePowersports, LLC (“Volcon LLC”), a Colorado wholly-owned subsidiary of the Company, to sell Volcon vehicles and accessories in the United States. Volcon LLC is no longer used for selling vehicles and accessories.

*Going Concern*

The accompanying interim consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has recurring losses and has generated negative cash flows from operations since inception.

In February and March 2024, certain holders of the May 2023 Convertible Notes issued in May 2023 converted approximately \$7.4 million of principal to common stock. In March 2024, the holders exchanged the remaining May 2023 Convertible Notes of \$24.7 million for Series A Convertible Preferred Stock (“Preferred Stock”) with a \$1,000 per share value and an initial conversation price of \$133.00 per share for common stock (see Note 10). All covenants from the Convertible Notes were terminated upon this exchange.

As discussed further in Note 7 below, on May 22, 2024, the Company issued senior notes with an aggregate principal amount of \$2,942,170 due May 22, 2025 (the “May 2024 Notes”) for net proceeds of \$2,255,851. The holders of the May 2024 Notes also received fully vested warrants (the “May 2024 Note Warrants”) to purchase 101,463 shares of the Company’s common stock at an exercise price of \$29.00 per share. The May 2024 Note Warrants are exercisable beginning November 23, 2024 and expire November 23, 2029.

Management anticipates that our cash on hand as of June 30, 2024 plus the cash expected to be generated from operations will not be sufficient to fund planned operations beyond one year from the date of the issuance of the financial statements as of and for the three and six months ended June 30, 2024. There can be no assurance that additional funding, if needed, would be available to the Company on acceptable terms, or at all. These factors raise substantial doubt regarding our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

*Nasdaq Compliance*

On July 5, 2023, the Company received a notice from Nasdaq that it was not in compliance with Nasdaq’s Listing Rule 5550(b)(2), which requires that it maintain a market value of listed securities (“MVLS”) of \$35 million. MVLS is calculated by multiplying the Company’s shares outstanding by the closing price of its common stock. On December 19, 2023, the Company received a notice from Nasdaq that it was not in compliance with Nasdaq’s Listing Rule 5550(a)(2), as the minimum bid price of its common stock had been below \$1.00 per share for 30 consecutive business days.

On December 26, 2023, the Company was notified by Nasdaq that it is not in compliance with Nasdaq’s Listing Rule 5810(c)(3)(A)(iii) as the closing bid price of our common stock had been below \$0.10 for ten consecutive trading days from December 11, 2023 through December 22, 2023 and was subject to delisting on January 2, 2024. On January 4, 2024, the Company received notice from Nasdaq that it did not meet the MVLS requirement and it was subject to delisting. The Company submitted a hearing request to Nasdaq’s Hearings Department for both of these matters, which stayed the suspension of the Company’s common stock. The Company participated in a hearing with Nasdaq’s Hearings Department on March 26, 2024 and on April 2, 2024, they informed the Company that the Company has until June 24, 2024 to regain compliance with the above listing rules.

On June 11, 2024, the Company received a notice from the Nasdaq that the Company no longer met the minimum 500,000 publicly held shares requirement for Nasdaq and, as such, it no longer complied with Listing Rule 5550(a)(4). Furthermore, the notice indicated that this matter would serve as an additional basis for delisting the Company's securities from Nasdaq, that the Panel would consider this matter in their decision regarding the Company's continued listing on Nasdaq, and that the Company should present its views with respect to this additional deficiency to the Panel in writing no later than June 18, 2024. On June 18, 2024, the Company submitted a letter to Nasdaq notifying them that the Company was in compliance with Listing Rule 5550(a)(4) due to the issuance of additional shares of common stock from the conversion of Preferred Stock to common stock by certain Preferred Stockholders.

On July 17, 2024, Nasdaq informed the Company that it had regained compliance with the above listing rules but will continue to be monitored for ongoing compliance.

#### *Employment Matters*

On January 13, 2024, the Company's Chief Executive Officer ("CEO"), Jordan Davis, resigned his employment with the Company effective February 2, 2024. The Company entered into a 30-day consulting agreement with Mr. Davis and paid him \$12,500.

On January 30, 2024, John Kim, an independent board member of the Company signed an employment agreement with the Company to become the CEO effective February 3, 2024. Mr. Kim's salary is \$800,000 and he has an annual bonus of \$250,000. Mr. Kim will also receive 5% of the gross proceeds or other consideration if the Company completes a sale of substantially all of its assets or otherwise enters into a change of control transaction. Mr. Kim is also entitled to an equity award equal to 10% of the Company's fully diluted equity, subject to stockholder approval of an increase in the shares available under the 2021 Plan or a new equity plan.

On January 30, 2024, Greg Endo, the Company's Chief Financial Officer, signed a new employment agreement with the Company. Mr. Endo's salary will be increased to \$300,000 and he will have an annual bonus of up to 50% of his salary as determined by the compensation committee of the board of directors. Mr. Endo has agreed to a reduction in the salary to \$238,500 through the end of 2024. Mr. Endo will also receive 5% of the gross proceeds or other consideration if the Company completes a sale of substantially all of its assets or otherwise enters into a change of control transaction. Mr. Endo is also entitled to an equity award equal to 4% of the Company's fully diluted equity, subject to stockholder approval of an increase in the shares available under the 2021 Plan or a new equity plan.

On February 23, 2024, Katherine Hale resigned her position as Chief Marketing Officer. Ms. Hale was provided a severance amount of \$112,500 which was paid out over three monthly installments beginning in March 2024.

#### *Impact of Russia and Ukraine Conflict*

On February 24, 2022, Russia invaded Ukraine. The conflict between Russia and Ukraine could impact the availability of nickel, an element used in the production of lithium ion cells used in batteries that power our vehicles. The shortage of these cells could have an impact on our ability to produce vehicles to meet our customers' demands. In addition, sanctions against Russia could impact the price of elements, including nickel, that are used in the production of batteries which would result in higher costs to produce our vehicles. These sanctions have also impacted the U.S. and global economies and could result in an economic recession which could cause a broader disruption to the Company's supply chain and distribution network and customer demand for our products.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Interim Unaudited Financial Information**

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the Securities and Exchange Commission ("SEC") on March 28, 2024. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been omitted from this report on Form 10-Q pursuant to the rules and regulations of the SEC.

Results for the interim periods in this report are not necessarily indicative of future financial results and have not been audited by our independent registered public accounting firm. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly our interim consolidated financial statements as of June 30, 2024, and for the three and six months ended June 30, 2024 and 2023. These adjustments are of a normal recurring nature and consistent with the adjustments recorded to prepare the annual audited consolidated financial statements as of December 31, 2023.

#### **Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany accounts, transactions and balances have been eliminated in consolidation.

As discussed in Note 10, the Company completed a reverse 1 for 100 stock split on June 6, 2024, a reverse 1 for 45 stock split on February 2, 2024 and a reverse 1 for 5 stock split on October 13, 2023. All share and per share amounts have been adjusted to reflect the impact of these reverse stock splits.

#### **Use of Estimates**

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities as of the dates of the financial statements and the reported amounts of expenses during the reporting periods.

Making estimates requires management to exercise judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, actual results could differ significantly from those estimates.

#### **Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents include short-term investments with original maturities of 90 days or less at the date of purchase. The recorded value of our cash and cash equivalents approximates their fair value. There were no cash equivalents as of June 30, 2024 or December 31, 2023. Restricted cash includes cash restricted as collateral for the Company's corporate credit cards.

#### **Revenue Recognition**

For sales to dealers or distributors, revenue is recognized when transfer of control of the product is made as there is no acceptance period or right of return. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring control of vehicles, parts, and accessories. Beginning in February 2023 the Company began selling the Brat E-Bike and Volcon Youth motorcycles directly to consumers in addition to dealers. Revenue for direct to consumer sales is recognized when transfer of control of the product is made to the consumer.

Consideration that is received in advance of the transfer of goods is recorded as customer deposits until delivery has occurred or the customer cancels their order, and the consideration is returned to the customer. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. The Company's sales do not presently have a financing component.

*Sales promotions and incentives.* The Company provides for estimated sales promotions and incentives, which are recognized as a component of sales in measuring the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Examples of sales promotion and incentive programs include rebates, distributor fees, dealer co-op advertising and volume incentives. Sales promotions and incentives are estimated based on contractual requirements. The Company records these amounts as a liability in the balance sheet until they are ultimately paid. Adjustments to sales promotions and incentives accruals are made as actual usage becomes known to properly estimate the amounts necessary to generate consumer demand based on market conditions as of the balance sheet date.

*Shipping and handling charges and costs.* The Company records shipping and handling amounts charged to the customer and related shipping costs as a component of cost of goods sold when control has transferred to the customer.

## Product Warranties

The Company provides a one-year warranty on vehicles, and a two-year warranty on the battery pack. The Company accrues warranty reserves at the time revenue is recognized. Warranty reserves include the Company's best estimate of the projected cost to repair or to replace any items under warranty, based on actual warranty experience as it becomes available and other known factors that may impact the evaluation of historical data. The Company reviews its reserves quarterly to ensure that the accruals are adequate to meet expected future warranty obligations and will adjust estimates as needed. Factors that could have an impact on the warranty reserve include the following: changes in manufacturing quality, shifts in product mix, changes in warranty coverage periods, product recalls and changes in sales volume. Warranty expense is recorded as a component of cost of goods sold in the statement of operations and is recognized as a current liability.

## Inventory and Inventory Deposits

Inventories and prepaid inventory deposits are stated at the lower of cost (first-in, first-out method) or net realizable value.

Certain vendors require the Company to pay an upfront deposit before they manufacture and ship the Company's vehicles, parts or accessories. These payments are classified as prepaid inventory deposits on the balance sheet until title and risk of loss transfers to the Company, at which time they are classified as inventory.

Raw materials inventory costs include the cost of parts, including duties, tariffs and shipping. Work in process and finished goods include the cost of parts, labor and manufacturing overhead costs associated with the assembly of the vehicle. Finished goods also include accessories for the vehicle and branded merchandise such as hats and shirts.

Through August 2022 the Company assembled the Grunt motorcycle in a leased facility. The Company ceased assembly operations at the end of August and outsourced the assembly of the Grunt to a third party.

The Company transferred substantially all of its raw materials and work-in-process inventory for the Grunt to the third party manufacturer in the second quarter of 2023. Title to the inventory transferred to the third party manufacturer and it provides the Company with a credit towards future purchases of the Grunt EVO.

## Property and Equipment

Property and equipment are valued at cost. Additions are capitalized and maintenance and repairs are charged to expense as incurred. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated Useful Lives
Machinery, tooling and equipment	3-7 years
Vehicles	5 years
Internal use manufactured vehicles	1 year
Furniture & Fixtures	5 years
Computers	3 years

Leasehold improvements are depreciated over the shorter period of their estimated useful life or term of the lease.

## Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the historical carrying cost value of an asset may no longer be appropriate. The Company assesses recoverability of the asset by comparing the undiscounted future net cash flows expected to result from the asset to the carrying value. If the carrying value exceeds the undiscounted future net cash flows of the asset, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived asset.

## Leases

Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expenses for these leases on a straight-line basis over the lease term. The Company does not separate non-lease components from the lease components to which they relate, and instead accounts for each separate lease and non-lease component associated with that lease component as a single lease component.

ASC 842 defines initial direct costs as only the incremental costs of signing a lease. Initial direct costs related to leasing that are not incremental are expensed as general and administrative expenses in our statements of operations.

The Company’s operating lease agreements primarily consist of leased real estate and are included within ROU assets – operating leases and ROU lease liabilities – operating leases on the balance sheets. The Company’s lease agreements may include options to extend the lease, which are not included in minimum lease payments unless they are reasonably certain to be exercised at lease commencement. The Company’s leases do not provide an implicit rate, the Company uses its estimated incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

## Research and Development Expenses

The Company records research and development expenses in the period in which they are incurred as a component of product development expenses.

## Income Taxes

Deferred taxes are determined utilizing the “asset and liability” method, whereby deferred tax asset and liability account balances are determined based on the differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, when it’s more likely than not that deferred tax assets will not be realized in the foreseeable future. Deferred tax liabilities and assets are classified as current or non-current based on the underlying asset or liability or if not directly related to an asset or liability based on the expected reversal dates of the specific temporary differences.

## Fair Value of Financial Instruments

ASC Topic 820 *Fair Value Measurements and Disclosures* (“ASC Topic 820”) provides a framework for measuring fair value in accordance with generally accepted accounting principles.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

- Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 — Inputs that are unobservable for the asset or liability.

The following section describes the valuation methodologies that the Company used to measure different financial instruments at fair value.

## *Debt*

The fair value of the Company's debt, which approximated the carrying value of the Company's debt as of June 30, 2024 and December 31, 2023. Factors that the Company considered when estimating the fair value of its debt included market conditions, and term of the debt. The level of the debt would be considered as Level 2.

The Company relies on the guidance provided by ASC Topic 480, *Distinguishing Liabilities from Equity*, to classify certain convertible instruments. The Company first determines whether a financial instrument should be classified as a liability. The Company will determine the liability classification if the financial instrument is mandatorily redeemable, or if the financial instrument, other than outstanding shares, embodies a conditional obligation that the Company must or may settle by issuing a variable number of its equity shares.

The Company accounts for derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging* ("ASC Topic 815"), and all derivative instruments are reflected as either assets or liabilities at fair value on the consolidated balance sheets. The Company uses estimates of fair value to value its derivative instruments. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between able and willing market participants. In general, the Company's policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads, relying first on observable data from active markets. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable. The Company categorizes its fair value estimates in accordance with ASC Topic 820, based on the hierarchical framework associated with the three levels or price transparency utilized in measuring financial instruments at fair value as discussed above.

Once the Company determines that a financial instrument should not be classified as a liability, the Company determines whether the financial instrument should be presented between the liability section and the equity section of the balance sheet ("temporary equity"). The Company will determine temporary equity classification if the redemption of the financial instrument is outside the control of the Company (i.e. at the option of the holder). Otherwise, the Company accounts for the financial instrument as permanent equity.

### *Initial Measurement*

The Company records its financial instruments classified as a liability, temporary equity or permanent equity at issuance at the fair value, or cash received.

