

Workhorse Group Inc.
Form 10-Q
November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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: 000-53704

WORKHORSE GROUP INC.

(Exact name of registrant as specified in its charter)

Nevada **26-1394771**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

100 Commerce Drive, Loveland, Ohio 45140

(Address of principal executive offices) (Zip Code)

513-360-4704

Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| | |
|--|-------------------|
| Common Stock, \$0.001 par value per share | 26,529,357 |
|--|-------------------|

(Class)

(Outstanding at November
14, 2016)

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Forward-Looking Statements

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

All references in this Form 10-K that refer to the “Company”, “WORKHORSE GROUP”, “Workhorse”, “we,” “us” or “our” a WORKHORSE GROUP INC. and unless otherwise differentiated, its wholly-owned subsidiaries, Workhorse Technologies Inc. and Workhorse Motor Works Inc.

PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Workhorse Group, Inc.**

Consolidated Balance Sheets

September 30, 2016 and December 31, 2015

| | September 30, 2016 (Unaudited) | December 31, 2015 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,049,253 | \$ 7,677,163 |
| Accounts receivable | 536,600 | - |
| Inventory | 3,568,972 | 78,917 |
| Prepaid expenses and deposits | 144,183 | 3,149,289 |
| | 7,299,008 | 10,905,369 |
| Property, plant and equipment, net | 3,598,138 | 3,736,359 |
| | \$ 10,897,146 | \$ 14,641,728 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,232,126 | \$ 1,606,695 |
| Accounts payable, related parties | 55,904 | 399,542 |
| Notes payable | - | 13,534,426 |
| Shareholder advances | 1,420,773 | 111,700 |
| Current portion of long-term debt | 50,000 | 2,772,500 |
| | 4,758,803 | 18,424,863 |
| Long-term debt | - | - |
| Stockholders' equity (deficit): | | |
| Series A preferred stock, par value of \$.001 per share 75,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2016 and December 31, 2015 | - | - |
| | 26,369 | 18,205 |

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Common stock, par value of \$.001 per share 50,000,000 shares authorized,
26,369,003 shares issued and outstanding at September 30, 2016 and 18,204,923
shares issued and outstanding at December 31, 2015

| | | |
|----------------------------|---------------|---------------|
| Additional paid-in capital | 55,599,550 | 33,557,615 |
| Stock based compensation | 6,608,470 | 6,158,390 |
| Accumulated deficit | (56,096,046) | (43,517,345) |
| | 6,138,343 | (3,783,135) |
| | \$ 10,897,146 | \$ 14,641,728 |

See accompanying notes to the consolidated financial statements.

Workhorse Group, Inc.

Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 2016 and 2015

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Sales | \$1,906,000 | \$72,000 | \$3,376,600 | \$139,980 |
| Cost of Sales | 4,173,364 | - | 6,932,416 | - |
| Gross loss | (2,267,364) | 72,000 | (3,555,816) | 139,980 |
| Operating Expenses | | | | |
| Selling, general and administrative | 1,968,260 | 1,789,435 | 4,755,642 | 2,758,245 |
| Research and development | 1,024,470 | 1,745,981 | 4,224,208 | 2,618,215 |
| Total operating expenses | 2,992,730 | 3,535,416 | 8,979,850 | 5,376,461 |
| Interest expense, net | 2,765 | 329,692 | 43,035 | 437,919 |
| Net loss | \$(5,262,859) | \$(3,793,108) | \$(12,578,701) | \$(5,674,400) |
| Basic and diluted loss per share | \$(0.25) | \$(0.24) | \$(0.61) | \$(0.36) |
| Weighted average number of common shares outstanding | 20,665,480 | 15,817,267 | 20,665,480 | 15,817,267 |

See accompanying notes to the consolidated financial statements.

Workhorse Group, Inc.

Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2016 and 2015

(Unaudited)

| | 2016 | 2015 |
|---|----------------|---------------|
| Cash flows from operating activities: | | |
| Net loss | \$(12,578,701) | \$(5,674,400) |
| Adjustments to reconcile net loss from operations to cash used by operations: | | |
| Depreciation | 286,316 | 281,774 |
| Stock based compensation | 853,609 | 279,335 |
| Legal, consulting and investment services | - | 168,873 |
| Interest expense paid in kind | - | 247,500 |
| Write down of inventory | 78,917 | 193,778 |
| Effects of changes in operating assets and liabilities: | | |
| Accounts receivable | (536,600) | - |
| Inventory | (3,568,972) | - |
| Prepaid expenses and deposits | 733,469 | (12,364) |
| Accounts payable | 1,737,918 | 406,262 |
| Accounts payable, related parties | (343,638) | (65,797) |
| Net cash used by operations | (13,337,682) | (4,175,038) |
| Cash flows from investing activities: | | |
| Capital expenditures | (148,095) | (32,529) |
| Net cash used by investing activities | (148,095) | (32,529) |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | - | 1,172,000 |
| Payments on long-term debt | (2,722,500) | (5,045) |
| Shareholder advances, net of repayments | 1,309,073 | 1,712,200 |
| Issuance of common and preferred stock | - | 1,027,032 |
| Exercise of warrants and options | 10,271,294 | - |
| Net cash provided by financing activities | 8,857,867 | 3,906,187 |
| Change in cash and cash equivalents | (4,627,910) | (301,380) |
| Cash at the beginning of the period | 7,677,163 | 442,257 |
| Cash at the end of the period | 3,049,253 | 140,877 |

Supplemental disclosure of non-cash activities:

Notes payable of \$13,534,426 and Accounts Payable of \$112,487, net of \$2,271,637 in prepaid expenses related to the 2015 PPM offering, were converted to equity during the nine months ended September 30, 2016.

Certain options and warrants were exercised utilizing an allowed cashless method. These cashless exercises resulted in an increase to common stock of \$83, an increase to additional paid in capital of \$378,446 and a decrease to stock based compensation in equity of \$375,529 during the nine months ended September 30, 2016.

See accompanying notes to the consolidated financial statements.

Workhorse Group Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The following accounting principles and practices are set forth to facilitate the understanding of data presented in the financial statements:

Nature of operations and principles of consolidation

Workhorse Group Inc. (Workhorse, the Company, we, us or our) designs, develops, manufactures, and sells high-performance, medium-duty trucks with advanced powertrain components under the Workhorse chassis brand.

Workhorse, formerly known as Title Starts Online, Inc. and AMP Holding Inc., was incorporated in the State of Nevada in 2007 with \$3,100 of capital from the issuance of common shares to the founding shareholder. On August 11, 2008, the Company received a Notice of Effectiveness from the U.S. Securities and Exchange Commission, and on September 18, 2008, the Company closed a public offering in which it accepted subscriptions for an aggregate of 200,000 shares of its common stock, raising \$50,000 less offering costs of \$46,234. With this limited capital, the Company did not commence operations and remained a “shell company” (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended).

On December 28, 2009, the Company entered into and closed a Share Exchange Agreement with the Shareholders of Advanced Mechanical Products, Inc. (n/k/a AMP Electric Vehicles, Inc.) (AMP) pursuant to which the Company acquired 100% of the outstanding securities of AMP in exchange for 14,890,904 shares of the Company’s common stock. Considering that, following the merger, the AMP Shareholders control the majority of the outstanding voting common stock of the Company, and effectively succeeded the Company’s otherwise minimal operations to those that are AMP. AMP is considered the accounting acquirer in this reverse-merger transaction. A reverse-merger transaction is considered and accounted for as a capital transaction in substance; it is equivalent to the issuance of AMP securities for net monetary assets of the Company, which are de minimis, accompanied by a recapitalization. Accordingly, goodwill or other intangible assets have not been recognized in connection with this reverse merger transaction. AMP is the surviving entity and the historical financials following the reverse merger transaction will be those of AMP. The Company was a shell company immediately prior to the acquisition of AMP pursuant to the terms of the Share Exchange Agreement. As a result of such acquisition, the Company operations are now focused on the design,

marketing and sale of vehicles with an all-electric power train and battery systems. Consequently, we believe that acquisition has caused the Company to cease to be a shell company as it now has operations. The Company formally changed its name to AMP Holding Inc. on May 24, 2010.

Since the acquisition, the Company has devoted the majority of its resources to the development of an all-electric drive system capable of moving heavy large vehicles ranging from full size SUV's up to and including Medium Duty Commercial trucks. Additionally, in February 2013, the Company formed a new wholly owned subsidiary, Workhorse Motor Works Inc. (f/k/a AMP Trucks Inc.), an Indiana corporation. On March 13, 2013, Workhorse Motor Works Inc. closed on the acquisition of an asset purchase of assets from Workhorse Custom Chassis, LLC. The assets included in this transaction included: The Workhorse brand, access to the dealer network of 440 dealers nationwide, intellectual property, and all physical assets which included the approximately 250,000 sq. ft. of facilities on 48 acres of land in Union City, Indiana. This acquisition allows the Company to position itself as a medium duty OEM capable of producing new chassis with electric, propane, compressed natural gas, and hybrid configurations, as well as gasoline drive systems.

On April 16, 2015, the Company filed Articles of Merger with the Secretary of State of the State of Nevada to change the name from "AMP Holding Inc." to "Workhorse Group Inc.". The Company believed that this change will allow investors, customers and suppliers to better associate the Company with the Workhorse brand, which is well known in the market.