### *Subsequent Measurement - Financial instruments classified as liabilities*

The Company records the fair value of its financial instruments classified as liabilities at each subsequent measurement date. The changes in fair value of its financial instruments classified as liabilities are recorded as other expense/income. The Monte Carlo simulation is used to determine the fair value of derivatives for instruments with embedded conversion features and for free standing warrants as discussed further in Note 8.

### *Additional Disclosures Regarding Fair Value Measurements*

The carrying value of cash, accounts receivable, inventory, other assets, and accounts payable and accrued expenses approximate their fair value due to the short-term maturity of those items.

### *Warrant Liabilities and Convertible Liabilities*

The fair value of the derivative liabilities and warrant liabilities is classified as Level 3 within the Company's fair value hierarchy. Refer to Note 8, Derivative Instruments, for further discussion of the measurement of fair value of the derivatives and their underlying assumptions.

## Stock-Based Compensation

The Company has a stock-based incentive award plan for employees, consultants and directors. The Company measures stock-based compensation at the estimated fair value on the grant date and recognizes the amortization of stock-based compensation expense on a straight-line basis over the requisite service period, or when it is probable criteria will be achieved for performance-based awards. Fair value is determined based on assumptions related to the fair value of the Company common stock, stock volatility and risk-free rate of return. The Company has elected to recognize forfeitures when realized.

## Concentration Risk

The Company outsources certain portions of product design and development for its vehicles to third parties. In addition, the Company has outsourced the manufacturing of all of its vehicles to third party manufacturers, including one manufacturer for two of its vehicles, the Stag and Grunt EVO, and this third party is also performing product design and development services on the Stag.

One supplier provides the battery and drivetrain components for the Company's utility terrain vehicle, the Stag. The components are critical to the operation of the Stag. The Company also sources some of the other components from third party suppliers and the third party manufacturer sources other components from third party suppliers or fabricates them from materials sourced from third parties.

On January 8, 2024, the Company notified the manufacturer of the Volcon Youth motorcycles that it was terminating the co-branding and distribution agreement with them due to lower than anticipated sales of these units. In March 2024, the Company agreed to allow the manufacturer to keep all fully paid for units manufactured and held by the manufacturer, cease selling the Volcon Youth Motorcycles as of June 30, 2024, and pay cash of \$2,070,000 which includes a payment of \$370,000 in March 2024 and \$100,000 monthly for seventeen months starting April 2024. The settlement was recorded in the financial statements for the year ended December 31, 2023. The balance of the liability as of June 30, 2024, is \$1,400,000. As discussed below, the Company has written down this inventory to its estimated net realizable value.

In June 2024, the Company was notified by the manufacturer of a suspension component for the Stag that due to the Company's initial production forecast provided by the third party manufacturer of the Stag, the vendor had acquired raw materials to fulfill several months' worth, of this component needed for the forecast. Although the Company had provided updated forecasts to the third party manufacturer of the Stag, the revised forecasts were not provided timely to this vendor. The Company entered into an agreement to pay for the excess raw materials by making weekly payments in the amount of \$15,704 over an eighteen-month period once the Company can validate the inventory quantities and amounts paid by the vendor, which is expected to be completed by August 2024. The Company recorded a liability of \$633,936 and \$483,493 in vendor settlements current and long-term, respectively, as of June 30, 2024 and an expense of \$1,117,429 in costs of goods sold for the three and six months ended June 30, 2024.

## Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standard Board or other standard setting bodies that the Company adopts as of the specified effective date. The Company does not believe that the impact of recently issued standards that are not yet effective will have a material impact on the Company's financial position or results of operations upon adoption.

## NOTE 3 – INVENTORY

Inventory consists of the following:

	June 30, 2024	December 31, 2023
Raw materials	\$ 7,557,689	\$ 6,770,892
Finished goods	2,028,639	2,202,242
Total inventory	<u>\$ 9,586,328</u>	<u>\$ 8,973,134</u>

As of June 30, 2024, the Company has purchase commitments for future payments due for inventory of \$352,004.

#### NOTE 4 – LONG – LIVED ASSETS

##### *Property and Equipment*

Property and equipment consist of the following:

	June 30, 2024	December 31, 2023
Machinery, tooling and equipment	\$ 282,232	\$ 1,015,568
Vehicles	193,670	213,528
Internal use manufactured vehicles	195,559	22,906
Fixtures & furniture	90,768	90,768
Leasehold improvements	44,663	44,663
Computers	220,588	221,571
	<u>1,027,480</u>	<u>1,609,004</u>
Less: Accumulated depreciation	(402,314)	(350,397)
Total property and equipment	<u>\$ 625,166</u>	<u>\$ 1,258,607</u>

Depreciation expense for the three and six months ended June 30, 2024 was \$99,517 and \$197,237, respectively. Depreciation expense for the three and six months ended June 30, 2023 was \$53,330 and \$103,718, respectively.

#### NOTE 5 – NOTES PAYABLE

In March 2023, the Company entered into two financing arrangements to purchase two vehicles. The total principal of these arrangements is \$96,024 with interest rates of 11.44% and 8.63% and monthly payments totaling \$1,923 are due through February 2028 and \$908 per month until February 2029. The vehicles are collateral for these arrangements. In February 2024, one of the vehicles was involved in an accident and was totaled. The note payable associated with this vehicle was paid off with the proceeds received from the insurance carrier.

The following table provides the maturities of notes payable as of June 30, 2024:

Remainder of 2024	\$ 5,451
2025	10,898
2026	10,898
2027	10,898
2028	10,898
2029	1,816
Total future payments	<u>50,859</u>
Less: Interest	(11,849)
Total notes payable	<u>39,010</u>
Less current portion	(6,784)
Long-term notes payable	<u>\$ 32,226</u>

#### NOTE 6 - CONVERTIBLE NOTES

On August 24, 2022, the Company issued senior convertible notes (“Convertible Notes”) with an aggregate principal amount of \$27,173,913 due February 24, 2024. The holders of the Convertible Notes also received fully vested warrants (the “Note Warrants”) to purchase 403 shares of the Company’s common stock at an initial exercise price of \$64,125.00 per share. The conversion and warrant exercise prices were subject to adjustment if the Company declared a stock dividend, stock split or recapitalization. The Company incurred debt issuance costs of \$3,316,409 upon issuance of the Convertible Notes, which includes \$616,730 for the fair value of the warrants issued to the placement agent of the Convertible Notes as further described in Note 10. These debt issuance costs were amortized as additional interest expense through May 24, 2023 when the Convertible Notes were exchanged as discussed below.

The Company allocated the net proceeds received from the issuance of the Convertible Notes and Note Warrants based on the relative fair values of each resulting in net proceeds of \$15,122,345 being allocated to the Convertible Notes and net proceeds of \$6,561,247 being allocated to the Note Warrants which was recorded in equity. The Company recorded non-cash interest expense through May 24, 2023 to accrete the allocated value of the Convertible Notes using the effective interest method and an interest rate of 39.6%. Interest expense, including amortization of issuance costs, recorded for the Convertible Notes for the three and six months ended June 30, 2023 was \$1,136,997 and \$2,913,632, respectively, prior to the recognition of the unamortized discount and issuance costs upon issuance of the addition senior convertible notes noted below.

On May 24, 2023, the Company issued additional Senior Convertible Notes (“New Notes”) with an aggregate principal amount of \$4,934,783 due February 24, 2024 to the same investors of the Convertible Notes. The New Notes had an initial conversion price of \$57,150.00 per share of common stock, which was adjusted to \$16,875.00 upon stockholder approval received on August 3, 2023. The conversion price was also subject to further adjustment if the Company completed an equity or convertible note offering with a price below \$16,875.00, or completed a stock split, reverse stock split or recapitalization where the lowest day’s volume weighted average price (“VWAP”) of the Company’s stock price is below \$16,875.00 in the five days following the stock split, with a floor price of \$0.22 (subject to stockholder approval, which was obtained on August 3, 2023). The conversion price was also subject to further adjustment if the Company completed an equity or convertible note offering with a price below \$16,875.00. The New Notes were issued with an original issue discount of 8.8% and did not bear interest unless an event of default had occurred, upon which interest accrued at 10% per annum.

The holders of the New Notes also received fully vested warrants (the “New Warrants”) to purchase 242 shares of the Company’s common stock at an initial exercise price of \$24,525.00 per share. The New Warrants expire August 24, 2027.

The Company incurred debt issuance costs of \$586,968 upon issuance of the New Notes and New Warrants. The Company amortized these issuance costs as additional interest expense over the remaining term of the New Notes.

Concurrent with the issuance of the New Notes, the Company exchanged the Convertible Notes into two new notes, Series A Notes and Series B Notes both due February 24, 2024 (collectively the “Exchange Notes” and collectively with the New Notes the “May 2023 Notes”). The aggregate principal amount of Series A Notes was \$3,690,422 and these were convertible into the Company’s common stock at an initial conversion price of \$16,875.00 per share. The aggregate principal amount of the Series B Notes was \$23,483,491 and were convertible into the Company’s common stock at an initial conversion price of \$24,525.00 which was adjusted to \$16,875.00 upon stockholder approval received on August 3, 2023.

In September 2023, the holders of the May 2023 Notes agreed to modify the due date of these notes to January 31, 2025. The Company also executed a security interest to the holders for substantially all of the assets of the Company.

Events of default for the May 2023 Notes were defined in the note agreements and the Company was in compliance with all covenants until the May 2023 Notes were exchanged for Series A Convertible Preferred Stock (“Preferred Stock”) on March 4, 2024 as discussed below.

The fair value of the May 2023 Notes was estimated based on the future cash flows discounted at an interest rate of 14.9%. The May 2023 Notes were recorded at their initial fair values as follows:

	<b>Fair Value</b>	<b>Principal Amount</b>
New Notes	\$ 4,410,058	\$ 4,934,783
Series A Exchange Notes	3,298,012	3,690,422
Series B Exchange Notes	20,986,449	23,483,891
Total May 2023 Notes	<u>\$ 28,694,519</u>	<u>\$ 32,109,096</u>

The Company estimated the fair value of the conversion features of the New Notes, Exchange Notes, New Warrants and Exchange Warrants as of May 24, 2023, as discussed in Note 8 below.

The Company recognized interest expense of \$406,353 in the three and six months ended June 30, 2023 for the amortization of debt issuance costs and the accretion of the discount on the May 2023 Notes.

The Company also exchanged the 403 Note Warrants with an exercise price of \$64,125.00 per share issued with the Convertible Notes in August 2022 for 759 warrants which had an initial exercise price of \$24,525.00 per share (the “Exchange Warrants”) and was adjusted to \$16,875.00 per share upon stockholder approval received on August 3, 2023. The Exchange Warrants expire August 24, 2027.

The conversion prices of the Exchange Notes, and the exercise prices of the New Warrants and Exchange Warrants (collectively the “May 2023 Warrants”) were subject to further adjustment in the event that the Company issues additional common stock, stock options, warrants or convertible notes with prices below the exercise price in effect at the time of issuance, or completes a stock split, reverse stock split or recapitalization where the lowest day’s VWAP of the Company’s stock price is below the then exercise price in the five days following the stock split with a floor of \$0.22 per share.

The Company evaluated the issuance of the New Notes and Exchange Notes and related warrants and determined that the Convertible Notes were extinguished based on the conclusion that the terms of the New Notes and Exchange Notes are substantially different from the Convertible Notes in accordance with ASC 470, *Debt*. In addition, the Company recognized a loss on the extinguishment of the Convertible Notes based on the carrying value of the Convertible Notes at the transaction date, plus gross proceeds received from the issuance of New Notes and New Warrants, less the fair value of the i) New Notes and conversion option, ii) New Warrants, iii) Exchange Notes and conversion options, and iv) Exchange Warrants. The resulting loss on extinguishment of the Convertible Notes was \$22,296,988 (including unamortized issuance costs of \$1,330,296) which was recorded in the three and six-month periods ended June 30, 2023.

The May 2023 Notes contain certain conversion limitations, providing that no conversion may be made if, after giving effect to the conversion, the holder, together with any of its affiliates, would own in excess of 9.99% of the Company’s outstanding shares of common stock after giving effect to such conversion. The Company had the option to force conversion of the Series A and Series B Notes but the weighted average price of the Company’s common stock did not equal or exceed the amounts specified in the May 2023 Note agreements while these notes were outstanding.

In September 2023, the Company and the holders of the Exchange Warrants entered into a warrant inducement agreement whereby the Exchange Warrant holders agreed to exercise 69 Exchange Warrants at a reduced exercise price of \$7,875.00 per share. The Company issued the holders 70 warrants (“Reload Warrants”) with an initial exercise price of \$11,250.00 per share. The Reload Warrants are immediately exercisable for unregistered shares of the Company’s common stock and have the same terms as the May 2023 Warrants and expire August 24, 2027. The Company recognized equity issuance costs of \$216,855 for the issuance of the Reload Warrants.

The May 2023 Warrants and Reload Warrants contained certain conversion limitations, providing that a holder thereof may not exercise such warrants to the extent that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Company’s common stock immediately after giving effect to such exercise. The May 2023 Warrants and Reload Warrants provide the holders the right to exercise these warrants on a non-cash basis if the Company does not have an effective registration statement for the underlying shares of common stock.

Holders of the May 2023 Notes, the May 2023 Warrants and Reload Warrants do not have voting rights to the extent they have not converted their notes or exercised their warrants.

In September 2023, the Company completed a public offering and sold 63 shares of common stock at \$11,250.00 per share. The holders of the May 2023 Notes waived their right to reduce the conversion price to the equity issuance price and agreed to reduce the conversion price to \$12,375.00 per share. The exercise price of the May 2023 Warrants was reduced to \$11,250.00 per share as a result of the public offering.

On October 13, 2023, the Company completed a 1 for 5 reverse stock split and the lowest day’s VWAP in the five days following the reverse split was \$6,160.50 per share and the conversion price of the May 2023 Notes, and the exercise price of the May 2023 Warrants were reduced to \$6,160.50 per share effective October 20, 2023. On February 2, 2024, the Company completed a reverse 1 for 45 stock split. As a result, the conversion price of the May 2023 Notes and exercise price of the May 2023 Warrants were subject to adjustment to the lowest day’s VWAP in the five-day period following the reverse split, which was \$186.46 per share effective February 12, 2024.

During the three months ended March 31, 2024, \$7,414,025 of principal of the May 2023 Notes were converted into 39,763 shares of common stock. The Company recognized a loss of \$333,544 on the conversion including the write off of \$55,490 of unamortized debt issuance costs. The remaining principal of the May 2023 Notes of \$24,716,118 was exchanged for 24,698 shares of Series A convertible Preferred Stock with a stated value of \$1,000 and an initial conversion price of \$1.33. The Company recognized a loss on the exchange of the Convertible Notes for Preferred Stock of \$1,314,065, which includes unamortized issuance costs of \$182,009, in the six months ended June 30, 2024.

As a result of the exchange for Preferred Stock, the May 2023 Notes are no longer outstanding, there are no remaining covenants related to the May 2023 Notes that the Company must comply with and the security interest on the assets of the Company has been released by the noteholders. The May 2023 Warrants exercise price was reduced to \$133.00 as a result of this exchange. See further discussion in Note 10.

#### NOTE 7 - MAY 2024 SENIOR NOTES

On May 22, 2024, the Company issued senior notes with an aggregate principal amount of \$2,942,170 due May 22, 2025 (the “May 2024 Notes”) for proceeds before expenses of \$2,501,001 (issuance costs were \$245,150). The notes were issued with an original issue discount of 15% and do not bear interest unless an event of default occurs, upon which interest will accrue at 10% per annum. Pursuant to the terms of the May 2024 Notes, if the Company completes an equity or debt offering while any principal of the May 2024 Notes is outstanding, thirty percent of the proceeds from such offering are required to be used to repay the outstanding principal of the May 2024 Notes until they are fully repaid. The holders of the May 2024 Notes also received fully vested warrants (the “May 2024 Note Warrants”) to purchase 101,463 shares of the Company’s common stock at an exercise price of \$29.00 per share. The May 2024 Note Warrants are exercisable beginning November 23, 2024 and expire November 23, 2029. The number of warrants and the exercise price are subject to adjustment if the Company declares a stock dividend, stock split or recapitalization.

The Company allocated the net proceeds received from the issuance of the May 2024 Notes and May 2024 Note Warrants based on the relative fair values of each resulting in net proceeds of \$1,232,651 being allocated to the May 2024 Notes recorded as a current liability in the balance sheet and net proceeds of \$1,023,200 being allocated to the May 2024 Note Warrants which was recorded in equity.

Principal amount	\$	2,942,170
Unamortized discount and issuance costs		(1,525,700)
Net carrying amount	\$	<u>1,416,470</u>

During the three and six months ended June 30, 2024, the Company recorded non-cash interest expense of \$183,819 to accrete the allocated value of the May 2024 Notes, which includes the amortization of debt issuance costs. As discussed further in Note 15, the May 2024 Notes were fully repaid on July 12, 2024.

#### NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS AND WARRANT LIABILITIES

##### *May 2023 Notes and May 2023 Warrants*

As discussed in Note 6, the Company recognized a loss on the extinguishment of the Convertible Notes based on the fair values of the May 2023 Notes including the conversion feature, and the May 2023 Warrants. The Company determined that there was a derivative liability associated with the conversion features in the May 2023 Notes due to the conversion price being subject to stockholder approval in the conversion feature. Therefore, the Company separated the conversion features from the May 2023 Notes and recorded them at fair value and continued to adjust them to fair value until stockholder approval was received on August 3, 2023 as the conversion price is then only adjusted based on anti-dilutive provisions. The Company also determined that the May 2023 Warrants were derivative liabilities due to the potential adjustment in the exercise prices being subject to stockholder approval. Once stockholder approval was received on August 3, 2023, the exercise price of the warrants only adjusts based on anti-dilutive provisions and they are no longer derivative liabilities

The fair value of the conversion features and warrant liabilities were calculated using a Monte Carlo simulation and the following assumptions and methodologies:

	<u>May 24, 2023</u>	<u>August 3, 2023</u>
<b>Conversion Feature Liabilities</b>		
Company stock price on valuation date	\$ 15,750.00	\$ 12,397.50
Volatility (closing prices of guideline comparable public companies)	86.3%	84.1%
Conversion price per share	\$ 16,875.00	\$ 16,875.00
Note term (years)	0.76	0.56
Risk free interest rate	5.1%	5.4%
<b>Warrant Liabilities</b>		
Company stock price on valuation date	\$ 15,750.00	\$ 12,397.50
Volatility (closing prices of guideline comparable public companies)	119.2%	115.0%
Conversion price per share	\$ 16,875.00	\$ 16,875.00
Warrant term (years)	4.25	4.06
Risk free interest rate	3.8%	4.3%

In addition to the above factors, the Company also used a probability assessment for the initial and August 3, 2023 valuation to evaluate whether stockholder approval would be received to lower the conversion and exercise prices. The Company utilized a 50/50 assessment that stockholders would or would not approve the lower conversion and exercise price. Management notes that at the time of the assessment, the stockholder vote had not yet started therefore there was no data to determine whether one scenario was more likely than another. Since the stockholders approved the lower conversion and exercise price on August 3, 2023, no probability assessment was used.

Based on the above factors, the estimated fair value of the Company's derivative liabilities carried at fair value at May 24, 2023 and August 3, 2023 as follows:

	<u>May 24, 2023</u>	<u>August 3, 2023</u>
Conversion Feature - New Notes	\$ 663,096	\$ 557,168
Conversion Feature - Series A Exchange Notes	970,805	416,672
Conversion Feature - Series B Exchange Notes	4,324,792	2,651,436
New Warrants	3,123,682	2,445,244
Exchange Warrants	9,287,474	7,191,535
Total	<u>\$ 18,369,849</u>	<u>\$ 13,262,055</u>

The Company recognized a gain of \$5,792,788 for the change in the fair values of the conversion features of the May 2023 Notes and the New Warrants and Exchange Warrants from the period from May 24, 2023 to June 30, 2023.

On August 3, 2023, stockholders approved the adjustment of the conversion price of the New Notes and Exchange Notes and the exercise price of the New Warrants and Exchange Warrants. The conversion and exercise prices can adjust to a floor of \$0.22 per share based on certain events defined in the agreements related to these instruments. The Company concluded that as of August 3, 2023, the conversion feature of the May 2023 Notes and the May 2023 Warrants are no longer derivative liabilities and reclassified them to equity on August 3, 2023. The Company recognized a gain of \$5,107,794 for the change in the fair values of the conversion features of the May 2023 Notes for the year ended December 31, 2023, inclusive of the gain recognized as of June 30, 2023.

#### ***Series A and Series B Warrants***

As discussed in Note 10 below, the Company issued Series A and Series B Warrants (the "November 2023 Warrants") in connection with the sale of common units and pre-funded warrant units. Under the terms of the November 2023 Warrants, the number and exercise price are subject to adjustment if the Company completes certain transactions specified in these warrant agreements. In addition, the Series A Warrants have a cashless exercise provision, if approved by stockholders, that would allow holders to cashless exercise one warrant for three shares of the Company's common stock. Such adjustments were subject to stockholder approval (which was received on January 12, 2024) and are further described in Note 10.

The Company has determined that these warrants should be classified as liabilities and has used a Monte Carlo simulation to estimate the fair value. The following assumptions were used in the valuations:

	<u>December 31, 2023</u>
Company stock price on valuation date	\$ 4.46
Volatility	141.4%
Risk free interest rate	3.78%
Dividend yield	0.00%
Warrant term (years)	4.9
Time to future transaction (years)	0.63
Future transaction probability	75%

In addition to the above factors, the Company also used a probability assessment for the initial and December 31, 2023 valuation to evaluate whether stockholder approval would be received on January 12, 2024 to lower the conversion and exercise prices. Management notes that at the time of the assessment, the stockholder vote had not yet started but there was a requirement in the offering that the board of directors, management, and a significant stockholder vote in favor of these adjustments which included approximately 20.1% of the shares outstanding as of the transaction date. Further, significant investors in the transaction held shares acquired prior to the record date for eligible stockholders to vote. Although these same investors could not vote the shares received in the November 17, 2023 offering, they could abstain from voting those shares for the stockholder vote and such shares would count towards whether a quorum of shares was received to hold the special meeting for the stockholder approval. Finally, management notes that approval was overwhelmingly positive to adjust the conversion price for the May 2023 Notes and May 2023 Warrants and exercise prices. The Company concluded that it was 100% likely that stockholders would approve the provisions to adjust the number of warrants and exercise price.

Based on the above factors, the estimated fair value of the Series A and Series B Warrant liabilities at December 31, 2023 is as follows:

	<b>December 31, 2023</b>
Series A Warrant	\$ 0.2970
Series B Warrant	\$ 0.0799

The Company allocated the gross proceeds from the issuance of the common units and pre-funded warrant units based on the relative fair values from the November 17, 2023 valuation resulting in a value of \$10,990,530 and \$3,345,961 being allocated to the Series A and Series B warrants, respectively. An allocation of the issuance costs from the offering was made based on the relative fair values of the common stock, pre-funded warrants, Series A and Series B warrants and issuance costs of \$1,451,249 that were allocated to the Series A and Series B Warrants were expensed in the fourth quarter of 2023.

Subsequent to the approval by stockholders of the cashless exercise provision of the Series A Warrant, the fair value of each Series A Warrant is the value of three shares of the Company's common stock. Based on the closing price of the Company's common stock on June 28, 2024 of \$4.28, the fair value of each Series A Warrant is \$12.84 and based on the total number of warrants outstanding of 5,527, the warrant liability for Series A Warrants is \$70,970 at June 30, 2024

As discussed in Note 10 below, on May 17, 2024, certain terms of the Series B Warrants were amended, including a cashless exercise provision, which resulted in the Series B warrants no longer being liabilities. The fair value of each Series B warrant is the value of the closing stock price of the Company times 0.81, the cashless exercise exchange ratio. Based on the closing price of the Company's common stock on May 17, 2024 of \$28.90, the fair value of each Series B Warrant is \$23.41. A gain of \$5,096,488 and a loss of \$2,174,673 was recognized in the three and six months ended June 30, 2024, respectively, for the change in fair value of the Series B Warrants. The fair value of the Series B Warrants of \$ 3,405,662 as of May 17, 2024 was reclassified to equity.

As discussed in Note 10, certain holders of the Series A and Series B Warrants exercised their warrants. The Company reclassified the fair value of the Series A Warrants exercised on a cashless basis to stockholders equity. The Company recognized a gain of \$165,355 from the exercise of the Series B Warrants based on the proceeds received from the exercise and the estimated fair value of the Series B Warrants on the date of exercise.

The following represents the activity associated with the Series A and Series B Warrants for the six months ended June 30, 2024:

	<b>Series A</b>	<b>Series B</b>	<b>Total</b>
Fair value on December 31, 2023	\$ 4,705,245	\$ 1,265,822	\$ 5,971,067
Loss on changes in fair value	12,718,378	2,174,673	14,893,051
Exercise of warrants	(17,352,653)	(34,833)	(17,387,486)
Reclassification to equity	-	(3,405,662)	(3,405,662)
Balance at June 30, 2024	<u>\$ 70,970</u>	<u>\$ -</u>	<u>\$ 70,970</u>

## NOTE 9 – RELATED PARTY TRANSACTIONS

During 2022, the Company issued purchase orders and made prepayments for prototype parts of \$21,860 to a vendor that Pink Possum, LLC (“Pink Possum”), an entity controlled by Mr. Okonsky, one of the Company’s founders, Chairman of the Board and former Chief Technology Officer, holds an equity interest of 25% as of June 30, 2024. This vendor is not expected to provide additional prototype or production parts for the Stag.

In November 2020 and February 2021, the Company entered into an operating lease with an entity controlled by the Company’s two founders for its future headquarters and production facility in Liberty Hill, Texas. In October 2021, the Company began discussions for an additional amendment to the lease, in anticipation of manufacturing the Stag at this location, which would have resulted in the monthly payment of \$100,000 for the first year of the lease and increasing annually throughout the term of the lease to \$107,000 in the final year. Monthly payments for the initial lease and the amended agreement would have begun at the time a certificate of occupancy was received by the landlord. No monthly rent payments were made on these leases.

On April 27, 2022, the Company informed the landlord that it would be terminating the lease. On May 27, 2022, the landlord notified the Company that the landlord would refund \$85,756 of the prepaid rent and security deposit balance of \$601,818 paid by the Company and the Company recognized a loss on the unrefunded prepaid rent and security deposit amount in 2022. In October 2023, the landlord notified the Company that there were additional costs that exceeded the amount of the refund, and the landlord released the Company from paying any amounts in excess of the original expected refund. The landlord also released the Company from any remaining obligations under the lease and amendments. The Company recognized a loss on the termination of this lease of \$85,756 in the year ended December 31, 2023.

On August 28, 2020, the Company entered into consulting agreements with Pink Possum, LLC (“Pink Possum”) an entity controlled by Mr. Okonsky, and Highbridge Consultants, LLC (“Highbridge”), an entity controlled by Mr. Adrian James, a co-founder of the Company, pursuant to which Messrs. Okonsky and James provide the Company with services in exchange for warrants. On March 26, 2021 and March 25, 2021, respectively, Pink Possum and Highbridge entered into amendments to the consulting agreements agreeing to exchange the original warrants for new ten-year warrants to purchase 212 and 278 shares, respectively, of common stock at an exercise price of \$22,050.00. The Highbridge warrants were fully exercised on a cashless basis in 2021 and the Pink Possum warrants remain outstanding as of June 30, 2024.