Basis of presentation

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has limited revenues and a history of negative working capital and stockholders' deficits. These conditions raise substantial doubt about the ability of the Company to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon the continued operations of the Company, which, in turn, is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and successfully carry out its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary, should the Company not continue as a going concern.

The Company has continued to raise capital. Management believes the proceeds from these offerings, future offerings, and the Company's anticipated revenue, provides an opportunity to continue as a going concern. If additional funding is required, the Company plans to obtain working capital from either debt or equity financing from the sale of common stock, preferred stock, and/or convertible debentures. Obtaining such working capital is not assured. The Company is currently starting production and is switching focus from R&D to manufacturing.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Certain reclassifications were made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operation or stockholders' equity (deficit).

Financial instruments

The carrying amounts of financial instruments including cash, inventory, accounts payable and short-term debt approximate fair value because of the relatively short maturity of these instruments.

Accounts receivable

Accounts receivable consist of collectible amounts for products and services rendered. The Company carries its accounts receivable at invoice amount less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. The Company generally does not require collateral for accounts receivable.

Inventory

Inventory is stated at the lower of cost or market under the average method, and consist of parts and work in process.

Property, plant and equipment, net

Property and equipment is recorded at cost. Major renewals and improvements are capitalized while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed. When property and equipment is retired or otherwise disposed of, a gain or loss is realized for the difference between the net book value of the asset and the proceeds realized thereon. Depreciation is calculated using the straight-line method, based upon the following estimated useful lives:

Buildings: 15 - 30 years

Leasehold improvements: 7 years

Software: 3 - 6 years

Equipment: 5 years

Vehicles and prototypes: 3 - 5 years

Capital stock

On April 22, 2010, the directors of the Company approved a forward stock split of the common stock of the Company on a 14:1 basis. On May 12, 2010, the stockholders of the Company voted to approve the amendment of the certificate of incorporation resulting in a decrease of the number of shares of common stock. Management filed the certificate of amendment decreasing the authorized shares of common stock with the State of Nevada on September 8, 2010. On February 11, 2015, the Company filed a certificate of amendment to its articles of incorporation to increase the authorized shares of common stock to 50,000,000.

On December 9, 2015, the Company filed a Certificate of Amendment to its Certificate of Incorporation to implement a one-for-ten reverse split of the Corporation's issued and outstanding common stock (the "Reverse Stock Split"), as authorized by the stockholders of the Company. The Reverse Stock Split became effective at the open of trading on December 11, 2015 (the "Effective Date"). As of the Effective Date, every ten shares of issued and outstanding common stock were combined into one newly issued share of common stock. No fractional shares were issued in connection with the Reverse Stock Split. Total cash payments made by the Company to stockholders in lieu of fractional shares was not material.

All references in the financial statements and MD&A to number of common shares, price per share and weighted average shares of common stock have been adjusted to reflect the Reverse Stock Split on a retroactive basis for all prior periods presented, unless otherwise noted, including reclassifying an amount equal to the reduction in par value of common stock to additional paid in capital.

The capital stock of the Company is as follows:

Preferred Stock - The Company has authorized 75,000,000 shares of preferred stock with a par value of \$.001 per share. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors. There are no shares of preferred stock outstanding.

Common Stock - The Company has authorized 50,000,000 shares of common stock with a par value of \$.001 per share.

Revenue recognition / customer deposits

It is the Company's policy that revenues will be recognized in accordance with SEC Staff Bulletin (SAB) No. 104, "Revenue Recognition". Under SAB 104, product revenues (or service revenues) are recognized when persuasive evidence of an arrangement exists, delivery has occurred (or service has been performed), the sales price is fixed and determinable, and collectability is reasonably assured.

Income taxes

With the consent of its shareholders, at the date of inception, the Company elected under the Internal Revenue Code to be taxed as an S corporation. Since shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income, an S corporation is generally not subject to either federal or state income taxes at the corporate level. On December 28, 2009, pursuant to the merger transaction the Company revoked its election to be taxed as an S-corporation.

As no taxable income has occurred from the date of this merger to September 30, 2016 cumulative deferred tax assets of approximately \$15.5 million are fully reserved, and no provision or liability for federal or state income taxes has been included in the financial statements. Carryover amount are:

| Approximate net operating loss (\$ millions) | Carryover to be used against taxable income generated through year |
|--|--|
| 3.6 | 2030 |
| 6.7 | 2031 |
| 3.9 | 2032 |
| 4.7 | 2033 |
| 6.1 | 2034 |
| 9.0 | 2035 |
| 11.7 | 2036 |

Research and development costs

The Company expenses research and development costs as they are incurred. Research and Development costs were approximately \$4.2 million and \$2.6 million for the nine-months period ended September 30, 2016 and 2015 respectively, consisting primarily of personnel costs for our teams in engineering and research, prototyping expense, and contract and professional services. Union City plant expenses prior to the start of production are also included in research and development expenses. The Company began increased production during the nine months ended September 30, 2016, decreasing emphasis on R&D.

Basic and diluted loss per share

Basic loss per share is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. For all periods, all of the Company's common stock equivalents were excluded from the calculation of diluted loss per common share because they were anti-dilutive, due to the Company's net losses.

Stock based compensation

The Company accounts for its stock based compensation in accordance with “Share-Based Payments” (codified in FASB ASC Topic 718 and 505). The Company recognizes in its consolidated statement of operations the grant-date fair value of stock options and warrants issued to employees and non-employees. The fair value is estimated on the date of grant using a lattice-based valuation model that uses assumptions concerning expected volatility, expected term, and the expected risk-free rate of return. For the awards granted, the expected volatility was estimated by management as 50% based on a range of forecasted results. The expected term of the awards granted was assumed to be the contract life of the option or warrant (one, two, three, five or ten years as determined in the specific arrangement). The risk-free rate of return was based on market yields in effect on the date of each grant for United States Treasury debt securities with a maturity equal to the expected term of the award.

Related party transactions

Certain stockholders and stockholder family members have advanced funds or performed services for the Company. These services are believed to be at market rates for similar services from non-related parties. Related party accounts payable are segregated in the balance sheet.

Subsequent events

The Company evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through November 14, 2016, the date on which the consolidated financial statements were available to be issued.

2. INVENTORY

As of September 30, 2016 and December 31, 2015, our inventory consisted of the following:

| | 2016 (Unaudited) | 2015 |
|------------------|---------------------|----------|
| Parts | \$2,075,560 | \$78,917 |
| Work in Progress | 1,493,412 | - |
| | \$3,568,972 | \$78,917 |

3. PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30, 2016 and December 31, 2015, our property, plant and equipment, net, consisted of the following:

| | September 30, 2016 (Unaudited) | December 31, 2015 |
|-------------------------------|--------------------------------------|----------------------|
| Land | \$ 300,000 | \$ 300,000 |
| Buildings | 3,800,000 | 3,800,000 |
| Leasehold Improvements | 19,225 | 19,225 |
| Software | 62,912 | 27,721 |
| Equipment | 808,512 | 724,507 |
| Vehicles and prototypes | 227,864 | 198,965 |
| | 5,218,513 | 5,070,418 |
| Less accumulated depreciation | (1,620,375) | (1,334,059) |
| | \$ 3,598,138 | \$ 3,736,359 |

4. LONG-TERM DEBT

Long-term debt consists of the following:

| | September 30, 2016 (Unaudited) | December 31, 2015 |
|--|--------------------------------------|----------------------|
| Secured debenture payable to Workhorse Custom Chassis, LLC, due March 2016 plus interest at 10%. The debenture is secured by the real estate and related assets of the | \$ - | \$ 2,722,500 |

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plant located in Union City, Indiana. Note was paid on February 2016.

| | | |
|---|--------|-----------|
| Note payable to the City of Loveland, due in annual installments of \$10,241 including interest with the final payment due October 2016. Interest rate amended to 8.00%. The note is unsecured and contains restrictions on the use of proceeds. | 50,000 | 50,000 |
| | 50,000 | 2,772,500 |
| Less current portion | 50,000 | 2,772,500 |
| Long term debt | \$ - | \$ - |

The note payable to the City of Loveland contains job creation incentives whereby each annual payment may be forgiven by the City upon the Company meeting minimum job creation benchmarks. This loan agreement amended the incentives to 30 full time employees within the City of Loveland with payroll totaling \$135,000 by October 31, 2013 and 40 employees with payroll totaling \$175,000 by July 31, 2014, continuing with an average of 40 employees with payroll totaling \$175,000 thereafter. The proceeds from this loan were to be used for qualified disbursements only, and the Company has been notified it did not meet the requirements for qualified disbursements and for forgiveness of the 2012 principal and interest payment, which is past due. In 2013 the Company made payments to an escrow account totaling \$22,900.

5. SHAREHOLDER AND RELATED PARTY ADVANCES

As of September 30, 2016, the Company had deposits for approximately \$1.4 million that were not yet issued as common stock. The stock is expected to be issued during the fourth quarter of 2016.

6. LEASE OBLIGATIONS

On October 1, 2011, the Company began leasing operating facilities under an agreement expiring on March 30, 2018. Total rent expense under these operating type leases for the nine months ended September 30, 2016 and 2015 was \$120,000 and \$116,000, respectively.

After September 30, 2016, the Company purchased the operating facilities. See Note 10.

7. STOCK BASED COMPENSATION*Options to directors, officers and employees*

The Company maintains, as adopted by the board of directors, the 2014 Stock Incentive Plan, the 2014 Stock Compensation Plan, 2013 Incentive Stock Plan, the 2012 Incentive Stock Plan, the 2011 Incentive Stock Plan and the 2010 Stock Incentive Plan (the plans) providing for the issuance of up to 1,100,000 options to employees, officers, directors or consultants of the Company. Incentive stock options granted under the plans may only be granted with an exercise price of not less than fair market value of the Company's common stock on the date of grant (110% of fair market value for incentive stock options granted to principal stockholders). Non-qualified stock options granted under the plans may only be granted with an exercise price of not less than 85% of the fair market value of the Company's common stock on the date of grant. Awards under the plans may be either vested or unvested options. The unvested options vest ratably over two years for options with a five or three-year term and after one year for options with a two-year term.

In addition to the plans, the Company has granted, on various dates, stock options to directors, officers and employees to purchase common stock of the Company. The terms, exercise prices and vesting of these awards vary.

The following table summarizes option activity for directors, officers and employees:

| | Options Available for Grant | Outstanding Stock Options | | | |
|----------------------------|-----------------------------|---------------------------|--|---|--|
| | | Number of Options | Weighted Average Exercise Price per Option | Weighted Average Grant Date Fair Value per Option | Weighted Average Remaining Exercise Term in Months |
| Balance, December 31, 2014 | 80,907 | 1,667,068 | \$ 2.34 | \$ 1.52 | 41 |
| Additional stock reserved | 1,120,000 | - | \$ - | \$ - | - |
| Granted | (443,436) | 443,436 | \$ 1.93 | \$ 1.29 | 55 |
| Exercised | - | (130,070) | \$ 1.30 | \$ 0.75 | - |
| Forfeited | - | - | \$ - | \$ - | - |
| Expired | - | - | \$ - | \$ - | - |
| Balance December 31, 2015 | 757,471 | 1,980,434 | \$ 2.21 | \$ 1.46 | 49 |
| Additional stock reserved | 500,000 | - | \$ - | \$ - | - |
| Granted | (794,500) | 794,500 | \$ 6.38 | \$ 2.82 | 58 |
| Exercised | - | (120,250) | \$ 1.70 | \$ 0.46 | - |

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| | | | | | |
|----------------------------|---------|-----------|---------|---------|----|
| Forfeited | - | - | \$ - | \$ - | - |
| Expired | - | - | \$ - | \$ - | - |
| Balance September 30, 2016 | 462,971 | 2,654,684 | \$ 2.46 | \$ 1.53 | 43 |

The Company recorded \$823,253 and \$210,379 compensation expense for stock options to directors, officers and employees for the nine months ended September 30, 2016 and 2015 respectively. As of September 30, 2016, unrecognized compensation expense of \$ 2,676,808 is related to non-vested options granted to directors, officers and employees which is anticipated to be recognized over the next 42 months, commensurate with the vesting schedules.

Options to consultants

The Company has also granted, on various dates, stock options to purchase common stock of the Company to consultants for services previously provided to the Company. The terms, exercise prices and vesting of these awards vary.

The following table summarizes option activity for consultants:

| | Outstanding Stock Options | | | | |
|----------------------------|-----------------------------|-------------------|--|---|--|
| | Options Available for Grant | Number of Options | Weighted Average Exercise Price per Option | Weighted Average Grant Date Fair Value per Option | Weighted Average Remaining Exercise Term in Months |
| Balance, December 31, 2014 | 39,327 | 399,273 | \$ 1.27 | \$ 1.31 | 50 |
| Additional stock reserved | - | - | \$ - | \$ - | - |
| Granted | - | - | \$ - | \$ - | - |
| Exercised | - | (32,524) | \$ 0.10 | \$ 0.98 | - |
| Forfeited | 59,976 | (59,976) | \$ - | \$ - | - |
| Expired | - | - | \$ - | \$ - | - |
| Balance December 31, 2015 | 99,303 | 306,773 | \$ 0.36 | \$ 1.01 | 41 |
| Additional stock reserved | - | - | \$ - | \$ - | - |
| Granted | (9,000) | 9,000 | \$ 4.99 | \$ 0.44 | 52 |
| Exercised | - | (62,500) | \$ 0.63 | \$ 0.72 | - |
| Forfeited | - | - | \$ - | \$ - | - |
| Expired | - | - | \$ - | \$ - | - |
| Balance September 30, 2016 | 90,303 | 253,273 | \$ 0.49 | \$ 1.05 | 37 |

The Company recorded \$31,356 and \$36,011 compensation expense for stock options to consultants for the nine months ended September 30, 2016 and 2015 respectively. As of September 30, 2016, unrecognized compensation expense of \$137,941 is related to non-vested options granted to consultants which is anticipated to be recognized over the next 29 months, commensurate with the vesting schedules.

Warrants to placement agent and consultants

The Company has compensated the placement agents for assisting in the sale of the Company's securities by paying the placement agent commissions and issuing the placement agent common stock purchase warrants to purchase shares of the Company's common stock. The warrants have a five-year term and various exercise prices.

The Company has also granted, on various dates, stock warrants to purchase common stock of the Company to consultants for services previously provided to the Company. The terms, exercise prices and vesting of these awards vary.

The following table summarizes warrant activity for the placement agent and consultants:

| | Warrants Available for Grant | Number of Warrants | Outstanding Warrants | | |
|----------------------------|------------------------------|--------------------|---|--|--|
| | | | Weighted Average Exercise Price per Warrant | Weighted Average Grant Date Fair Value per Warrant | Weighted Average Remaining Exercise Term in Months |
| Balance, December 31, 2014 | 274,098 | 410,149 | \$ 3.59 | \$ 1.51 | 14 |
| Additional stock reserved | - | - | \$ - | \$ - | - |
| Granted | (63,871) | 63,871 | \$ 1.40 | \$ 1.17 | 59 |
| Exercised | - | (161,719) | \$ 2.36 | \$ 1.09 | - |
| Forfeited | - | (5,478) | \$ - | \$ - | - |
| Expired | - | - | \$ - | \$ - | - |
| Balance December 31, 2015 | 210,227 | 306,823 | \$ 2.79 | \$ 1.26 | 9 |
| Additional stock reserved | - | - | \$ - | \$ - | - |
| Granted | - | - | \$ - | \$ - | - |
| Exercised | - | (87,255) | \$ 2.79 | \$ 0.40 | - |
| Forfeited | - | - | \$ - | \$ - | - |
| Expired | - | (20,267) | \$ 6.00 | \$ 2.73 | - |
| Balance September 30, 2016 | 210,227 | 199,301 | \$ 2.56 | \$ 1.16 | 17 |

The Company recorded \$0 and \$32,944 compensation expense for stock warrants to the placement agent and consultants for the nine months ended September 30, 2016 and 2015 respectively. There is no unrecognized compensation expense for the placement agent warrants because they are fully vested at date of grant.

Warrants to directors and officers

In December 2010 and May 2011, the Company issued to certain directors' and officers' common stock purchase warrants to acquire shares of common stock at an exercise price of \$20.00 per share for a period of five years. In November 2011, under the terms of a Promissory Note issued to a director and officer, common stock purchase warrants were issued to acquire 100,000 shares of common stock at an exercise price of \$5.00 per share for a period of one year. In May 2012, a director and officer received common stock purchase warrants to acquire common stock of the Company at an exercise price of \$5.00 for a period of three years. In June 2012, a director and officer converted secured and unsecured loans provided to the Company from September 2011 to June 2012 in the aggregate amount of \$389,250 into Promissory Notes and common stock purchase warrants. In November 2012, the Company entered into a Note and Warrant Amendment and Conversion Agreement whereby the holders converted all principal and interest under such Promissory Notes into shares of common stock. Further, the exercise price of the common stock purchase warrants was reduced to \$2.50 per share. The \$7,388 cost of the reduction in the exercise price is included in stock based compensation expense for the year ended December 31, 2012.

The following table summarizes warrant activity for directors and officers:

| | Outstanding Warrants | | | | |
|----------------------------|------------------------------|--------------------|---|--|--|
| | Warrants Available for Grant | Number of Warrants | Weighted Average Exercise Price per Warrant | Weighted Average Grant Date Fair Value per Warrant | Weighted Average Remaining Exercise Term in Months |
| Balance, December 31, 2014 | 348,925 | 338,925 | \$ 17.83 | \$ 0.95 | 9 |
| Additional stock reserved | - | - | - | - | - |
| Granted | - | - | - | - | - |
| Exercised | - | - | - | - | - |
| Forfeited | - | - | - | - | - |
| Expired | - | - | - | - | - |
| Balance December 31, 2015 | 348,925 | 338,925 | \$ 20.00 | \$ 1.02 | 4 |
| Additional stock reserved | - | - | - | - | - |
| Granted | - | - | - | - | - |
| Exercised | - | - | - | - | - |
| Forfeited | - | - | - | - | - |
| Expired | - | - | - | - | - |
| Balance September 30, 2016 | 348,925 | 338,925 | \$ 20.00 | \$ 1.02 | 4 |

The Company recorded no compensation expense for stock warrants to directors and officers for the nine months ended September 30, 2016 and 2015. There is no unrecognized compensation expense for these warrants because they are fully vested at date of grant.