In addition, pursuant to the consulting agreements, upon the occurrence of a Fundamental Transaction (as defined below) for an aggregate gross sales price of \$100.0 million or more, each entity will receive a cash payment equal to 1% of such gross sales price. For the purposes of the consulting agreements, “Fundamental Transaction” means any of the following: (i) a consolidation or merger involving the Company if the holders of the voting securities of the Company that are outstanding immediately prior to the consummation of such consolidation or merger do not, immediately after the consummation of such consolidation or merger, hold voting securities that collectively possess at least a majority of the voting power of all the outstanding securities of the surviving entity of such consolidation or merger or such surviving entity’s parent entity; (ii) a transfer or issuance (in a single transaction or series of related transactions) by one or more of the Company and its stockholders to one person or to any group of persons acting in concert, of shares of the Company’s capital stock then collectively possessing 50% or more of the voting power of all then outstanding shares of the Company’s capital stock (computed on an as-converted to common stock basis); or (iii) any sale, license, lease, assignment or other disposition of all or substantially all of the assets of the Company. Furthermore, commencing upon the completion of the Company’s initial public offering of the shares of our common stock, if the Company’s market capitalization exceeds \$300.0 million for a period of 21 consecutive trading days, each of the entities will receive an additional cash payment equal to \$15.0 million; provided that the Company will have the right, in its sole discretion, to make the foregoing \$15.0 million payment by the issuance of shares of the Company’s common stock. The foregoing amounts will be payable to the entities if the above milestones occur any time prior to the ten-year anniversary of the original consulting agreements, or August 28, 2030.

In December 2022, the Company entered into an employment agreement with Mr. Okonsky whereby Mr. Okonsky became an employee on January 2, 2023 with an annual salary of \$170,000 and healthcare and other benefits that are also provided to all Company employees. The consulting agreement with Pink Possum was terminated upon execution of the employment agreement. However, the warrants to Pink Possum, and the provisions for a Fundamental Transaction and the market capitalization thresholds and related payments owed to Pink Possum if these were to occur remain in effect subsequent to the employment agreement. Mr. Okonsky informed the Company on January 27, 2024 that he would resign his employment and forfeit his salary and benefits effective February 1, 2024.

In March 2024, the Company entered into a consulting agreement with Mr. Okonsky and he is entitled to a monthly fee of \$5,000 and payment of 1% of the gross proceeds from any merger, sale or change of control transaction (as determined by the board of directors) entered by the Company for a period of up to 6 months following the termination of the consulting agreement. The consulting agreement has a 24 month term and is cancelable by either party with 30 days notice. This consulting agreement terminates any remaining provisions of the Pink Possum agreement noted above other than the warrants remain outstanding.

#### **NOTE 10 – STOCKHOLDERS' EQUITY**

On June 14, 2023, the Company's stockholders approved an increase in the Company's authorized shares of common stock from 100,000,000 to 250,000,000. In addition, the Company is authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.00001. The specific rights of the preferred stock, when so designated, shall be determined by the board of directors.

On October 13, 2023, the Company completed a reverse 1 for 5 stock split. On February 2, 2024, the Company completed a reverse 1 for 45 stock split. On June 6, 2024, the Company completed a reverse 1 for 100 stock split. Any fractional shares as a result of the reverse stock splits were rounded up to one full share of common stock.

##### ***Common Stock***

On May 24, 2023, the Company sold 267 shares of its common stock in a public offering at \$16,875.00 per share. The Company received net proceeds of \$3,998,685 after underwriter commissions and expenses of \$501,300.

On September 18, 2023, the Company sold 63 shares of its common stock in a public offering at \$11,250.00 per share. The Company received net proceeds of \$571,400 after underwriter commissions and expenses of \$128,600. The underwriter was also issued a warrant to purchase 13 shares of the Company's common stock at an exercise price of \$14,062.50 per share that expires 5.5 years from the date of issuance. The underwriter agreement provided the underwriter with a right of first refusal for any additional securities third parties offerings within twelve months of this offering.

As discussed in Note 6 above, on May 24, 2023 the Company issued the May 2023 Notes and May 2023 Warrants, along with the warrants to the placement agent in August 2022 with the issuance of the Convertible Notes. The Company received consent from the underwriter to issue such securities. In addition, the Company was required to reserve 4,806 shares of common stock for future issuance of shares for the conversion of the May 2023 Notes and exercise of the May 2023 Warrants and 27 shares for the exercise of the placement agent warrants.

##### ***Series A Convertible Preferred Stock***

On March 4, 2024, the Company designated 25,000 shares of preferred stock as Series A Convertible Preferred Stock with a par value of \$0.00001 per share and exchanged the remaining May 2023 Notes (principal of \$24,694,670) for Preferred Stock. For each \$1,000 of May 2023 Note principal, one share of Preferred Stock was issued with a stated value of \$1,000, and any principal held by an investor below \$1,000 was granted one additional share of Preferred Stock. A total of 24,698 shares were issued in connection with the exchange. The Preferred Stock is initially convertible into share of the Company's common stock at \$133.00 per share. Conversion of Preferred Stock to common stock of the Company by the holders of the Preferred Stock is limited based on ownership restrictions of either 4.99% or 9.99%. The conversion price is subject to adjustment for anti-dilution provisions with an initial floor of \$98.00 per share, subject to adjustment to \$50.00 per share if stockholder approval is received. The stockholders approved this adjustment at the 2024 annual meeting held on May 28, 2024.

The Preferred Stock conversion price per share is subject to adjustment in the event of a stock split based on the lowest 5-day daily VWAP in the five days subsequent to the completion of a stock split. As a result of the reverse stock split completed on June 6, 2024, the conversion price of the Preferred Stock was adjusted to \$6.4486.

Through June 30, 2024, holders of Preferred Stock converted \$18,323,008 in stated value (18,323 preferred shares) for 1,244,081 shares of common stock. Subsequent to June 30, 2024, all of the remaining Preferred Stock was converted to common stock resulting in 988,069 shares of common stock being issued.

### *November 2023 Common Units and Pre-Funded Warrant Units*

On November 17, 2023, the Company sold (i) 740 common units (“Common Units”), each consisting of one share of the Company’s common stock, a Series A warrant to purchase one share of common stock at an initial exercise price of \$2,475.00 per share or pursuant to an alternative cashless exercise option (described below), which warrant will expire on the five-year anniversary of the original issuance date (the “Series A Warrants”) and a Series B warrant to purchase one share of common stock at an initial exercise price of \$3,780.00 per share, which warrant will expire on the five-year anniversary of the original issuance date (the “Series B Warrants” and together with the Series A Warrants, the “Warrants”); and (ii) 8,785 pre-funded units (the “Pre-funded Units” and together with the Common Units, the “Units”), each consisting of one pre-funded warrant to purchase one share of common stock (the “Pre-funded Warrants”), a Series A Warrant and a Series B Warrant. The purchase price of each Common Unit was \$1,890.00, and the purchase price of each Pre-Funded Unit was \$1,889.96. The Pre-Funded Warrants were immediately exercisable and may be exercised at any time until all of the Pre-Funded Warrants are exercised in full. As of December 31, 2023, 8,047 of the Pre-Funded Warrants were exercised and the remaining Pre-Funded Warrants were exercised by January 9, 2024.

In addition, the Company granted the underwriter a 45-day option to purchase additional 1,429 shares of common stock and/or Pre-Funded Warrants, representing up to 15% of the number of common stock and Pre-Funded Warrants sold in the Public Offering, and/or additional 188 Series A Warrants representing up to 15% of the Series A Warrants sold in the Public Offering, and/or additional 188 Series B Warrants representing up to 15% of the Series B Warrants sold in the Public Offering solely to cover over-allotments, if any. The underwriter partially exercised its over-allotment option with respect to 188 Series A Warrants and Series B Warrants. A total of 3,522 each of Series A and B Warrants were issued in the transaction. The net proceeds were approximately \$16.2 million (gross proceeds of \$18.0 million less fees and expenses of \$1.8 million). The gross proceeds and transaction cost were allocated to each of the instruments issued in the offering at their estimated relative fair values. Transaction costs totaling \$1,444,547 related to the Series A and Series B Warrants were expensed since these warrants were determined to be liabilities and recorded at their estimated fair values (see Note 8).

### **Series A Warrants**

Each Series A Warrant has an initial exercise price per share equal to \$2,475.00, was immediately exercisable upon issuance, and will expire on the five-year anniversary of the original issuance date, or November 17, 2028.

### *Share Combination Event Adjustments*

Conditioned upon the receipt of the Warrant Stockholder Approval at a required special meeting of stockholders (“Special Meeting”), if at any time on or after the date of issuance there occurs any share split, share dividend, share combination, recapitalization or other similar transaction involving the Company’s common stock (collectively a “Share Event”) and the lowest daily VWAP during the five consecutive trading days prior to the date of such event and the five consecutive trading days after the date of such event is less than the exercise price then in effect, then the exercise price of the Series A Warrant shall be reduced to the lowest daily VWAP during such period and the number of warrant shares issuable shall be increased such that the aggregate exercise price payable thereunder, after taking into account the decrease in the exercise price, shall be equal to the aggregate exercise price on the date of issuance. Approval of this adjustment by the stockholders was made on January 12, 2024.

### *Cashless Exercise*

If at the time a holder exercises its Series A Warrants, a registration statement registering the issuance of the shares of common stock underlying the Series A Warrants under the Securities Act is not then effective or available and an exemption from registration under the Securities Act is not available for the issuance of such shares, then in lieu of making the cash payment otherwise contemplated to be made to us upon such exercise in payment of the aggregate exercise price, the holder may elect instead to receive upon such exercise (either in whole or in part) the net number of shares of common stock determined according to a formula set forth in the Series A Warrants.

Conditioned upon the receipt of the Warrant Stockholder Approval at a required Special Meeting, a holder of Series A Warrants may also provide notice and elect an “alternative cashless exercise” pursuant to which they would receive an aggregate number of shares equal to the product of (x) the aggregate number of shares of common stock that would be issuable upon a cash exercise of the Series A Warrant and (y) 3.0. Approval of this adjustment by the stockholders was made on January 12, 2024.

As discussed above, the Company completed a 1 for 45 reverse stock split on February 2, 2024. Prior to this reverse split, 18,941 Series A Warrants were exercised under the alternative cashless exercise provision in the period from January 1, 2024 to February 2, 2024. As a result of the 1 for 45 reverse stock split, the total number of Series A Warrants and exercise price for the remaining warrants was adjusted per the provisions of a Share Event and the total number of Series A Warrants became 3,979,955 and the exercise price became \$1.8646. A total of 3,937,910 of the Series A Warrants were exercised under the alternative cashless exercise provision subsequent to this reverse stock split and 42,045 remained outstanding prior to the June 6, 2024 reverse stock split.

The Company completed a 1 for 100 reverse stock split on June 6, 2024. As a result of this reverse stock split, the total number of Series A Warrants and exercise price for the remaining warrants was adjusted per the provisions of a Share Event and the total number of Series A Warrants became 12,156 and the exercise price became \$6.4486.

As of June 30, 2024, 5,527 Series A Warrants remain outstanding.

### **Series B Warrants**

Each Series B Warrant offered has an initial exercise price per share equal to \$3,780.00, was immediately exercisable upon issuance, and will expire on the five-year anniversary of the original issuance date, or November 17, 2028.

#### *Anti-Dilution Provisions*

Subject to certain exemptions outlined in the Series B Warrant, for the life of the warrant, if the Company sells, enters into an agreement to sell, or grants any option to purchase, or sells, enters into an agreement to sell, or grants any right to reprice, or otherwise disposes of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any common stock or convertible security, at an effective price per share less than the exercise price of the Series B Warrant then in effect (a "Dilutive Issuance"), the exercise price of the Series B Warrant will be reduced to an amount equal to the lowest daily VWAP during the period commencing five consecutive trading days following the Dilutive Issuance, subject to a floor price of \$13.00; provided that upon the receipt of the Warrant Stockholder Approval at a required Special Meeting (approved on January 12, 2024), the floor price will be removed and, upon a Dilutive Issuance, the number of shares issuable upon exercise of the Series B Warrant shall be proportionally adjusted so that the aggregate exercise price of the Series B Warrant shall remain unchanged.

In addition, conditioned upon the receipt of the Warrant Stockholder Approval at the Special Meeting (approved on January 12, 2024), for the life of the Series B Warrant, the Company may voluntarily reduce the exercise price of the Series B Warrant. The Company refers to this price adjustment feature as the "Voluntary Adjustment Provision".

#### *Share Combination Event Adjustments*

Conditioned upon the receipt of the Warrant Stockholder Approval (approved on January 12, 2024), if at any time on or after the date of issuance there occurs any share split, share dividend, share combination, recapitalization or other similar transaction involving the Company's common stock (collectively a "Share Event") and the lowest daily VWAP during the five consecutive trading days prior to the date of such event and the five consecutive trading days after the date of such event is less than the exercise price then in effect, then the exercise price of the Series B Warrant shall be reduced to the lowest daily VWAP during such period and the number of warrant shares issuable shall be increased such that the aggregate exercise price payable thereunder, after taking into account the decrease in the exercise price, shall be equal to the aggregate exercise price on the date of issuance.

As a result of the reverse 1 for 45 stock split completed on February 2, 2024, the total number of Series B Warrants and exercise price for the remaining warrants was adjusted per the provisions of a Share Event and the total number of Series B Warrants became 71,371 and the exercise price became \$186.46. A total of 700 of the Series B Warrants were exercised for proceeds of \$130,522 and 70,671 remained outstanding as of March 4, 2024, when the Company exchanged the May 2023 Notes for Series A Convertible Preferred Stock with a conversion price of \$133.00 per share, as discussed above. As a result of this exchange, the Series B Warrant amounts and exercise price were further adjusted based on the Anti-Dilution Provisions and the new number of Series B Warrants is 145,461 and the exercise price is \$90.59.

On May 17, 2024, the Company entered into separate warrant amendment agreements (collectively, the “Warrant Amendment”) with the holders of a majority-in-interest of the holders of the Company’s Series B warrants issued November 2023. Pursuant to the Warrant Amendment, all outstanding Series B Warrants were amended to delete the following sections: (i) a provision providing for the adjustment of the exercise price and number of shares issuable pursuant to the Series B Warrants if the Company completed a future offering at a price per share less the exercise price of the Series B Warrants then in effect; and (ii) a provision providing for the adjustment of the exercise price and number of shares issuable pursuant to the Series B Warrants if price of the Company’s common stock after the completion of a share split, share dividend, share combination, recapitalization or other similar transaction is less the exercise price of the Series B Warrants then in effect. In addition, the Warrant Amendment provides that the holders may also exercise the Series B Warrants on a cashless basis and receive an aggregate number of shares equal the product of the aggregate number of shares of common stock that would be issuable upon exercise of the Series B Warrants by means of a cashless exercise rather than a cash exercise, multiplied by 0.81.