8. RECENT PRONOUNCEMENTS

In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, and affects the guidance in ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. ASU No. 2016-10 clarifies the following two aspects of Topic 606: evaluating whether promised goods and services are separately identifiable, and determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property, which is satisfied at a point in time, or a right to access the entity's intellectual property, which is satisfied over time. ASU No. 2016-10 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Adoption of ASU No. 2016-10 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, and affects all entities that issue share-based payment awards to their employees. The new guidance involves several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU No. 2016-09, any excess tax benefits or tax deficiencies should be recognized as income tax expense or benefit in the income statement. Excess tax benefits are to be classified as an operating activity in the statement of cash flows. In accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, as required under current guidance, or account for forfeitures when they occur. For an award to qualify for equity classification, an entity cannot partially settle the award in excess of the employer's maximum statutory withholding requirements. Such cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. The amendments in ASU No. 2016-09 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Adoption of ASU No. 2016-07 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and affects the guidance in ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. When another party is involved in providing goods or services to a customer, ASU No. 2014-09 requires an entity to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). The amendments in ASU No. 2016-08 are intended to improve the operability and understandability of the implementation guidance in ASU No. 2014-09 on principal versus agent considerations by offering additional guidance to be considered in making the determination. ASU No. 2016-08 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim

reporting periods within that reporting period. Adoption of ASU No. 2016-08 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), and requires a lessee to recognize in the statement of financial position a liability to make lease payments ("the lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term, initially measured at the present value of the lease payments. When measuring assets and liabilities arising from a lease, the lessee should include payments to be made in optional periods only if the lessee is reasonably certain, as defined, to exercise an option to the lease or not to exercise an option to terminate the lease. Optional payments to purchase the underlying asset should be included if the lessee is reasonably certain it will exercise the purchase option. Most variable lease payments should be excluded except for those that depend on an index or a rate or are in substance fixed payments. A lessee shall classify a lease as a finance lease if it meets any of five listed criteria: 1) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term. 2) The lease grants the lessee and option to purchase the underlying asset that the lessee is reasonably certain to exercise. 3) The lease term is for the major part of the remaining economic life of the underlying asset. 4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset. 5) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. For finance leases, a lessee shall recognize in the statement of comprehensive income interest on the lease liability separately from amortization of the right-of-use asset. Amortization of the right-of-use asset shall be on a straight-line basis, unless another basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits. If the lease does not meet any of the five criteria, the lessee shall classify it as an operating lease and shall recognize a single lease cost on a straight-line basis over the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments in this update are to be applied using a modified retrospective approach, as defined, and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted. The Company is currently evaluating the financial statement impact of adopting the new guidance.

In August 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in this update defer the effective date of Update 2014-09 for all entities by one year. Public companies should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 31, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

PRIVATE PLACEMENT MEMORANDUM

9. During 2015, the Company entered into a placement agency agreement with a third party to assist in raising capital. Direct costs of this private placement memorandum (PPM) were deferred and reduced the proceeds from the shares sold in the PPM. The PPM was completed, and all costs were charged to equity in the nine-months period ended in September 30, 2016. Costs of \$2,271,637 were incurred and capitalized related to this PPM as of December 31, 2015 and are recorded in prepaid expenses, deposits and deferred costs.

Total amount converted to common stock in the nine-months period ending in September 30, 2016 including accrued interest on the notes payable was \$11,375,276 net of the deferred costs.

10. SUBSEQUENT EVENTS

After September 30, 2016, the Company purchased its operating facilities in Loveland, Ohio. The total purchase price was \$2.5 million with \$1.7 million financed with a financial institution. The note carries an interest rate of 6.5% accruing monthly with a maturity date of January 1, 2027.

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

Overview and Quarter Highlights

We are a last mile delivery technology company headquartered in the United States. We have broad capabilities beginning with the development and production of American made battery-electric medium-duty truck chassis helping delivery fleets achieve further efficiencies and strengthening their sustainability initiatives. To the best of our knowledge, we are the only medium-duty battery-electric original equipment manufacturer (OEM) in the United States. With a focus on last mile delivery and expanding on fleets operational efficiencies, Workhorse also develops and integrates unmanned aerial vehicle (UAV) platforms. Our drone delivery platform, HorseFly™ is FAA compliant and fully integrated with our medium duty truck chassis. Workhorse also develops and integrates cloud-based, real-time proof-of-performance telematics monitoring software, that provides fleet operators with the ultimate in vehicle diagnostics, energy and route efficiency.

On June 4, 2014, the Company entered into a Vehicle Purchase Agreement with United Parcel Service Inc. (UPS), pursuant to which the relationship by which the Company would sell vehicles to UPS was outlined. In early 2015 Workhorse successfully deployed two battery-electric, range-extended vehicles to United Parcel Service in the Atlanta, GA area. On August 7, 2015, the Company entered into a Prime Order under the Vehicle Purchase Agreement with UPS, pursuant to which UPS agreed to purchase 125 E-GEN trucks. Currently, the schedule agreed to with UPS for the Prime Order requires that we deliver the 125 units to 26 selected UPS facilities across 8 states during the 2016 calendar year. However, these deadlines are expected to evolve as UPS operations personnel from eight states will be involved in the scheduling.

Workhorse had previously entered into a purchase agreement with UPS to supply 18 all-electric Workhorse E-100 Walk-In Vans to be deployed in the Houston-Galveston, Texas area. The U.S. Department of Energy selected this project to improve local air quality in the Houston-Galveston area, which is currently designated as a National Ambient Air Quality Non-Attainment Area. Workhorse fulfilled this order on July 16, 2016.

In addition, on September 7, 2016, we entered into a purchase order with UPS pertaining to the sale of 200 EGEN electric extended range vehicles.

On November 7, 2016, the Company commenced development of an electric pickup work truck with range extender for fleet usage.

On October 31, 2016, the Company purchased its existing facility as well as adjoining space in Loveland, Ohio. With the additional space, the Company intends to expand its battery pack factory facilities currently in place at the existing facility.

We recently entered in an agreement with Bayerische Motoren Werke AG (BMW) to supply the W20 REx quiet-running 2-cylinder gasoline engine functioning as a generator replacing the current 4-cylinder engine to extend the range of our E-GEN product. Workhorse has integrated the BMW i3 range-extender (REx) solution into its fleet of Workhorse E-GEN range-extended delivery vehicles. The Workhorse E-GEN delivery vehicles are used by last mile delivery companies to fulfill their customers' delivery needs.

We developed and deliver Metron®, a real-time, proof-of-performance monitoring system that provides fleet operators the ultimate in vehicle diagnostics, energy and route efficiency while enabling them to monitor, control and update software remotely. We are also currently in the initial stages of developing a self-driving software to further differentiate us as the technology company with the most cost effective last mile delivery system in the marketplace.

We have filed a patent application for the system that extends the range of electric vehicles while reducing the overall cost of the typical battery-electric power train. The system, E-GEN™, is designed specifically for the package delivery vehicle market, in which the diesel and/or gasoline-powered vehicles in use now are required to stop and restart hundreds of times a day. Our E-GEN system incorporates a two-cylinder gasoline engine that is configured to engage only when the depth-of-discharge of the battery packs reach a pre-determined state-of-charge. Acting purely as a generator to produce electricity, Workhorse's technology seamlessly extends the range of vehicles enabling drivers to complete their routes using the optimal amount of energy required and eliminates range anxiety commonly associated with electric vehicles. The depth-of-discharge is calculated based on projected route distance, package loads and electricity efficiency curves. The gas engine never propels the vehicle, its task is simple, automatically turn on in the event the battery needs a small re-charge. We believe that the range-extended battery-electric technology is an ideal fit for urban and suburban delivery routes, despite the typical fleet owner's concerns about range and cost. Our E-GEN Drive system will enable our customers to keep their batteries charged to a consistent state of charge throughout the day and, since we can use smaller battery packs, we can reduce the cost of the entire system. Our E-GEN trucks offer a three-year payback, making them price competitive with gasoline-powered trucks. Thus, we believe our new design has many benefits, including:

Fleet management flexibility: Depending on our customer's driving patterns and fuel cost goals, our E-GEN drive train can be remotely adjusted to optimize the use of the electric power and the runtime of ICE generator.

Energy efficiency and cost of ownership: We have demonstrated our trucks offer customers an attractive total cost-of-ownership profile compared to similar products. Using a single electric power train with a small ICE configured as a generator enables us to create a lighter, more energy efficient vehicle that is mechanically simple. Since we can use smaller battery packs, we can reduce the cost of the entire system. Additionally, government incentives can further reduce the cost of ownership.

High performance: Driver testimonials have demonstrated unparalleled driving experience, with powerful acceleration for the most demanding applications while also providing the added benefit of an extremely quiet operation.

We believe the benefits of our new design also provide customers additional benefits, which include:

Low Total Cost-of-Ownership

Gaining a competitive edge to increase market share

Improving profitability created by

- oSignificantly lower maintenance costs

- oReduced fuel expenses

Increasing the number of deliveries per day through more efficient delivery methods

Strengthening sustainability programs

Improving driver experience and safety

We have developed and begun delivery of our second generation, full-electric truck, “E-100”, which is a significant improvement over our first-generation E-100 vehicle. The second-generation vehicle includes a single powerful electric motor with no transmission and lighter, high-density Lithium-ion batteries, giving the vehicle a range of up to 100 miles.