On May 17, 2024, after giving effect to the Warrant Amendment, the Company and certain holders of Series B Warrants to purchase an aggregate of 137,770 shares of common stock (the “Holders”) entered into separate exchange agreements (the “Agreements”) pursuant to which the Company agreed to exchange the Series B Warrants held by the Holders for shares of Company common stock (or, at the option of the Holder, pre-funded warrants) at a ratio of 0.81 shares of Company common stock (or, at the option of the Holder, pre-funded warrants) for each whole Series B Warrant. A total of 73,421 pre-funded warrants with an exercise price of \$0.001 and 38,179 shares of common stock were issued to the Holders.

As of June 30, 2024, 1,079 Series B Warrants remain outstanding and all of the pre-funded warrants have been fully exercised.

#### **Other Warrants**

As discussed in Note 6, the Company issued the Note Warrants, which were fully vested, to purchase 403 shares of the Company’s common stock at an initial exercise price of \$64,125.00. The Note Warrants expire August 24, 2027. Also, the Company issued to the placement agent of the Convertible Notes, fully vested warrants to purchase 27 shares of the Company’s common stock at an exercise price of \$80,156.25. The warrants were not exercisable until February 24, 2023 and expire on February 24, 2028. The Company valued all of these warrants using the closing price of the Company’s common stock on August 24, 2022 of \$54,900.00, volatility of 79.81% based on peer companies, risk free interest rate of 3.03%, no dividends and an estimated life of 2.5 years.

In May 2023, all of the Note Warrants to purchase 403 shares of the Company’s common stock were exchanged for Exchange Warrants to purchase 759 shares of the Company’s common stock with an initial exercise price of \$24,525.00 per share (which was adjusted to \$16,875.00 per share upon stockholder approval which was received on August 3, 2023). The Exchange Warrants expire August 24, 2027. Also in May 2023, in connection with the issuance of the New Notes, the Company also issued New Warrants (together with the Exchange Warrants the “May 2023 Warrants”) to purchase 242 shares of common stock at an initial exercise price of \$24,525.00 (which was adjusted to \$16,875.00 per share upon stockholder approval which was received on August 3, 2023). The exercise price of the May 2023 Warrants were further adjusted due to the reverse 1 for 5, 1 for 45 and 1 for 100 reverse stock splits completed in October 2023, February 2024 and June 2024, and for the issuance of the Preferred Stock discussed above. The exercise price for the May 2023 Warrants as of June 30, 2024 are \$6.4486.

As noted below, 69 of the Exchange Warrants were exercised at a price of \$7,875.00 per share and 69 Reload Warrants were issued with an exercise price of \$11,250.00 per share. In October 2023, the Reload warrant exercise price was reduced to \$6,160.50. The Reload warrants expire August 24, 2027. Due to the reverse 1 for 100 stock split completed in June 2024, the exercise price of the Reload Warrants was adjusted to \$6.4486.

On October 13, 2023, the Company entered into an amendment (the “Amendment”) to its Stag UTV development and Stag supplier agreements with GLV Ventures (“GLV”). Pursuant to the Amendment, GLV agreed to provide the Company with extended payment terms and provide the Company with credit against new vehicles for the value of certain parts purchased by the Company. In consideration for entering into the Amendment No. 1, the Company agreed to issue GLV (or its designee) five-year warrants to purchase 90 shares of Company common stock with an exercise price of \$9,450.00 per share, which was equal to the closing price of the Company’s common stock on the date of the Amendment No. 1, 45 shares were fully vested upon issuance and the remaining warrants vested 45 days from the issuance date.

## Warrant Inducements

On October 13, 2023, the Company entered into an inducement offer letter agreement (the “Inducement Letter”) with the three holders (each, a “Holder”) of the May 2023 Warrants. The Company agreed to reduce the exercise price of up to 217 to the lesser of (i) \$7,875.00 (after giving effect to the stock splits noted above) and (ii) the exercise price in effect at the time of exercise of the Existing Warrants if further adjusted in accordance with the terms of the May 2023 Warrants (\$6,160.50 per share after adjustment for the lowest day’s VWAP for the five days following the reverse stock split). The reduction of the exercise price of such Existing Warrants remained in effect until October 27, 2023 (the “Inducement Period”). In addition, pursuant to the Inducement Letter, the Holders who exercise such Existing Warrants for cash on or prior to October 27, 2023 would receive a new warrant (“Reload Warrant”) to purchase the same number of shares of common stock equal to the number of shares of common stock exercised and at the same exercise price as the Existing Warrants. The exercise price for any Warrants not exercised prior to the end of the Inducement Period would not result in a change in the exercise price under the original terms of the Existing Warrants. The Holders exercised 25 warrants of the 217 warrants available for exercise. Due to the reverse 1 for 100 stock split completed in June 2024, the exercise price of the remaining Existing Warrants not exercised in this inducement and the Reload Warrants granted for the Existing Warrants exercised were adjusted to \$6.4486.

On October 29, 2023, in an effort to raise cash, the Company entered into an inducement offer letter agreement (the “Inducement Reprice Letter”) with the Holders of the Company’s May 2023 Warrants. Pursuant to the Inducement Reprice Letter, in exchange for an aggregate cash payment of \$346,500, the Company reduced the exercise price with respect to May 2023 Warrants exercisable into an aggregate of 78 shares of common stock from \$6,160.50 per share to \$45.00 per share. On January 10, 2024, the Holders exercised these warrants.

As discussed in Note 7, the Company issued the May 2024 Note Warrants on May 22, 2024, which are fully vested, to purchase 101,463 shares of the Company’s common stock at an exercise price of \$29.00. The Note Warrants are initially exercisable on November 23, 2024 and expire on November 23, 2029. The Company valued these warrants using the closing price of the Company’s common stock on May 22, 2024 of \$22.00, volatility of 155.00% the Company’s historical volatility, risk free interest rate of 4.47%, no dividends and a life of 5.5 years.

The following is the activity related to common stock warrants during the six months ended June 30, 2024:

	Common Stock Warrants			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in years	Intrinsic Value
Outstanding at January 1, 2024	56,142	\$ 248.30		
Granted	319,739	\$ 42.00		
Canceled	–	\$ –		
Expired	–	\$ –		
Exercised	(266,599)	\$ 50.46		
Outstanding at June 30, 2024	109,282	\$ 127.35	5.32	\$ –
Exercisable at June 30, 2024	7,821	\$ 1,403.18	4.31	\$ –

## NOTE 11 – STOCK-BASED COMPENSATION

In January 2021, the Company’s board of directors adopted the Volcon, Inc. 2021 Stock Plan, (the “2021 Plan”). The 2021 Plan is a stock-based compensation plan that provides for discretionary grants of stock options, stock awards, and restricted stock unit awards to employees, members of the board of directors and consultants (including restricted stock units issued prior to the adoption of the plan as further discussed below). The Company has reserved 312 shares of the Company’s common stock for issuance under the 2021 Plan. To the extent that an award, if forfeitable, expires, terminates or lapses, or an award is otherwise settled in cash without the delivery of shares of common stock to the participant, then any unpaid shares subject to the award will be available for future grant or issuance under the 2021 Plan. Shares available for issuance under the 2021 Plan as of June 30, 2024, were 122 shares. Awards vest according to each agreement and as long as the employee remains employed with the Company or the consultant continues to provide services in accordance with the terms of the agreement.

### Restricted Stock Units

There were no restricted stock units outstanding in 2024 and no expense was recognized for any period of 2024. In February 2023, 2 RSUs were subject to cancellation due to termination of employment. However, the Company entered into a modification to allow the employee to fully vest in these RSUs as part of a severance agreement. The Company recorded additional expense of \$31,487 during the six months ended June 30, 2023 related to this modification.

For the three and six months ended June 30, 2023, the Company recognized expense for RSUs of \$23,550 and \$77,323, respectively.

### Performance Shares

In 2022 the compensation committee approved reserving 12 shares from the 2021 Plan to issue based on achievement of the Company's 2022 performance milestones to employees who are employed in 2022 and were active employees on the date of approval in 2023 by the compensation committee. On February 6, 2023 the compensation committee of the board of directors approved a grant of 7 shares (7 were issued due a forfeiture of 1 share and 1 share withheld for payment of employee withholding taxes) for the achievement of some of the Company's 2022 performance milestones. The Company recognized share-based compensation expenses of \$257,717 related to the grant of these shares in the six months ended June 30, 2023.

In addition, the compensation committee also approved reserving 12 shares from the 2021 Plan to issue to employees based on achievement of the Company's 2023 performance milestones to employees who were employed in 2023 and are active employees on the date of approval in 2024 by the compensation committee. No shares were approved for grant by the compensation committee for 2023 performance milestones.

### Stock Options

The following summarizes activity relating to common stock options to employees and consultants for services during the six months ended June 30, 2024:

	Common Stock Options			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in years	Intrinsic Value
Outstanding at January 1, 2024	243	\$ 44,352.41		
Granted	1	\$ 450.00		
Forfeited	(41)	\$ 77,498.78		
Canceled	(50)	\$ 27,720.00		
Outstanding at June 30, 2024	153	\$ 40,618.53	8.13	\$ 0
Exercisable at June 30, 2024	93	\$ 56,968.55	7.64	\$ 0

The Company valued the options using the closing stock price of the Company's common stock on the date of grant and the following assumptions:

	2024	2023
Volatility (based on the Company's volatility in 2024 and peer companies in 2023)	170%	79% - 83%
Risk free interest rate	4.5%	3.54% - 4.77%
Dividends	None	None
Estimated life in years	6	6

During the three and six months ended June 30, 2024, the Company recognized share-based compensation (benefit) expense of \$287,751 and \$285,829, respectively, related to common stock options. The share-based compensation for the three and six months ended June 30, 2024 includes a net benefit of \$1,922 for the three months ended March 31, 2024 primarily due to forfeiture of unvested stock options from employees who terminated during the period ended March 31, 2024, which offset the expense from stock options outstanding for current employees. During the three and six months ended June 30, 2023 the Company recognized share-based compensation expenses of \$601,844, and \$1,605,504, respectively, related to common stock options. The Company will not recognize any additional stock compensation expense for outstanding awards at June 30, 2024 as all remaining expense for unvested options was recognized as of June 30, 2024 as it was not significant.

Total stock-based compensation recorded for the three and six months ended June 30, 2024 and 2023 for all stock-based compensation awards, including warrants, has been recorded as follows:

	<b>Three Months Ended June 30, 2024</b>	<b>Three Months Ended June 30, 2023</b>	<b>Six Months Ended June 30, 2024</b>	<b>Six Months Ended June 30, 2023</b>
Cost of Goods Sold	\$ (1,186)	\$ 149,601	\$ (11,828)	\$ 356,079
Sales and Marketing	67,001	233,113	11,930	544,871
Product Development	83,733	100,379	126,337	308,971
General and Administrative	138,203	142,301	159,390	472,906
Total	<u>\$ 287,751</u>	<u>\$ 625,394</u>	<u>\$ 285,829</u>	<u>\$ 1,682,827</u>

#### NOTE 12 – LOSS PER COMMON SHARE

The basic net loss per common share is calculated by dividing the Company's net loss available to common stockholders by the weighted average number of common shares during the year. The diluted net loss per common share is calculated by dividing the Company's net loss available to common stockholders by the diluted weighted average number of common shares outstanding during the year. The diluted weighted average number of common shares outstanding is the basic weighted number of common shares adjusted for any potentially dilutive debt or equity. Diluted net loss per common share is equal to basic net loss per share due to the Company's net loss and any potentially issuable shares are anti-dilutive.

	<b>Three months June 30, 2024</b>	<b>Three months June 30, 2023</b>	<b>Six months June 30, 2024</b>	<b>Six months June 30, 2023</b>
Numerator:				
Net loss	\$ (606,418)	\$ (23,028,194)	\$ (26,654,462)	\$ (30,327,663)
Denominator:				
Denominator for basic and diluted net loss per common share - weighted average of common shares	401,802	1,205	240,759	1,148
Basic and diluted net loss per common share	\$ (1.51)	\$ (19,110.53)	\$ (110.71)	\$ (26,417.82)

Common shares consisting of shares potentially dilutive as of June 30, 2024 and 2023 are as follows:

	<b>June 30, 2024</b>	<b>June 30, 2023</b>
Convertible Notes	–	1,263
Preferred Stock	988,069	
Warrants	109,282	1,268
Stock options	153	146
Restricted stock units	–	3
Total	<u>1,097,504</u>	<u>2,680</u>

## NOTE 13 – INCOME TAXES

Deferred taxes are determined by applying the provisions of enacted tax laws and rates for the jurisdictions in which the Company operates to the estimated future tax effects of the differences between the tax basis of assets and liabilities and their reported amounts in the Company's financial statements. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that the related tax benefits will not be realized.

Due to losses since inception and for all periods presented, no income tax benefit or expense has been recognized as a full valuation allowance has been established for any tax benefit that would have been recognized for the loss in any period presented.

The components of income tax expense (benefit) for the three and six months ended June 30, 2024 and 2023 are as follows:

	<b>Three Months Ended June 30, 2024</b>	<b>Three Months Ended June 30, 2023</b>	<b>Six Months Ended June 30, 2024</b>	<b>Six Months Ended June 30, 2023</b>
Expected federal income tax benefit at statutory rate	(127,347)	\$ (4,835,911)	\$ (5,597,436)	\$ (6,368,799)
Non-deductible expenses	(467,057)	4,782,518	(500,213)	4,902,332
Research and development credit	–	–	–	(148,811)
Prior year true up	2,703,415	–	3,235,732	–
Change in valuation allowance	(2,109,011)	53,393	2,861,917	1,615,278
Income tax benefit	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

Significant components of the Company's deferred tax assets and liabilities at June 30, 2024 and December 31, 2023 are as follows:

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
<b>Deferred tax assets</b>		
Net operating losses	\$ 21,575,396	\$ 15,468,757
Debt basis difference	–	5,121,397
Depreciation and amortization	1,422,327	1,701,768
Research & development credit	1,099,535	1,099,535
Lease liability	205,964	246,704
Stock-based compensation	–	3,235,732
Inventory	–	152,749
Accrued expenses	190,471	66,909
Capital loss carryover	176,949	176,950
Dealer rebates	–	459,713
Vendor settlements and reserves	556,625	–
Other	63,693	21,828
Total	<u>25,290,960</u>	<u>27,752,042</u>
Valuation allowance	<u>(24,911,536)</u>	<u>(27,171,016)</u>
Net deferred tax asset	379,424	581,026
<b>Deferred tax liabilities</b>		
Prepaid expenses	(181,750)	(342,421)
Right-of-use assets	(197,674)	(238,605)
<b>Total net deferred taxes deferred tax liabilities</b>	<u>\$ –</u>	<u>\$ –</u>

Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding the loss carry forwards and other temporary differences will not be realized in the foreseeable future. Due to the impact of the reverse stock split in June 2024 on the adjusted number of outstanding options and exercise prices, the Company concluded that it is a remote possibility that any options will be exercised and therefore wrote off the deferred tax asset and related valuation allowance for stock-based compensation. The utilization of the Company's net operating losses and credit carryovers may be subject to limitation due to the "change in ownership provisions" under Section 382 of the Internal Revenue Code. The Company's cumulative net operating loss carry forward of \$102.7 million as of June 30, 2024, may be limited in future years depending on future taxable income in any given fiscal year. The net operating losses can be carried forward indefinitely.

The Company has recorded no liability for income taxes associated with unrecognized tax benefits at the date of adoption and has not recorded any liability associated with unrecognized tax benefits. Accordingly, the Company has not recorded any interest or penalty in regard to any unrecognized benefit.

#### NOTE 14 – LEASES

The components of lease cost for operating leases for the three and six months ended June 30, 2024 and 2023 is as follows:

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
<b>Lease Cost</b>				
Operating lease cost	117,249	\$ 117,250	\$ 234,498	\$ 234,499
Short-term lease cost	37,230	29,730	75,191	89,520
Variable lease cost	–	–	–	–
Sublease income	–	–	–	–
Total lease cost	<u>\$ 154,479</u>	<u>\$ 146,980</u>	<u>\$ 309,689</u>	<u>\$ 324,019</u>

Supplemental cash flow information related to leases for the six months ended June 30, 2024 and 2023, is as follows:

	2024	2023
<b>Other Lease Information</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 193,998	\$ 174,365
Amortization of right-of-use assets	\$ 194,910	\$ 181,677

The following table summarizes the lease-related assets and liabilities recorded on the balance sheet at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
<b>Lease Position</b>		
Operating Leases:		
Operating lease right-of-use assets	\$ 941,303	\$ 1,136,213
Right-of-use liabilities operating leases short-term	421,034	399,611
Right-of-use liabilities operating leases long-term	559,749	775,170
Total operating lease liabilities	<u>\$ 980,783</u>	<u>\$ 1,174,781</u>

The Company utilizes the incremental borrowing rate in determining the present value of lease payments unless the implicit rate is readily determinable.

<b>Lease Term and Discount Rate</b>	<b>June 30, 2024</b>
Weighted-average remaining lease term (years):	
Operating leases	2.2
Weighted-average discount rate:	
Operating leases	6.82%

The following table provides the maturities of lease liabilities at June, 2024:

	<b>Operating Leases</b>
Remainder of 2024	\$ 238,047
2025	485,702
2026	340,591
Total future undiscounted lease payments	1,064,340
Less: Interest	(83,557)
Present value of lease liabilities	<u>\$ 980,783</u>

**NOTE 15 - SUBSEQUENT EVENT**

On July 12, 2024, Company sold 820,836 shares of the Company's common stock at a purchase price of \$3.65 per share and pre-funded warrants to purchase 2,466,836 shares of common stock at \$3.64999 per pre-funded warrant. The Company received gross proceeds of \$11,999,991 and issuance costs are estimated to be approximately \$1,250,000. The Company has agreed not to issue, enter into any agreement to issue or announce the issuance or proposed issuance of, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock or file any registration statement or prospectus, or any amendment or supplement thereto for 30 days after July 12, 2024, subject to certain exceptions.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis is intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K, which contains audited financial statements of the Company as of and for the year ended December 31, 2023, previously filed with the Securities and Exchange Commission. Results for the three months ended June 30, 2024 are not necessarily indicative of results for the year ending December 31, 2024 or any future period.*

### Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by the Company, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions.

In addition, from time to time, we or our representatives may make forward-looking statements orally or in writing. We base these forward-looking statements on our expectations and projections about future events, which we derive from the information currently available to us. Such forward-looking statements relate to future events or our future performance, including: our financial performance and projections; our growth in revenue and earnings; our product development and production releases; and our business prospects and opportunities. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as "may," "should," "expects," "anticipates," "contemplates," "estimates," "believes," "plans," "projected," "predicts," "potential," or "hopes" or the negative of these or similar terms. In evaluating these forward-looking statements, you should consider various factors, including: our ability to change the direction of the Company; our ability to keep pace with new technology and changing market needs; and the competitive environment of our business. These and other factors may cause our actual results to differ materially from any forward-looking statement. Forward-looking statements are only predictions. The forward-looking events discussed in this document and other statements made from time to time by us or our representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties and assumptions about us. We are not obligated to publicly update or revise any forward-looking statement, whether as a result of uncertainties and assumptions, the forward-looking events discussed in this document and other statements made from time to time by us or our representatives might not occur.

While we believe we have identified material risks, these risks and uncertainties are not exhaustive. Other sections of this Form 10-Q describe additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Form 10-Q to conform our prior statements to actual results or revised expectations, and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

- our ability to maintain the listing of our common stock on the Nasdaq Stock Market;
- our ability to generate revenues from sales, generate cash from operations, or obtain additional funding to market our vehicles and develop new products;
- our ability to successfully implement and effectively manage our outsourced manufacturing, design and development model and achieve any anticipated benefits;
- the ability of third party manufacturers to produce our vehicles in accordance with our design and quality specifications, with sufficient scale to satisfy customers and within a reasonable cost;
- anticipated timing for the manufacture, design, production, shipping and launch of our vehicles;

- the inability of our suppliers to deliver the necessary components for our vehicles at prices and volumes acceptable to our third party manufacturers;
- our ability to establish a network of dealers and international distributors to sell and service our vehicles on the timeline we expect;
- whether our vehicles will perform as expected;
- our facing product warranty claims or product recalls;
- our facing adverse determinations in significant product liability claims;
- customer adoption of electric vehicles;
- the development of alternative technology that adversely affects our business;
- increased government regulation of our industry;
- tariffs and currency exchange rates; and
- the conflict with Russia and Ukraine and the potential adverse effect it may have on the availability of materials used in the manufacturing of batteries for our vehicles.

## Overview

We are an all-electric, off-road powersports vehicle company developing electric two-wheeled E-Bikes and motorcycles and four-wheeled and utility terrain vehicles, or UTVs, also known as side-by-sides, along with a line of upgrades and accessories. In October 2020, we began building and testing prototypes for our future offerings with two off-road motorcycles – the Grunt and the Runt. Our motorcycles feature unique frame designs protected by design patents. Additional utility and design patents have been filed for other aspects of Volcon’s vehicles.

### *Two-Wheeled Products*

We began selling the Grunt in September 2021. In August 2022, we ceased manufacturing of the Grunt and we outsourced the manufacturing of the remaining Grunts and the 2023 Grunt EVO to the same third party manufacturer as the Stag UTV discussed below. The 2023 Grunt EVO has replaced the Grunt and has a belt drive rather than a chain drive as well as an updated rear suspension. We began selling the Grunt EVO in the third quarter of 2023. We determined in the first quarter of 2024 that we would not develop the Runt for production and terminated efforts to develop this product.

In January 2023, we began selling Volcon co-branded youth electric motorcycles under a distribution agreement with Torrot Electric Europa S.A. (“Torrot”). In December 2023 we notified Torrot that we were terminating our agreements due to continued lower than expected sales at significantly discounted pricing. In conjunction with a settlement agreement with Torrot we ceased selling these motorcycles as of June 30, 2024.

In the fourth quarter of 2022, we began selling an E-Bike, the Brat which is manufactured by a third party. The Brat is a class 2 E-Bike and can be used on-road or off-road.

Beginning in the second quarter of 2024, we began evaluating other potential electric motorcycle offerings. We are determining what features and specifications would be included for new offerings including considering a street legal version that would be dual purpose as an on-road/off-road motorcycle (not highway legal). As of August 5, 2024, we have identified one new model which we are working on developing with a third party manufacturer. We do not have prototypes yet, but once received we will test them to evaluate the feasibility to produce and sell them. We will continue to evaluate other potential two-wheel product offerings throughout the remainder of 2024.

### *Utility Terrain Vehicles (UTVs)*

In July 2022, we announced we were expanding our offerings with the introduction of the first of our Volcon UTV models, the Stag. We delivered the first Stag to a customer in February 2024. The Stag is being manufactured by a third party and incorporates electrification units, which include batteries, drive units and control modules provided by General Motors. Beginning in June 2022, we took non-binding pre-production orders which were cancelable prior to delivery. We are currently taking pre-production orders for the Stag LTD, which is a four passenger, high performance and utility UTV.

Beginning in the second quarter of 2024, we began discussions with various third party manufacturers of UTVs to identify models that we could purchase that are electric, or have internal combustion engine versions that could be modified to all electric, and could be branded as Volcon UTVs. These models would be primarily used for utility purposes, have two or three passenger options, a dump bed or flatbed for hauling cargo, with speeds up to 30 miles per hour. These models may also include an enclosed cab with optional air conditioning. As of August 5, 2024, we have signed an agreement with one manufacturer to distribute one of these utility UTV models in North America for five years, which includes a royalty agreement with the manufacturer for them to distribute the vehicle outside of North America. Royalties would commence in the third year of this agreement.

#### *Customers*

We initially sold the Grunt directly to consumers but ceased in November 2021. Since November 2021, we have sold the Grunt, Grunt EVO, Stag and related accessories through powersports dealers. As of August 5, 2024, we have 105 active dealers. Dealers can order any of our available products provided they are current on their accounts receivable and are within their established credit limit. We are offering dealers payment terms of 30 to 90 days to make larger purchases of our vehicles. We have entered into an accounts receivable factoring arrangement to allow us the ability to generate cash for working capital. We have agreements with third party financing companies to provide financing to qualified customers of each dealer. There is no recourse to us or the dealer if the dealer's customer defaults on the financing agreement with the third party. We also sell the Brat to some powersports dealers as well as bicycle retailers and directly to consumers through our website, where consumers can have the Brat delivered to a location of their choosing in the continental U.S. Beginning in the first quarter of 2024, we began selling the Grunt EVO through our website where continental U.S. customers can pay a deposit and complete their purchase at one of our U.S. powersports dealer locations. Grunt EVO customers who are not located in a state where we have a powersports dealer or within a reasonable distance from a powersports dealer in their state, can have the Grunt EVO shipped directly to a location they specify.

In addition to selling our two-wheeled vehicles through powersports dealers, bicycle retailers and direct to consumers through our website, we also sell them internationally through importers. Each importer buys vehicles by the container and sells vehicles and accessories to local dealers or directly to consumers. Local dealers or the importer will provide warranty and repair services for vehicles purchased in their country. As of August 5, 2024, we have signed agreements with six importers in Latin America, one importer for the Caribbean Region, collectively referred to herein as the LATAM importers, one importer in New Zealand, and one importer in Australia to sell our two wheel vehicles and accessories in their assigned countries/markets. In 2024, we expect to expand our global sales of our vehicles and accessories beyond our current distributor base.

#### *Manufacturers*

We outsource the manufacturing of all of our vehicles and accessories to third party manufacturers and suppliers. The estimated fulfillment of all two-wheeled and UTV orders we have received, or will receive, assumes that our third party manufacturers can successfully meet our order quantities and deadlines. We have experienced delays due to our third party manufacturers being unable to timely meet our order deadlines, and there is no assurance that we will not experience delays in the future until such time as we are able to source products from multiple manufacturers or from larger, more established manufacturers. If they are unable to satisfy orders on a timely basis, our customers may cancel their orders. Also, due to the limited number of third party manufacturers who manufacture our products, if any one of them experiences financial hardship and cannot manufacture our products, our customers may cancel their orders which will harm our sales. All of our products are manufactured internationally. If there is a change in import laws, including an increase in tariffs, the cost of our products will increase. We could also experience delays in receiving shipments of our products if there are delays in getting carriers to ship our products or delays at the port of entry.

## Results of Operations

The following financial information is for the three and six months ended June 30, 2024 and 2023.

	Three Months Ended		Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Revenue	\$ 940,863	\$ 519,300	\$ 1,974,411	\$ 1,689,758
Cost of goods sold	(3,113,429)	(334,647)	(4,735,009)	(1,564,628)
Gross margin	(2,172,566)	184,653	(2,760,598)	125,130
Operating expenses:				
Sales and marketing	543,671	2,380,617	1,304,235	4,169,987
Product development	805,550	1,166,732	1,620,495	2,953,083
General and administrative expenses	2,007,514	1,568,700	4,088,308	3,458,791
Total operating expenses	3,356,735	5,116,049	7,013,038	10,581,861
Loss from operations	(5,529,301)	(4,931,396)	(9,773,636)	(10,456,731)
Other income (expense)	8,589	10,618	21,443	16,503
Loss on extinguishment of Convertible Notes	–	(22,296,988)	(1,647,608)	(22,296,988)
Gain on change in fair value of financial liabilities	5,111,291	5,792,788	(14,727,696)	5,792,788
Interest expense	(196,997)	(1,603,216)	(526,965)	(3,383,235)
Total other expense	4,922,883	(18,096,798)	(16,880,826)	(19,870,932)
Loss before provision for income taxes	(606,418)	(23,028,194)	(26,654,462)	(30,327,663)
Provision for income taxes	–	–	–	–
Net loss	\$ (606,418)	\$ (23,028,194)	\$ (26,654,462)	\$ (30,327,663)

### Revenue

Revenue for the three months ended June 30, 2024, was \$940,863, which represents sales of Grunt EVOs of \$284,147, Stags of \$194,887, Brats of \$240,750, Volcon Youth of \$192,924, and accessories and parts of \$52,696.