In March 2013, we purchased the assets of Workhorse Custom Chassis from Navistar International (NYSE: NAV). The asset purchase included the 215,000-sq. ft. assembly plant, the 40,000-sq. ft. office, the 15,000-sq. ft. pre-delivery inspection building on a 45-acre campus in Union City IN. It also provides other important assets including the Workhorse brand and logo, intellectual property, schematics, logistical support from Up-Time Parts (a Navistar subsidiary) and, perhaps most importantly, a network of 400-plus sales and service outlets across North America. With this acquisition, we transformed from a conversion company to Original Equipment Manufacturer (OEM) of Class 3-6 commercial-grade, medium-duty truck chassis, to be marketed under the Workhorse® brand.

Ownership and operation of this plant enables us to build new chassis with gross vehicle weight capacities of between 10,000 and 26,000 pounds. These W88 chassis are built on our 88”-track and include either of our two

second-generation, battery-electric drive trains, both powered by Panasonic 18650 Li-ion cells. The W88 truck chassis is currently being offered to fleet purchasing managers at price points that are both attractive and cost competitive.

The Workhorse Custom Chassis acquisition provides other important assets including the Workhorse brand and logo, intellectual property, schematics, logistical support from Up-Time Parts (a Navistar subsidiary) and, perhaps most importantly, a network of 400-plus sales and service outlets across North America. We believe the combination of our chassis assembly capability, coupled with its ability to offer an array of fuel choices, gives Workhorse a unique opportunity in the marketplace.

The Company is also seeking to re-design the future of parcel delivery aviation: HorseFly™, an Unmanned Aerial Vehicle (UAV) that is designed for the package delivery market as well as other commercial applications. Our UAV works in tandem with our electric trucks to bring a practical low cost solution to making the last mile more efficient and cost effective for our parcel customers. HorseFly™ is designed to further improve package delivery efficiencies and has been developed in conjunction with the University of Cincinnati, one of the country's foremost educational institutions for drone research, and the FAA.

The Company responded on March 6, 2015 to a Request for Information and Prequalification (RFI) from the United States Postal Service (USPS) for its Next Generation Delivery Vehicle (NGDV) Acquisition Program. The postal service operates a fleet of over 200,000 vehicles in all areas of the United States and its territories. Approximately 163,000 of these vehicles are right hand drive, light-duty carrier route vehicles purchased between 1987 and 2001. They are not current with advancements in vehicle technologies such as drivetrains, emissions, and safety related features. The postal service intends to retire this fleet in coming years, and to replace them with Next Generation Delivery Vehicles (NGDVs). NGDVs must be capable of delivering both mail to curbside mailboxes and parcel packages in a safe and efficient manner. The postal service states that NGDVs are also expected to benefit from today's availability of practical technological improvements for drivetrains, bodies, chassis, safety systems, security, and innovative designs to improve vehicle loading and delivery operations. The USPS anticipates making a single award in 2017 to a supplier for up to 180,000 NGDVs to replace its current fleet of mail delivery vehicles. Delivery of the NGDVs to the USPS is expected to begin in 2018. On April 14, 2015, the USPS notified Workhorse that it had advanced in the NGDV Acquisition Program as a prequalified supplier. Workhorse partnered with VT Hackney, Inc. ("VT Hackney"), another pre-qualified supplier, to design and build the body and the joint response to the USPS NGDV RFP was delivered by the USPS deadline of February 5, 2016. On March 18, 2016, Workhorse and VT Hackney attended by invitation from the USPS a meeting to present our RFP response and respond to questions. On September 16, 2016, the USPS awarded the contract for the NGDV Prototype to six prime suppliers including VT Hackney. Workhorse and VT Hackney have entered into a Teaming Agreement pursuant to which Workhorse was appointed as the exclusive subcontractor to provide the chassis and powertrain for the prototypes.

On November 6, 2015 Workhorse was informed by The Federal Aviation Administration (FAA) that Workhorse had been granted a Section 333 request for exemption, Exemption No. 13564; Regulatory Docket No. FAA-2015-3055. Workhorse's request for exemption is to operate an unmanned aircraft system (UAS) to conduct research and development for the Horse Fly package delivery system. In accordance with the statutory criteria provided in Section 333 of Public Law 112-95 in reference to 49 U.S.C. § 44704, and in consideration of the size, weight, speed, and limited operating area associated with the aircraft and its operation, the Secretary of Transportation has determined that this aircraft meets the conditions of Section 333. Therefore, the FAA finds that relief from 14 CFR part 21, Certification procedures for products and parts, Subpart H—Airworthiness Certificates, and any associated noise certification and testing requirements of part 36, is not necessary.

Since receiving our Section 333 exemption, we continue to perform live tests of package deliveries using our HorseFly UAS Delivery drone and our Workhorse electric trucks. These tests have taken place at multiple US locations, including the Federal Aviation Administration's unmanned aircraft systems (UAS) research and test site in Texas, as well as test sites in Southwest Ohio.

Prior to receiving the Section 333 exemption Workhorse was granted a Certificate of Authorization (COA) by The Federal Aviation Administration (FAA) to the Ohio/Indiana UAS Center and Test Complex, allowing Workhorse and the University of Cincinnati (UC) to continue their joint development of Workhorse Group's HorseFly™ UAS, which is designed to fly to and from a standard delivery vehicle. Testing of HorseFly is taking place at the Wilmington Air Park in Wilmington, OH. Collaboration between the UC's College of Engineering and Applied Science and the Ohio/Indiana UAS Center led to sponsorship for the two-year FAA authorization from the Ohio State Department of

Transportation in addition to priority access to Wilmington Air Park.

On June 21, 2016, the Federal Aviation Administration's (FAA) released new rules approving the routine commercial use of drones weighing less than 55 pounds. The rules allow drone operators to fly without special permission from the FAA. We feel the FAA's new rules represent a welcomed first step in the modernization of commercial drone flights in the United States. We believe we are uniquely placed within the commercial package delivery sector to take advantage of this rule. Unlike other companies that are likely to adapt off-the-shelf drone technology for package delivery, Workhorse has conceived a truck-and-drone delivery model literally from the ground up. Our HorseFly drone provides an ideal drone-based package delivery system in tandem with our Workhorse E-GEN electric delivery truck. In addition to the financial savings and environmental benefits we believe are achievable, we also feel the drone and truck combination satisfies the operational limits outlined by the FAA today. This includes the ability to maintain visual contact with the drone as it approaches a residence to drop off a package. We are currently studying the FAA rules in detail and plan to take advantage of the greater leeway they allow us as the drone-based package delivery space continues to evolve rapidly.

Results of Operations

Our condensed consolidated statement of operations data for the period presented follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|---------------|------------------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Sales | \$1,906,000 | \$72,000 | \$3,376,600 | \$139,980 |
| Cost of Sales | 4,173,364 | - | 6,932,416 | \$- |
| Gross loss | (2,267,364) | 72,000 | (3,555,816) | 139,980 |
| Operating Expenses | | | | |
| Selling, general and administrative | 1,968,260 | 1,789,435 | 4,755,642 | 2,758,245 |
| Research and development | 1,024,470 | 1,745,981 | 4,224,208 | 2,618,215 |
| Total operating expenses | 2,992,730 | 3,535,416 | 8,979,850 | 5,376,461 |
| Interest expense, net | 2,765 | 329,692 | 43,035 | 437,919 |
| Net loss | \$(5,262,859) | \$(3,793,108) | \$(12,578,701) | \$(5,674,400) |

Sales

Sales for the three and nine months ended September 30, 2016 were \$1.9 and 3.4 million respectively were related to delivery of the production vehicles for UPS and other customers.

Cost of Sales

Cost of sales includes cost of materials, labor and overhead for the vehicles delivered during the period.

Cost of Sales for the three and nine months ended September 30, 2016 were \$4.2 and \$6.9 million respectively. Materials and components for the manufacturing of the initial units were acquired at low volume pricing. We are in the process of negotiating high volume pricing and credit terms with vendors as production volume is increasing.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses consist primarily of personnel and facilities costs related to our development including, marketing, sales, executive, finance, human resources, information technology and professional, legal and contract services.

SG&A expenses during the three months ended September 30, 2016 were \$2.0 million, an increase from \$1.8 million for the three months ended September 30, 2015. The increase in our SG&A expenses consisted primarily in employee salaries and benefits, consulting and investor relations, due the increased activity in the period.

SG&A expenses during the nine months ended September 30, 2016 were \$4.8 million, an increase from \$2.8 million for the nine months ended September 30, 2015. The increase in our SG&A expenses consisted primarily in employee salaries and benefits, investor relations, and travel and due the increased activity in the period.

Research and Development Expenses

Research and development (“R&D”) expenses consist primarily of personnel costs for our teams in engineering and research, prototyping expense, and contract and professional services. Union City plant expenses prior to the start of production are also included in research and development expenses.

R&D expenses during the three months ended September 30, 2016 were \$1.0 million a decrease from \$1.7 million for the three months ended September 30, 2015. The R&D expenses consisted primarily in employee salaries and benefits, consulting and materials related to the start of the Next Generation Delivery Vehicles (NGDVs) project.

R&D expenses during the nine months ended September 30, 2016 were \$4.2 million an increase from \$2.6 million for the nine months ended September 30, 2015. The increase in our R&D expenses consisted primarily in employee salaries and benefits due to increased activity in new projects as mentioned above.

Interest Expenses

Our interest expense is incurred primarily from our long-term loan with Navistar International in connection to the purchase of the Union City plant in the Property, Plant and Equipment and Long Term Loan Debt to the consolidated financial statements.

Interest expenses during the three months ended September 30, 2016 were \$2,765 a decrease from \$330 thousand for the nine months ended September 30, 2015. The decrease in the period was due to early payment of the Navistar note which was due March 1, 2016.

Interest expenses during the nine months ended September 30, 2016 were \$43 thousand a decrease from \$438 thousand for the nine months ended September 30, 2015. The decrease in the period was due to early payment of the Navistar note which was due March 1, 2016 as mentioned before.

*Liquidity and Capital Resources**Summary of Cash Flows*

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2016 | 2015 |
| Net cash used in operating activities | \$(13,337,682) | \$(4,175,038) |
| Net cash used in investing activities | \$(148,095) | \$(32,529) |
| Net cash used and provided by financing activities | \$8,857,867 | \$3,906,187 |

Cash Flows from Operating Activities

Our cash flows from operating activities are affected by our cash investments to support the business in research and development, manufacturing, selling, general and administration. Our operating cash flows are also affected by our working capital needs to support fluctuations in inventory, personnel expenses, accounts payable and other current assets and liabilities.

During the nine months ended September 30, 2016 and 2015, cash used in operating activities was \$13.3 million and \$4.2 million respectively. The decrease in operating cash flows in 2016 as compared to 2015 was mainly due to an increase in operating losses, inventory purchases and accounts receivable net of an increase in accounts payable.

Cash Flows from Investing Activities

Cash flow from investing activities primarily relates to capital expenditures to support our future growth in operations.

During the nine months ended September 30, 2016 and 2015, cash used in investing activities was \$148 thousand and \$33 thousand respectively. The amounts in both years were spent in new equipment and software used mainly for R&D and manufacturing activities.

Cash Flows from Financing Activities

During the nine months ended September 30, 2016 and 2015, net cash provided by financing activities was \$8.9 million and \$3.9 million respectively. Cash flows used in financing activities during the nine months ended September 30, 2016 consisted primarily of \$2.7 million used to pay the balance of the Navistar loan offset by \$10.2 million cash proceeds from the exercise of investor warrants and \$1.3 million of shareholders' advances. In 2015 we had \$1.0 million of cash proceeds mainly from issuance of common stock \$1.2 million from notes payable and \$1.7 million from shareholders' advances.

Management is currently seeking additional capital through private placements or public offerings of its common stock. In addition, the Company may seek to raise additional capital through public or private debt or equity financings in order to fund our operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income (loss) to be critical accounting policies. We consider the following to be our critical accounting policies: basis of presentation, revenue recognition, and income taxes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to include disclosure under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Rules 13a-15(b) and 15-d-15(b) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this report. The term “disclosure controls and procedures”, as defined under Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based upon the evaluation of the disclosure controls and procedures at the end of the period covered by this report, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not a party to any material legal or administrative proceedings and are not aware of any pending or threatened material legal or administrative proceedings arising in the ordinary course of business. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

ITEM 1A. RISK FACTORS

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

We have incurred net losses amounting to \$56.6 million for the period from inception (February 20, 2007) through September 30, 2016. We have had net losses in each quarter since our inception. We expect that we will continue to incur net losses for the foreseeable future. We may incur significant losses in the future for several reasons, including the other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events. Accordingly, we may not be able to achieve or maintain profitability. Our management is developing plans to alleviate the negative trends and conditions described above and there is no guarantee that such plans will be successfully implemented. There is no assurance that even if we successfully implement our business plan, that we will be able to curtail our losses. If we incur additional significant operating losses, our stock price may decline, perhaps significantly.

The development of our business in the near future is contingent upon the implementation of orders from UPS and other key customers for the purchase of E-GENs and if the Company is unable to perform under these orders, its business will be significantly impacted in a negative manner.

On June 4, 2014, the Company entered into a Vehicle Purchase Agreement with United Parcel Service Inc. (“UPS”) pursuant to which the relationship by which the Company would sell vehicles to UPS was outlined. To date, we have received orders to purchase 343 E-GENs from UPS. We have entered into various purchase orders with UPS relating to the delivery of the vehicles ordered. Currently, the schedule agreed to with UPS requires that we deliver regular monthly deliveries of vehicles per month. However, these deadlines are expected to evolve as the UPS operations personnel from the seven states are involved in the scheduling. There is no guarantee that the Company will be able to

perform under these orders and if it does perform, that UPS will purchase additional vehicles from the Company. Further, if the Company is not able to raise the required capital to purchase required parts and pay certain vendors, the Company may not be able to comply with UPS's deadlines. Accordingly, despite the receipt of the orders from UPS, there is no guarantee, due to the Company's financial constraints and status as a development stage corporation, that the Company will be able to deliver such vehicles or that it will receive additional orders whether from UPS or other potential customers.

If we are unable to perform under our orders with UPS, the Company business will be significantly impacted in a negative manner.

We have yet to achieve positive cash flow and, given our projected funding needs, our ability to generate positive cash flow is uncertain.

We have had negative cash flow from operating activities of \$13.3 million and \$4.2 million for the nine months ended September 30, 2016 and 2015. We anticipate that we will continue to have negative cash flow from operating and investing activities for the foreseeable future as we expect to incur increased research and development, sales and marketing, and general and administrative expenses and make significant capital expenditures in our efforts to increase sales and commence operations at our Union City facility. Our business also will at times require significant amounts of working capital to support our growth, particularly as we acquire inventory to support our anticipated increase in production. An inability to generate positive cash flow for the foreseeable future may adversely affect our ability to raise needed capital for our business on reasonable terms, diminish supplier or customer willingness to enter into transactions with us, and have other adverse effects that may decrease our long-term viability. There can be no assurance we will achieve positive cash flow in the foreseeable future.

We need access to additional financing, which may not be available to us on acceptable terms or at all. For the year ended December 31, 2015, our independent registered public accounting firm issued a report on our 2015 financial statements that contains an explanatory paragraph stating that the lack of sales, negative working capital and stockholders' deficit, raise substantial doubt about our ability to continue as a going concern. If we cannot access additional financing when we need it and on acceptable terms, our business, prospects, financial condition, operating results and ability to continue as a going concern could be adversely affected.

Our growth-oriented business plan to design, produce, sell and service commercial electric vehicles through our Union City facility will require continued capital investment. Our research and development activities will require continued investment. For the year ended December 31, 2015, our independent registered public accounting firm issued a report on our 2015 financial statements that contains an explanatory paragraph stating that the lack of sales, negative working capital and stockholders' deficit, raise substantial doubt about our ability to continue as a going concern. Considering the financing recently closed in November 2015 in order to implement our operations through December 31, 2016 we will need to raise approximately \$6 million. This capital will be necessary to fund our ongoing operations, continue research, development and design efforts, open our sales, service and assembly facilities, improve infrastructure and introduce new or improve existing vehicle models. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all, particularly given that we do not now have a committed credit facility with any government or financial institution. If we cannot obtain additional financing when we need it and on terms acceptable to us, our business, prospects, financial condition, operating results and ability to continue as a going concern could be adversely affected.

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

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

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

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

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

We incur significant costs and expenses related to procuring the materials, components and services required to develop and produce our electric vehicles. We have secured supply agreements for our critical components including our batteries. However, these are dependent on volume to ensure that they are available at a competitive price. Thus, our current cost projections are considerably higher than the projected revenue stream that such vehicles will produce. As a result, we are continually working on initiatives to reduce our cost structure so that we may effectively compete. If we do not properly manage our costs and expenses our net losses will continue which will negatively impact our stock price.

Our future growth is dependent upon the willingness of operators of commercial vehicle fleets to adopt electric vehicles and on our ability to produce, sell and service vehicles that meet their needs. If the market for commercial electric vehicles does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be adversely affected.

Our growth is dependent upon the adoption of electric vehicles by operators of commercial vehicle fleets and on our ability to produce, sell and service vehicles that meet their needs. The entry of commercial electric vehicles into the medium-duty commercial vehicle market is a relatively new development, particularly in the United States, and is characterized by rapidly changing technologies and evolving government regulation, industry standards and customer views of the merits of using electric vehicles in their businesses. This process has been slow as without including the impact of government or other subsidies and incentives, the purchase prices for our commercial electric vehicles currently is higher than the purchase prices for diesel-fueled vehicles. As part of our sales efforts, we must educate fleet managers as to the economical savings during the life of the vehicle. As such, we believe that operators of commercial vehicle fleets consider a number of factors when deciding whether to purchase our commercial electric vehicles (or commercial electric vehicles generally) or vehicles powered by internal combustion engines, particularly diesel-fueled or natural gas-fueled vehicles. We believe these factors include:

the difference in the initial purchase prices of commercial electric vehicles and vehicles with comparable GVWs powered by internal combustion engines, both including and excluding the impact of government and other subsidies and incentives designed to promote the purchase of electric vehicles;

the total cost of ownership of the vehicle over its expected life, which includes the initial purchase price and ongoing operating and maintenance costs;

the availability and terms of financing options for purchases of vehicles and, for commercial electric vehicles, financing options for battery systems;

the availability of tax and other governmental incentives to purchase and operate electric vehicles and future regulations requiring increased use of nonpolluting vehicles;

government regulations and economic incentives promoting fuel efficiency and alternate forms of energy;

fuel prices, including volatility in the cost of diesel;

the cost and availability of other alternatives to diesel fueled vehicles, such as vehicles powered by natural gas;

corporate sustainability initiatives;

commercial electric vehicle quality, performance and safety (particularly with respect to lithium-ion battery packs);

the quality and availability of service for the vehicle, including the availability of replacement parts;

the limited range over which commercial electric vehicles may be driven on a single battery charge;

access to charging stations and related infrastructure costs, and standardization of electric vehicle charging systems;

electric grid capacity and reliability; and

macroeconomic factors.