Revenue for the six months ended June 30, 2024, was \$1,974,411 which represents sales of Grunt EVOs of \$613,764, Stags of \$234,886, Brats of \$773,556, Volcon Youth of \$286,680, and accessories and parts of \$86,800.

Revenue for the three months ended June 30, 2023, was \$519,300 which represents sales of Brats of \$384,681, Volcon Youth and Torrot motorcycles of \$48,113 and accessories and parts of \$24,833 and an adjustment of \$67,654 to reduce dealer rebates due to a change in the rebate program for remaining unsold Grunts in dealer inventory.

Revenue for the six months ended June 30, 2023, was \$1,689,758 which represents sales of Grunts of \$170,388, Brats of \$1,042,198, Volcon Youth of \$260,479 and accessories and parts of \$151,980.

## *Cost of Goods Sold*

Cost of goods sold for the three months ended June 30, 2024 were \$3,113,429, including payroll costs of \$72,466 for employees performing product fulfillment, logistics management, and service and warranty. Product costs for Brats and Grunt EVOs sold during the period were \$221,624 and \$292,561, respectively. Stag product costs were \$490,622 which includes an expense of \$16,617 for the future delivery of vehicles to a customer where the Company agreed to provide additional units at a sales price less than the manufactured cost of the units. Youth product costs were \$140,827 and, due to the settlement agreement with Torrot, the remaining Youth finished goods inventory of \$57,262 was written off as Volcon can no longer sell Torrot/Volcon Youth finished goods after June 30, 2024. Facilities costs related to operations were \$104,976. Loss on disposal of Stag tooling was \$466,481 which represent tooling costs which were determined to be impaired due to the limited margin expected to be realized on Stag sales. The Company also recognized an expense of \$1,117,429 for a settlement agreement with a vendor who supplies certain suspension components for the Stag. The Company will pay for excess raw materials purchased by the vendor based on an early production forecast initially provided to the vendor, which was subsequently revised.

Cost of goods sold for the six months ended June 30, 2024 were \$4,735,009, including payroll costs of \$166,786 for employees performing product fulfillment, logistics management, and service and warranty. Product costs for Brats and Grunt EVOs, sold during the period were \$804,174 and \$636,542, respectively. Stag product costs were \$719,515, which includes an expense of \$112,168 for the already delivered and future delivery of vehicles to a customer where the Company agreed to provide additional units at a sales price less than the manufactured cost of the units and, due to the settlement agreement with Torrot, the remaining Youth finished goods inventory of \$57,262 was written off as Volcon can no longer sell Torrot/Volcon Youth finished goods after June 30, 2024. Facilities costs related to operations were \$210,926. Loss on disposal of Stag tooling, as noted above, was \$466,481 and in the first quarter of 2024, the Company recorded a loss on disposal in the amount of \$155,621 for the write off of Grunt EVO tooling. As discussed above, the Company recognized an expense of \$1,117,429 for a settlement with a vendor.

Cost of goods sold for the three months ended June 30, 2023 were \$334,647 including payroll costs of \$280,240 and stock-based compensation of \$149,601 for employees performing warehouse and logistics management and quality control testing of Brats and Volcon Youth Motorcycles. Product costs for Brats and Volcon Youth sold during the period were \$229,024 and \$59,730, respectively. We recorded expense of \$85,245 related to fees paid to cancel purchase orders to reduce raw material quantities, which was offset by a reduction in the net realizable valuation expense of \$146,370 the Company was recording for excess quantities of raw materials that it was no longer obligated to purchase by paying these fees. Facilities costs were \$88,846 for our warehouse facility and third party warehousing costs. Also, the one-year warranty for parts and labor on Grunts sold prior to June 30, 2022 expired (excluding the battery which is warranted for 2 years) and an adjustment to reduce the warranty accrual in the amount of \$459,800 was recorded which reduced cost of goods sold. The Company also recorded a credit of \$198,120 due to our third party manufacturer of the Grunt EVO agreeing to take approximately \$1.4 million of inventory, which was previously reduced to its estimated net realizable value, and gave the Company a credit of \$1,600 for the first 1,000 Grunt EVOs we purchase. Finally, the Company recorded an expense of \$84,000 to write off excess and obsolete Torrot inventory which was on hand as of June 30, 2023.

Cost of goods sold for the six months ended June 30, 2023, were \$1,564,628. Costs include payroll costs of \$682,343 and stock-based compensation of \$356,079 for share-based award for employees performing warehouse and logistics management and quality control testing of Brats and Volcon Youth Motorcycles. Product costs for Brats, Volcon Youth and Grunts sold during the period were \$595,640, \$255,409, and \$163,985, respectively. We recorded expense of \$138,752 related to fees paid to cancel purchase orders to reduce raw material quantities, which was offset by a reduction in the net realizable valuation expense of \$179,670; the Company was recording for excess quantities of raw materials that it was no longer obligated to purchase by paying these fees. Also, the one-year warranty for parts and labor on Grunts sold prior to June 30, 2022 expired (excluding the battery which is warranted for 2 years) and an adjustment to reduce the warranty accrual in the amount of \$459,800 was recorded which reduced cost of goods sold. Facilities costs were \$211,157 for our warehouse facility and third party warehousing costs. Shipping costs were reduced by \$347,729 due to the reversal of an accrual for shipping costs and tariffs expected to be incurred to ship our Grunt raw materials and work-in-process inventory to our third party manufacturer in Mexico which was no longer needed.

For the remainder of 2024 we expect revenue and cost of goods sold to increase due to the expected increase in sales of the Grunt EVO and Stag. Additional cost savings may be realized if the third party manufacturer for these vehicles can source or manufacture parts at a lower cost. The increase in costs for products will partially be offset by reductions in cost for salaries and benefits due to reductions in headcount completed in 2023.

### *Sales and Marketing Expense*

Sales and marketing expenses relate to costs to increase exposure and awareness for our products and developing our network of U.S. dealers and international distributors.

Sales and marketing expenses were \$543,671 for the three months ended June 30, 2024 and were primarily related to expenses associated with promoting our products and brand of \$193,344, employee payroll costs of \$121,187, which was partially offset by stock-based compensation benefit of \$67,001. Professional fees for legal and consulting services were \$64,412. Travel expenses related to roadshows showcasing the Stag and EVO were \$21,453 and facilities costs were \$23,514. Depreciation expense was \$27,674 and bad debt expense was reduced by \$30,426 due to collection of previously expensed customer accounts.

Sales and marketing expenses were \$1,304,235 for the six months ended June 30, 2024 and were primarily related to expenses associated with promoting our products and brand of \$408,773, employee payroll costs of \$574,378, including \$112,500 for severance costs for our former Chief Marketing Officer (“CMO”), which was partially offset by stock-based compensation benefit of \$55,071 for cancellation of unvested share based awards to the CMO and other marketing employees whose positions were eliminated in the period. Travel expenses related to roadshows showcasing the Stag and EVO were \$51,966 and facilities costs were \$52,803. Professional fees for legal and consulting services were \$84,336. Depreciation expense was \$49,935 and bad debt expense was reduced by \$16,378 due to collection of previously expensed customer accounts.

For the three months ended June 30, 2023, sales and marketing expenses were \$2,380,617 and include \$967,982 for promoting our products and brand, \$783,229 for employee payroll costs, stock-based compensation expense of \$233,113 for share-based awards granted to employees and consultants, \$46,685 related to facilities costs, and travel costs of \$109,035 primarily related to costs incurred for travel to build our dealer and distributor network. Bad debt expense was \$70,383 and legal and consulting fees related to entering into international distribution agreements were \$116,447.

Sales and marketing expenses were \$4,169,987 for the six months ended June 30, 2023 and were primarily related to expenses associated with promoting our products and brand of \$1,556,303, employee payroll costs of \$1,506,591, stock-based compensation of \$544,872 for share-based awards granted to employees and consultants, and travel costs of \$180,277 primarily related to costs incurred for travel to build our dealer network. Facilities costs were \$85,137. Bad debt expense was \$51,198 and legal and consulting fees mainly related to entering into international distribution agreements were \$141,223.

We also expect sales expenses to increase slightly as we begin expanding our international distributors and selling commissions for increased sales of Grunt EVOs and the Stag. We expect marketing expenses to increase when we launch new products.

### *Product Development Expense*

Product development expenses relate to the development and testing of our products and process to manufacture these products.

Product development expenses were \$805,550 for the three months ended June 30, 2024 and were primarily related to expenses associated with employee payroll costs of \$394,632, stock-based compensation of \$83,733 for share-based awards granted to employees, facilities costs of \$60,212, and prototype costs of \$114,781. Professional fees were \$48,024 for product design and travel expenses were \$33,264.

Product development expenses were \$1,620,495 for the six months ended June 30, 2024 and were primarily related to expenses associated with employee payroll costs of \$831,534, stock-based compensation of \$126,337 for share-based awards granted to employees, facilities costs of \$124,067, prototype costs of \$206,706 and professional fees related to product development in the amount of \$62,909. Travel expenses were \$86,590 and depreciation expense was \$69,381.

For the three months ended June 30, 2023, product development expenses totaled \$1,166,732 and primarily relate to expenses associated with employee payroll costs of \$431,833, stock-based compensation of \$100,379 for share-based awards granted to employees and consultants, prototype vehicles and parts costs of \$384,479, facilities costs of \$45,482 and \$49,497 for supplies and software.

Product development expenses were \$2,953,083 for the six months ended June 30, 2023 and were primarily related to expenses associated with employee payroll costs of \$939,509, stock-based compensation of \$308,971 for share-based awards granted to employees and consultants, professional fees of \$367,083 for product design, prototype vehicles and parts costs of \$980,268, including \$70,173 in tooling costs, shipping costs of \$45,836 related to shipping prototypes, \$87,424 for supplies and software and facilities cost of \$93,306

We expect 2024 product development costs related to employee costs to remain consistent with 2023. We expect costs to decrease for design and development costs and costs related to prototype costs for the current version of the Stag since the Stag is in production. We expect costs for design and development costs related to the Grunt EVO to decrease since it is in production. We expect design and development costs to increase for development of other versions of our UTV and motorcycle lineup being considered for future release.

#### *General and Administrative Expense*

General and administrative expenses relate to costs for our finance, accounting and administrative functions to support the development, manufacturing and sales of our products.

For the three months ended June 30, 2024, general and administrative expenses were \$2,007,514 and were primarily related to expenses associated with employee payroll costs of \$527,052, stock-based compensation of \$138,203 for share-based awards granted to employees, professional fees of \$190,059 (including legal fees of \$95,718, tax and accounting fees of \$35,105 and audit fees of \$23,175), software costs of \$152,062, insurance costs of \$656,288, public company expense costs of \$101,653 and annual meeting costs of \$94,982.

For the six months ended June 30, 2024, general and administrative expenses were \$4,088,308 and were primarily related to expenses associated with employee payroll costs of \$1,106,415, stock-based compensation of \$159,390 for share-based awards granted to employees, professional fees of \$602,774 (including legal fees of \$291,095, tax and accounting fees of \$58,305 and audit fees of \$170,100), software costs of \$293,613, insurance costs of \$1,319,215, public company expense costs of \$204,375 and annual and special shareholder meeting costs of \$133,531.

For the three months ended June 30, 2023, general and administrative expenses were \$1,568,700 and were primarily related to expenses associated with employee payroll costs of \$526,478, stock-based compensation of \$142,301 for share-based awards granted to employees and consultants, professional fees of \$228,199 (including legal fees of \$127,906 for legal services and tax and audit fees of \$31,827 and recruiting fees of \$29,500), software costs of \$83,936, insurance costs of \$333,220, other public company expenses of \$60,065 and the annual stockholders meeting cost \$87,315.

For the six months ended June 30, 2023, general and administrative expenses were \$3,458,791 and were primarily related to expenses associated with employee payroll costs of \$1,139,459, stock-based compensation of \$472,906 for share-based awards granted to employees and consultants, professional fees of \$503,940 (including legal fees of \$214,881, tax and audit fees of \$187,177 and recruiting fees of \$29,500), software costs were \$235,394, insurance costs of \$683,191, and other public company expenses were \$140,754.

We expect general and administrative expenses to remain consistent with the second quarter of 2024 over the next several quarters. Costs such as product liability insurance may increase due to the introduction of new products.

#### *Interest and Other Expenses*

Interest and other income/expenses for the three months ended June 30, 2024 was \$4,922,883. Non-cash interest expense of \$183,819 was recognized for the amortization of debt issuance costs and accretion of principal on the May 2024 Notes. We recorded a gain on the change in the estimated fair value of the Series A and Series B Warrant liabilities of \$5,111,291. The Series B Warrants were modified in May 2024 and were no longer derivatives as of the modification date.

Interest and other income/expenses for the six months ended June 30, 2024 was \$16,880,826. Non-cash interest expense of \$314,838 was recognized for the amortization of debt issuance costs and accretion of principal on the May 2023 Notes through the date these notes were exchanged for Preferred Stock in March 2024. We recorded a loss on the conversion of some of these notes of \$333,544 and a loss from the exchange of these notes for Preferred Stock of \$1,314,065. Non-cash interest expense of \$183,819 was recognized for the amortization of debt issuance costs and accretion of principal on the May 2024 Notes. We recorded a loss on the change in the estimated fair value of the Series A and Series B Warrant liabilities of \$14,727,696 which was partially offset by a gain of \$165,355 from the exercise of some of the Series B Warrants.

Interest and other income/expenses for the three and six months ended June 30, 2023 were \$18,096,798 and \$19,870,932, respectively. A loss on extinguishment of the Convertible Notes of \$22,296,988 was recognized in the three and six months ended June 30, 2023 (see Note 6 to the consolidated financial statements). Non-cash interest expense of \$1,136,997 and \$2,913,632 was recognized for the amortization of debt issuance costs and accretion of principal on the Convertible Notes issued in August 2022 for the three and six months ended June 30, 2023, respectively. In addition, non-cash interest expense of \$471,572 was recognized for the amortization of debt issuance costs and accretion of principal on the New Notes and Exchange Notes issued in May 2023 in the three and six months ended June 30, 2023. A gain on the change in the valuation of derivative financial liabilities of \$5,792,788 was recognized in the three and six months ended June 30, 2023 (see Note 8 to the consolidated financial statements).