If, in weighing these factors, operators of commercial vehicle fleets determine that there is not a compelling business justification for purchasing commercial electric vehicles, particularly those that we produce and sell, then the market for commercial electric vehicles may not develop as we expect or may develop more slowly than we expect, which would adversely affect our business, prospects, financial condition and operating results.

If our customers are unable to efficiently and effectively integrate our electric vehicles into their existing commercial fleets our sales may suffer and our business, prospects, financial condition and operating results may be adversely affected.

Our sales strategy involves a comprehensive plan for the pilot and roll-out of our electric vehicles, as well as the ongoing replacement of existing commercial vehicles with our electric vehicles, that is tailored to the individual needs of our customers. If we are unable to develop and execute fleet integration strategies or fleet management support services that meet our customers' unique circumstances with minimal disruption to their businesses, our customers may not realize the economic benefits they expect from our electric vehicles. If this were to occur, our customers may not order additional vehicles from us, which could adversely affect our business, prospects, financial condition and operating results.

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

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

If we are unable to scale our operations at our Union City facility in an expedited manner from our limited low volume production to high volume production, our business, prospects, financial condition and operating results could be adversely affected.

We are currently assembling our orders at our Union City facility which is acceptable for our existing orders. To satisfy increased demand, we will need to quickly scale operations in our Union City facility as well as scale our supply chain including access to batteries. Our business, prospects, financial condition and operating results could be adversely affected if we experience disruptions in our supply chain, if we cannot obtain materials of sufficient quality at reasonable prices or if we are unable to scale our Union City facility.

We depend upon key personnel and need additional personnel.

Our success depends on the continuing services of Stephen Burns, CEO, and top management. On December 8, 2010, we entered into an employment agreement with Mr. Burns for a term of two years which automatically renews for one year periods unless either of the parties elects to not renew for such period. The loss of any of these individuals could

have a material and adverse effect on our business operations. Additionally, the success of our operations will largely depend upon its ability to successfully attract and maintain competent and qualified key management personnel. As with any company with limited resources, there can be no guarantee that we will be able to attract such individuals or that the presence of such individuals will necessarily translate into profitability for our company. Our inability to attract and retain key personnel may materially and adversely affect our business operations. Any failure by our management to effectively anticipate, implement, and manage the changes required to sustain our growth would have a material adverse effect on our business, financial condition, and results of operations.

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

Companies currently competing in the fleet logistics market offering alternative fuel medium-duty trucks include Ford Motor Company and Freightliner. Ford and Freightliner are currently selling alternative fuel fleet vehicles including hybrids. In the electric medium duty truck market in the United States, we compete with a few other manufacturers, including Electric Vehicles International and Smith Electric Vehicles. Ford and Freightliner have more significant financial resources, established market positions, long-standing relationships with customers and dealers, and who have more significant name recognition, technical, marketing, sales, financial and other resources than we do. Although we believe that HorseFly™, our unmanned aerial system (UAS), is unique in the marketplace in that it currently does not have any competitors when it comes to a UAS that works in combination with a truck, there are better financed competitors in this emerging industry, including Google and Amazon. While we are seeking to partner with existing delivery companies to improve their efficiencies in the last mile of delivery, our competitors are seeking to redefine the delivery model using drones from a central location requiring extended flight patterns. Our competitors' new aerial delivery model would essentially eliminate traditional package delivery companies. Our model is focused on coupling our delivery drone with delivery trucks supplementing the existing model and providing shorter term flight patterns. Google and Amazon have more significant financial resources, established market positions, long-standing relationships with customers, more significant name recognition and a larger scope of resources including technical, marketing and sales than we do. The resources available to our competitors to develop new products and introduce them into the marketplace exceed the resources currently available to us. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period that we can. This intense competitive environment may require us to make changes in our products, pricing, licensing, services, distribution, or marketing to develop a market position. Each of these competitors has the potential to capture market share in our target markets which could have an adverse effect on our position in our industry and on our business and operating results.

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

There are companies in the electric vehicle industry that have developed or are developing vehicles and technologies that compete or will compete with our vehicles. We cannot assure that our competitors will not be able to duplicate our technology or provide products and services similar to ours more efficiently. If for any reason we are unable to keep pace with changes in electric vehicle technology, particularly battery technology, our competitive position may

be adversely affected. We plan to upgrade or adapt our vehicles and introduce new models to continue to provide electric vehicles that incorporate the latest technology. However, there is no assurance that our research and development efforts will keep pace with those of our competitors.

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

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

We currently have a limited number of customers, with whom we do not have long-term agreements, and expect that a significant portion of our future sales will be from a limited number of customers and the loss of any of these high-volume customers could materially harm our business.

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

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

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

continued development of product technology, especially batteries

the environmental consciousness of customers

the ability of electric vehicles to successfully compete with vehicles powered by internal combustion engines

limitation of widespread electricity shortages; and

whether future regulation and legislation requiring increased use of non-polluting vehicles is enacted

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

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

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

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

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

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

We have secured supply agreements for our critical components including our batteries. However, these are dependent on volume to ensure that they are available at a competitive price. Further, we rely on a small group of suppliers to provide us with components for our products. If these suppliers become unwilling or unable to provide components or if we are unable to meet certain volume requirements in our existing supply agreements, there are a limited number of alternative suppliers who could provide them. Changes in business conditions, wars, governmental changes, and other factors beyond our control or which we do not presently anticipate could affect our ability to receive components from our suppliers. Further, it could be difficult to find replacement components if our current suppliers fail to provide the parts needed for these products. A failure by our major suppliers to provide these components could severely restrict our ability to manufacture our products and prevent us from fulfilling customer orders in a timely fashion.

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

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

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

Dealers are often hesitant to provide their own financing to contribute to our product distribution network. Thus, we anticipate that we may have to provide financing or other consignment sale arrangements for dealers. A capital investment such as this presents many risks, foremost among them being that we may not realize a significant return on our investment if the network is not profitable. Our inability to collect receivables from dealers could cause us to suffer losses. Lastly, the amount of time that our management will need to devote to this project may divert them from performing other functions necessary to assure the success of our business.

Regulatory requirements may have a negative impact upon our business.

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

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

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

We rely on trade secret protections to protect our proprietary technology as well as several registered patents and one patent application. Our patents relate to the vehicle chassis assembly, vehicle header and drive module and manifold for electric motor drive assembly. Our existing patent application relates to the onboard generator drive system for electric vehicles. Our success will, in part, depend on our ability to obtain additional trademarks and patents. We are working on obtaining patents and trademarks registered with the United States Patent and Trademark Office but have not finalized any as of this date. Although we have entered into confidentiality agreements with our employees and consultants, we cannot be certain that others will not gain access to these trade secrets. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

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

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

Our electric vehicles make use of lithium-ion battery cells, which, if not appropriately managed and controlled, on rare occasions have been observed to catch fire or vent smoke and flames. If such events occur in our electric vehicles, we could face liability for damage or injury, adverse publicity and a potential safety recall, any of which could adversely affect our business, prospects, financial condition and operating results.

The battery packs in our electric vehicles use lithium-ion cells, which have been used for years in laptop computers and cell phones. On rare occasions, if not appropriately managed and controlled, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials.

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

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

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

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

The equity trading markets may experience periods of volatility, which could result in highly variable and unpredictable pricing of equity securities. The market price of our common stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We have experienced significant volatility in the price of our stock. We cannot assure that the market price of our common stock will not fluctuate or decline significantly in the future. In addition, the stock markets in general can experience considerable price and volume fluctuations.

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

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"), the Securities and Exchange Commission adopted rules requiring smaller reporting companies, such as our company, to include a report of management on the company's internal controls over financial reporting in their annual reports for fiscal years ending on or after December 15, 2007. We were required to include the management report in annual reports starting with the year ending December 31, 2009. Previous SEC rules required a non-accelerated filer to include an attestation report in its annual report for years ending on or after June 15, 2010. Section 989G of the Dodd-Frank Act added SOX Section 404(c) to exempt from the attestation requirement smaller issuers that are neither accelerated filers nor large accelerated filers under Rule 12b-2. Under Rule 12b-2, subject to periodic and annual reporting criteria, an "accelerated filer" is an issuer with market value of \$75 million, but less than \$700 million; a "large accelerated filer" is an issuer with market value of \$700 million or greater. As a result, the exemption effectively applies to companies with less than \$75 million in market capitalization. We expect that this exemption will not apply to us during the year ended December 31, 2017.

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

During the nine months ended September 30, 2016, warrant holders exercised stock purchase warrants to receive an aggregate of 4.2 million shares of common stock in consideration of an aggregate of \$10.2 in cash consideration.

On September 15, 2016, Harry DeMott was appointed as a director of the Company. Mr. DeMott entered into a letter agreement with the Company pursuant to which he was appointed as a director of the Company in consideration of an annual fee of \$40,000. Additionally, the Company granted Mr. DeMott an option to purchase 50,000 shares of the Company's common stock at \$8.20 per share. The option will expire five (5) years from the vesting period with 10,000 options vesting upon the signing of the agreement and 4,000 every June 30 and December 31 thereafter for a total of 50,000 shares.

The Company claims an exemption from the registration requirements of the Securities Act of 1933 (the "Securities Act") for the issuance of the above securities pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 of Regulation D promulgated under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

In October 2015, the Company entered into a Board Advisor Agreement with Joseph T. Lukens, a shareholder of the Company. Mr. Lukens does not receive compensation for such services and such agreement can be terminated at any time. On June 30, 2016, Mr. Lukens resigned as a Board Advisor.

On August 1, 2016, Duane Hughes was appointed as President of the company. Martin Rucidlo, the former President, accepted the position of Vice President of Manufacturing. Mr. Hughes is a senior-level executive with more than 25 years of experience in the automotive, technology and advertising segments. Prior to joining Workhorse, he served as Chief Operating Officer for Cumulus Interactive Technologies Group. Prior to joining Cumulus Interactive Technologies Group, Mr. Hughes spent nearly fifteen years in senior management positions with Gannett Co., Inc., including his duties as Vice President of Sales and Operations for Gannett Media Technologies International.

On September 15, 2016, Harry DeMott was appointed by the Company to serve as a director of the Company and as a member of the Company's Nominating and Corporate Governance Committee and Compensation Committee. James Taylor resigned as a director of the Company and as a member of the Committees on September 14, 2016.

On October 31, 2016, the Company purchased its existing facility as well as adjoining space in Loveland, Ohio. With the additional space, the Company intends to expand its battery pack factory facilities currently in place at the existing facility.

On November 7, 2016, the Company commenced development of an electric pickup work truck with range extender for fleet usage.

The Company intends to offer holders of warrants registrations rights with respect to the shares underlying the warrants if such holder agrees to immediately exercise a minimum of one-third of the warrants they hold pursuant to the terms of such warrants (including exercise price). The Company expects this offer to warrant holders to commence in the near term and to last for a short period. Upon the termination of the offer period, and no later than 20 days after the termination of such offer period, the Company will file a registration statement registering for resale all shares of common stock underlying warrants held by the holders that exercised at least one-third of their warrants (including those not exercised during the offer period).

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|--------------------|--|
| 3.1 | Certificate of Designation for Series A Preferred Stock (1) |
| 3.2 | Certificate of Change (2) |
| 3.3 | Certificate of Correction (2) |
| 3.4 | Articles of Merger (3) |
| 3.5 | Certificate of Correction (Articles of Merger) (3) |
| 3.6 | Certificate of Amendment to the Certificate of Incorporation (4) |
| 3.7 | Certificate of Incorporation (5) |

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- 3.8 Articles of Merger between AMP Holding Inc. Workhorse Group Inc. (16)
- 3.9 Certificate of Change filed December 9, 2015 (20)
- 4.1 Stock Option to acquire 500,000 shares of common stock issued to James Taylor dated May 25, 2011 (6)
- 4.2 Common Stock Purchase Warrant to acquire 500,000 shares of common stock issued to James Taylor dated May 25, 2011 (6)
- 4.3 Stock Option to acquire 500,000 shares of common stock issued to Stephen Burns dated May 25, 2011 (6)
- 4.4 Common Stock Purchase Warrant to acquire 500,000 shares of common stock issued to Stephen Burns dated May 25, 2011 (6)
- 4.5 Conversion Letter Agreement by and between Stephen Burns and AMP Holding Inc. (7)
- 4.6 Form of Warrant by and between AMP Holding Inc. and the January 2013 Accredited Investor (8)

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| Exhibit No. | Description |
|--------------------|--|
| 4.7 | Common Stock Purchase Warrant issued to Stephen Baksa (9) |
| 4.8 | 2014 Incentive Stock Plan (11) |
| 4.9 | Form of Common Stock Purchase issued to Joseph T. Lukens (14) |
| 4.10 | Form of Common Stock Purchase Warrant issued to the December 2014 Investors (14) |
| 4.11 | Stock Option Agreement issued to James Taylor dated February 13, 2015 (14) |
| 4.12 | Form of Subscription Agreement by and between Workhorse Group Inc. and the 2015 Accredited Investors (17) |
| 4.13 | Form of Securities Purchase Agreement entered between Workhorse Group Inc. and the November 2015 Investors (18) |
| 4.14 | Form of 6% Convertible Promissory Note issued to the November 2015 Investors (18) |
| 4.15 | Form of Stock Purchase Warrant issued to the November 2015 Investors (18) |
| 4.16 | Form of Securities Purchase Agreement entered between Workhorse Group Inc. and the Convertible Note Investor(19) |
| 4.17 | Form of 6% Convertible Promissory Note issued to the Investors (19) |
| 4.18 | Form of Stock Purchase Warrant issued to the Investors (19) |
| 4.19 | Stock Option Agreement by and between Workhorse Group Inc. and Gerald Budde dated December 17, 2015 (21) |
| 4.20 | Stock Option Agreement by and between Workhorse Group Inc. and H. Benjamin Samuels dated December 17, 2015 (21) |
| 4.21 | Stock Option Agreement by and between Workhorse Group Inc. and Harry DeMott dated September 16, 2016 (24) |
| 4.22 | 2016 Stock Incentive Plan |
| 10.1 | Share Exchange Agreement dated as of December 28, 2009 by and among Advanced Mechanical Products, Inc., the shareholders of Advanced Mechanical Products, Inc. and Title Starts Online, Inc. (1) |
| 10.2 | Employment Agreement by and between AMP Holding Inc. and Stephen S. Burns dated December 8, 2010 (12) |
| 10.3 | Letter Agreement by and between AMP Holding Inc. and Martin J. Rucidlo dated August 24, 2012 (13) |
| 10.4 | Asset Purchase Agreement by and between Workhorse Custom Chassis, LLC, as Seller, and AMP Trucks Inc., as Buyer dated as of March 4, 2013 (10) |
| 10.5 | Amendment No. 1 to the Asset Purchase Agreement by and between Workhorse Custom Chassis, LLC, as Seller, and AMP Trucks Inc., as Buyer dated as of March 13, 2013 (10) |
| 10.6 | Employment Agreement between AMP Holding Inc. and Julio C. Rodriguez dated August 15, 2013 (14) |

| Exhibit No. | Description |
|--------------------|---|
| 10.7 | Director Agreement by and between AMP Holding Inc. and Raymond Chess dated October 24, 2013 (15) |
| 10.8 | Director Agreement by and between Workhorse Group Inc. and Gerald Budde dated December 17, 2015 (21) |
| 10.9 | Director Agreement by and between Workhorse Group Inc. and Benjamin Samuels dated December 17, 2015 (21) |
| 10.10 | Director Agreement by and between Workhorse Group Inc. and Harry DeMott dated September 15, 2016 (24) |
| 21.1 | List of Subsidiaries |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Nominating and Corporate Governance Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015(21) |
| 99.2 | Compensation Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015 (21) |
| 99.3 | Audit Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015 (21) |
| 99.4 | Investor Presentation provided by Workhorse Group Inc. (22) |
| 99.5 | Presentation - Medium Duty Parcel Delivery Truck (23) |
| EX-101.INS | XBRL INSTANCE DOCUMENT |
| EX-101.SCH | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT |
| EX-101.CAL | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE |
| EX-101.DEF | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE |
| EX-101.LAB | XBRL TAXONOMY EXTENSION LABELS LINKBASE |
| EX-101.PRE | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE |

- (1) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on January 4, 2010.
- (2) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on May 25, 2010.
- (3) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on May 25, 2010.
- (4) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on September 10, 2010.
- (5) Incorporated by referenced to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission on February 4, 2008.
- (6) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on June 1, 2011.
- (7)

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- Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on July 11, 2012.
- (8) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on February 5, 2013.
 - (9) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on February 28, 2013.
 - (10) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on March 13, 2013.
 - (11) Incorporated by reference to the Form S-8 Current Report filed with the Securities and Exchange Commission on January 17, 2014.
 - (12) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 13, 2010.
 - (13) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on August 30, 2012.
 - (14) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on August 16, 2013.
 - (15) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on October 30, 2013.
 - (16) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on April 16, 2015.
 - (17) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on September 10, 2015.
 - (18) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on November 12, 2015.
 - (19) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on November 12, 2015.
 - (20) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 10, 2015.
 - (21) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 21, 2015.
 - (22) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on March 30, 2016.
 - (23) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on July 8, 2016.
 - (24) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on September 9, 2016.

SIGNATURES

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

WORKHORSE GROUP INC.

Dated: November 14, 2016 By: /s/ Stephen S. Burns
Name: Stephen S. Burns
Title: Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2016 By: /s/ Julio C. Rodriguez
Name: Julio C. Rodriguez
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)