Non-cash interest expense will no longer be recognized on the May 2023 Notes in the future due to the exchange of the May 2023 Notes for Series A Convertible Preferred Stock. Non-cash interest expense will no longer be recognized on the May 2024 Senior Notes after repayment of these notes in July 2024 with the proceeds from the sale of common stock.

#### *Net Loss*

Net loss for the three and six months ended June 30, 2024, was \$606,418 and \$26,654,462, respectively.

Net loss for the three and six months ended June 30, 2023, was \$23,028,194 and \$30,327,663, respectively.

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

On June 30, 2024, we had cash and restricted cash of \$2.2 million, including \$0.1 million of restricted cash, and we had a working capital of \$7.4 million. Since inception we have funded our operations from proceeds from debt and equity sales. On July 12, 2024, we sold 820,836 shares of common stock at a purchase price of \$3.65 per share and pre-funded warrants to purchase 2,466,836 shares of common stock at \$3.64999 per pre-funded warrant and received gross proceeds of \$11,999,991 with issuance costs estimated to be approximately \$1,250,000.

#### *Cash used in operating activities*

Net cash used in operating activities was \$8.2 million for the six months ended June 30, 2024 and includes all of our operating costs except depreciation and amortization of \$0.2 million, non-cash interest expense for the amortization of debt issuance costs and accretion of principal on the May 2023 Notes and May 2024 Notes of \$0.5 million, loss on change in derivative financial liabilities of \$14.9 million, losses on conversion and exchange of Convertible Notes of \$1.6 million and \$0.6 million from the loss on disposal of fixed assets. Cash used in operating activities includes an increase in accounts receivable of \$0.1 million due to sales to our U.S. dealers, an increase of \$1.1 million in prepaid inventory deposits primarily for purchases of Stag raw materials, an increase of \$0.1 million in accounts payable, and an increase of \$1.1 million in accrued liabilities primarily due to the vendor settlement noted above and \$0.2 million used to pay our lease liabilities. As of June 30, 2024, we have a decrease of \$0.2 million in customer deposits, primarily due to orders being fulfilled for two of our Latin American distributors for shipments of Brats and Grunt EVOs paid for previously.

Net cash used in operating activities was \$10.6 million for the six months ended June 30, 2023 and includes all of our operating costs except stock-based compensation, write-down of inventory, depreciation and amortization, non-cash interest expense for the amortization of debt issuance costs and accretion of principal on Convertible Notes and May 2023 Notes, gain on change in derivative liabilities, loss on extinguishment of Convertible Notes, bad debt expense and gain on sale of property and equipment. Cash used in operating activities includes a decrease in accounts receivable of \$0.6 million for collections net of sales, decreases in inventory of \$0.8 million due to the transfer of inventory to one of our third party manufacturers and an increase inventory deposits of \$1.9 million as we made purchases and deposits for Brats and Volcon Youth motorcycles, a decrease of \$0.4 million in accounts payable and \$0.6 million in accrued liabilities due to payment of outstanding amounts due and a reversal of an accrual for anticipated shipping and tariffs related to shipping raw material and subassembly inventory to our third party manufacturer as it was no longer necessary. We received \$0.3 million in customer deposits, primarily from two of our Latin America distributors as prepayment for shipments of Brats and Grunt EVOs.

#### *Cash used in investing activities*

Net cash used in investing activities was \$0.2 million for the six months ended June 30, 2024, primarily consisting of \$0.3 million of purchases of equipment and tooling offset by \$0.1 million received from an insurance settlement for a vehicle that was totaled in the period.

Net cash used in investing activities was \$0.3 million for the six months ended June 30, 2023, consisting of \$0.4 million of purchases of equipment and tooling offset by proceeds received of \$0.1 million for the sale of two vehicles.

#### *Cash provided by financing activities*

Cash provided by financing activities for the six months ended June 30, 2024, was \$2.3 million and was primarily related to the net proceeds from the issuance of the May 2024 Senior Notes and May 2024 Note Warrants.

Cash provided by financing activities for the six months ended June 30, 2023, was \$7.9 million and was related primarily to proceeds from the public offering of 6 million shares of our common stock for net proceeds of \$4.0 million and issuance of convertible notes in a private offering with a principal amount of \$4.9 million and net proceeds of \$3.9 million. In addition, we used \$0.1 million from proceeds received from the sale of two vehicles to pay off the related notes payable on the vehicles.

Our continuation as a going concern is dependent upon our ability to attain profitable operations and if necessary, obtain continued financial support from the issuance of debt or equity. As of June 30, 2024, we had incurred an accumulated deficit of \$147.5 million since inception.

Management anticipates that our cash on hand as of June 30, 2024 plus the net proceeds from the equity offering completed in July 2024 and cash expected to be generated from operations will not be sufficient to fund planned operations during the near term and not beyond one year from the date of the issuance of the financial statements as of and for the three and six months ended June 30, 2024. To continue our operations, we currently estimate that we will need to obtain additional funding by the second quarter of 2025. We do not have commitments for any such financing, and there can be no assurance that such additional funding would be available to the Company on acceptable terms, or at all. If we are unable to raise additional near-term financing, we will be required to modify or cease our operations. These factors raise substantial doubt regarding our ability to continue as a going concern.

#### **JOBS Act Accounting Election**

The recently enacted JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

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

#### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and income and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following critical accounting policies:

## *Derivative Warrant Liabilities*

We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. We evaluate all of our financial instruments, including conversion features of our convertible debt and warrants issued in connection with our convertible debt, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC 480 ASC Topic 815, “*Derivatives and Hedging*” (“ASC 815”). The classification of derivative financial instruments, including whether such instruments should be recorded as liabilities or as equity, is reassessed at the end of each reporting period.

We account for the Series A Warrants (and the Series B Warrants until May 17, 2024 when they were modified) issued in connection with the November 2023 Common Units and Pre-funded Warrant Units as a financial liability in accordance with ASC 815. Accordingly, we recognized these financial liabilities at fair value initially and adjust it to fair value at each reporting period. The liabilities are subject to re-measurement at each balance sheet date until exercised or until warrant exercise price and number of warrants become fixed (as was the case with the Series B Warrants upon modification), and any change in fair value is recognized in the statement of operations. The fair value of these financial instruments were initially measured at fair value using a Monte Carlo simulation model. The Series A Warrant measurement was changed once the shareholders approved the alternative cashless exercise provision of the Series A Warrants to allow a holder to cashless exercise the warrant and receive three shares of common stock. The measurement of the Series A Warrants is now based on the closing price of the Company’s common stock multiplied by three. The Series A Warrants are classified as current liabilities as the timing of their exercise is at the discretion of the warrant holders and the warrants were fully vested as of the date they were issued.

The modification of the Series B Warrants fixed the number of warrants. One of the provisions of the modification also included a provision that allowed a Series B Warrant holder to cashless exercise the warrant and receive .81 of a share of common stock. We calculated the fair value of the Series B Warrants on the date of the modification based on the modified terms. The Series B Warrant valuation was based on our closing stock price on the modification date multiplied by .81. We recognized a gain in the statement of operations for the three and six months ended June 30, 2024 and reclassified the liability to equity.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

### **ITEM 4. CONTROLS AND PROCEDURES**

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

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the appropriate time periods, and that such information is accumulated and communicated to our Chief Executive Officer, who serves as our principal executive officer, and Chief Financial Officer, who serves as our principal financial officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were not effective as of June 30, 2024 to provide assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management as appropriate, to allow timely decisions regarding disclosures as we have previously missed filing certain forms timely and we have not implemented and tested controls and procedures to conclude that we have remediated this deficiency. Notwithstanding this conclusion, we believe that our unaudited consolidated financial statements contained in this Quarterly Report fairly present our financial position, results of operations and cash flows for the periods covered thereby in all material respects. Management is working to identify corrective actions for the weakness and will periodically re-evaluate the need to add personnel and implement improved review procedures.

#### **Changes in Internal Control over Financial Reporting**

There were no changes to our internal control over financial reporting during the six months ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time in the ordinary course of our business, we may be involved in legal proceedings, the outcomes of which may not be determinable. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable. We have insurance policies covering potential losses where such coverage is cost effective.

#### ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors included in the Form 10-K filed with the SEC on March 28, 2024, and our Form 10-Q for the period ended March 31, 2024, each of which is accessible on the SEC's website at [www.sec.gov](http://www.sec.gov).

***Our ability to continue as a going concern requires that we obtain sufficient funding to finance our operations in the near-term.***

We anticipate that our cash on hand as of June 30, 2024 plus the cash raised from the July 2024 equity offering and cash expected to be generated from operations will not be sufficient to fund planned operations for one year from the issuance of the June 30, 2024 financial statements. To continue our operations, we currently estimate that we will need to obtain additional funding by the second quarter of 2025. We can provide no assurance that such funding would be available to us on acceptable terms, or at all. If we fail to raise additional proceeds, we will be required to modify or cease our operations. These factors raise substantial doubt regarding our ability to continue as a going concern.

***We have in the past failed to maintain compliance with all applicable continued listing requirements of the Nasdaq Capital Market, and if we fail to maintain compliance with all applicable continued listing requirements of the Nasdaq Capital Market in the future, we will not be afforded traditional cure periods under Nasdaq rules and our common stock will be delisted from Nasdaq, which could have an adverse impact on the liquidity and market price of our common stock.***

On December 19, 2023, we were notified by the Listing Qualifications Department (the "Staff") of the Nasdaq Stock Market ("Nasdaq") that we were not in compliance with Nasdaq's Listing Rule 5550(a)(2), as the minimum bid price of our common stock had been below \$1.00 per share for 30 consecutive business days. On January 4, 2024, the Staff notified us that the market value of our listed securities had been below the minimum \$35,000,000 required for continued listing as set forth in Nasdaq's Listing Rule 5550(b)(2) for the previous 180 calendar days and served as an additional basis for delisting.

We submitted a hearing request to Nasdaq's Hearings Department, which stayed the suspension of our common stock. The hearing was held on March 26, 2024. On April 2, 2024, we received notification from the Nasdaq Hearings Panel ("Panel") that it had granted an extension until June 24, 2024, to demonstrate compliance with Listing Rules 5550(a)(2) and 5550(b)(1) (which requires at least \$2.5 million in shareholders' equity), subject to certain conditions.

On July 17, 2024, we received a letter from the Nasdaq Office of General Counsel confirming the decision of the Panel that we had demonstrated compliance with the requirements for continued listing on The Nasdaq Capital Market, but that we will be subject to a Discretionary Panel Monitor for a period of one year. As such, in the event that we have another deficiency or deficiencies, we will immediately go back into Nasdaq's hearings process. In the event that the Nasdaq Hearings Department does not grant us an extension to demonstrate compliance our common stock would be delisted from Nasdaq and trading of our common stock could be conducted only in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such an event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by securities analysts and the news media, which could cause the price of our common stock to decline further. Also, it may be difficult for us to raise additional capital if we are not listed on a major exchange.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Except as previously reported on Form 8-K, we did not sell any equity securities during the period covered by the report that were not registered under the Securities Act.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

During the quarter ended June 30, 2024, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

### ITEM 6. EXHIBITS

#### INDEX TO EXHIBITS

Exhibit Number	Description
3.1	<a href="#">Amendment to Amended and Restated Certificate of Incorporation of Volcon, Inc.</a> (incorporated by reference to exhibit 3.1 of the Form 8-K filed June 7, 2024)
4.1	<a href="#">Form of Series B Warrant amendment</a> (incorporated by reference to exhibit 4.1 of the Form 8-K filed May 17, 2024)
4.2	<a href="#">Form of Pre-Funded Warrant issued in Series B Warrant exchange offer</a> (incorporated by reference to exhibit 4.2 of the Form 8-K filed May 17, 2024)
4.3	<a href="#">Form of May 2024 Notes</a> (incorporated by reference to exhibit 4.1 of the Form 8-K filed May 20, 2024)
4.4	<a href="#">Form of May 2024 Warrants</a> (incorporated by reference to exhibit 4.2 of the Form 8-K filed May 20, 2024)
10.1	<a href="#">Form of Exchange Agreement by and among the Company and certain Series B Warrant Holders</a> (incorporated by reference to exhibit 10.1 of the Form 8-K filed May 17, 2024)
10.2	<a href="#">Form of Securities Purchase Agreement by and among the Company and the Investors, dated May 20, 2024</a> (incorporated by reference to exhibit 10.1 of the Form 8-K filed May 20, 2024)
10.3	<a href="#">Placement Agent Agreement between the Company and Aegis Capital Corp. dated May 19, 2024</a> (incorporated by reference to exhibit 10.2 of the Form 8-K filed May 20, 2024)
31.1*	<a href="#">Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934</a>
31.2*	<a href="#">Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934</a>
32.1*(1)	<a href="#">Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2*(1)	<a href="#">Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in inline XBRL, and included in exhibit 101).

\* Filed herewith.

(1) The certifications on Exhibit 32 hereto are deemed not “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

## SIGNATURES

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

### VOLCON, INC.

<b>SIGNATURE</b>	<b>TITLE</b>	<b>DATE</b>
<u>/s/ John Kim</u> John Kim	Chief Executive Officer and Director (principal executive officer)	August 6, 2024
<u>/s/ Greg Endo</u> Greg Endo	Chief Financial Officer (principal financial and accounting officer)	August 6, 2024

## CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, John Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2024 of Volcon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 6, 2024

By: /s/ John Kim  
John Kim  
Chief Executive Officer  
(Principal executive officer)

## CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Greg Endo, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2024 of Volcon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 6, 2024

By: /s/ Greg Endo  
Greg Endo  
Chief Financial Officer  
(Principal financial and accounting officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Volcon, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the quarter ended June 30, 2024 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2024

By: /s/ John Kim  
John Kim  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Volcon, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the quarter ended June 30, 2024 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2024

By: /s/ Greg Endo  
Greg Endo  
Chief Financial Officer  
(Principal financial and accounting officer)