

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 June 30, 2017

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

(State or other jurisdiction of
incorporation or organization)

26-1394771

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

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

844-937-9547

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

37,324,038

(Class)

(Outstanding at August 4, 2017)

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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-Q that refer to the “Company”, “Workhorse Group”, “Workhorse”, “we,” “us” or “our” are to Workhorse Group Inc. and unless otherwise differentiated, its wholly-owned subsidiaries, Workhorse Technologies Inc., Workhorse Motor Works Inc. and Workhorse Properties Inc.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**Workhorse Group, Inc.
Consolidated Balance Sheets
June 30, 2017 Unaudited and December 31, 2016**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,420,876	\$ 469,570
Accounts receivable	270,000	628,700
Lease receivable current	69,423	98,400
Inventory	9,466,288	2,464,835
Prepaid expenses and deposits	767,065	255,163
	<u>15,993,652</u>	<u>3,916,668</u>
Property, plant and equipment, net	5,804,179	6,002,631
Lease receivable long-term	224,488	320,494
	<u>\$ 22,022,319</u>	<u>\$ 10,239,793</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 7,532,644	\$ 3,923,758
Accounts payable, related parties	77,937	101,339
Shareholder advances	1,004,201	229,772
Current portion of long-term debt	30,493	79,521
	<u>8,645,275</u>	<u>4,334,390</u>
Long-term debt	2,075,415	2,088,429
Stockholders' equity (deficit):		
Series A preferred stock, par value of \$.001 per share 75,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2017 and December 31, 2016	-	-
Common stock, par value of \$.001 per share 50,000,000 shares authorized, 36,410,270 shares issued and outstanding at June 30, 2017 and 27,578,864 shares issued and outstanding at December 31, 2016	36,410	27,579
Additional paid-in capital	91,458,738	66,862,608
Accumulated deficit	(80,193,519)	(63,073,213)
	<u>11,301,629</u>	<u>3,816,974</u>
	<u>\$ 22,022,319</u>	<u>\$ 10,239,793</u>

See accompanying notes to consolidated financial statements.

Workhorse Group, Inc.
Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2017 and 2016
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Sales	\$ 270,000	\$ 1,234,600	\$ 2,048,037	\$ 1,470,600
Cost of Sales	995,925	2,294,675	5,308,013	2,759,052
Gross loss	<u>(725,925)</u>	<u>(1,060,075)</u>	<u>(3,259,976)</u>	<u>(1,288,452)</u>
Operating Expenses				
Selling, general and administrative	2,640,590	1,616,390	4,748,172	2,787,382
Research and development	5,811,333	258,798	9,054,655	3,199,738
Total operating expenses	<u>8,451,923</u>	<u>1,875,188</u>	<u>13,802,827</u>	<u>5,987,120</u>
Interest expense, net	<u>21,852</u>	<u>567</u>	<u>57,503</u>	<u>40,270</u>
Net loss	<u>\$ (9,199,700)</u>	<u>\$ (2,935,830)</u>	<u>\$ (17,120,306)</u>	<u>\$ (7,315,842)</u>
Basic and diluted loss per share	<u>\$ (0.26)</u>	<u>\$ (0.14)</u>	<u>\$ (0.49)</u>	<u>\$ (0.35)</u>
Weighted average number of common shares outstanding	<u>35,273,462</u>	<u>20,665,480</u>	<u>35,273,462</u>	<u>20,665,480</u>

See accompanying notes to consolidated financial statements.

Workhorse Group, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2017 and 2016
(Unaudited)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net loss	\$ (17,120,306)	\$ (7,315,842)
Adjustments to reconcile net loss from operations to cash used by operations:		
Depreciation	269,028	190,026
Stock based compensation	654,525	341,210
Write down of inventory	-	78,917
Effects of changes in operating assets and liabilities:		
Accounts receivable	358,700	(476,100)
Inventory	(7,001,453)	(1,863,213)
Prepaid expenses and deposits	(511,902)	179,303
Accounts payable	3,612,211	(3,343)
Accounts payable, related parties	-	(375,587)
Net cash used by operations	(19,739,197)	(9,244,629)
Cash flows from investing activities:		
Capital expenditures	(70,576)	(90,665)
Proceeds from lease receivables	124,983	-
Net cash provided by (used in) investing activities	54,407	(90,665)
Cash flows from financing activities:		
Payments on long-term debt	(62,042)	-
Conversion of note payable	-	(2,722,500)
Shareholder advances, net of repayments	1,004,201	1,811,296
Issuance of common and preferred stock	23,060,074	-
Exercise of warrants and options	633,863	6,231,497
Net cash provided by financing activities	24,636,096	5,320,293
Change in cash and cash equivalents	4,951,306	(4,015,001)
Cash at the beginning of the period	469,570	7,677,163
Cash at the end of the period	5,420,876	3,662,162

Supplemental disclosure of non-cash activities:

During the six months ended June 30, 2017, the Company converted Shareholder advances of \$229,772 and accrued interests of \$26,727 to common stock of \$172 and additional paid-in capital of \$256,327.

During the six months ended June 30, 2016, 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.

See accompanying notes to 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) is a technology company focused on providing sustainable and cost-effective solutions to the commercial transportation sector. As an American manufacturer, we design and build high performance battery-electric vehicles and aircraft that make movement of people and goods more efficient and less harmful to the environment. As part of the Company's solution, it also develops cloud-based, real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. Although the Company operates as a single unit through its subsidiaries, it approaches its development through two divisions, Automotive and Aviation. The Company's core products, under development and/or in manufacture, are the medium duty step van, the light duty pickup, the delivery drone and the manned multicopter.

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 Workhorse Technologies, Inc.) (AMP or Workhorse Technologies) 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 were now focused on the design, marketing and sale of vehicles with an all-electric power train and battery systems. Consequently, we believe the acquisition has caused the Company to cease to be a shell Company as it had operations following the acquisition. 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.

The consolidated financial statements include Workhorse Group Inc. and its wholly owned subsidiaries, together referred as "The Company". Intercompany transactions and balances are eliminated in consolidation.

The Company's wholly owned subsidiaries include Workhorse Technologies Inc., Workhorse Motor Works Inc. and Workhorse Properties Inc.

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 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.

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.

Lease receivable

The Company's leasing activities consist of the leasing of trucks which are classified as direct financing leases. Revenue is recognized at the inception of the lease. The leases have a term of 8 years. Future payments to be received on the leases are as follows:

2017	\$ 28,530
2018	57,060
2019	57,060
2020	57,060
2021	57,060
Thereafter	37,141
	<u>\$293,911</u>

Inventory

Inventory is stated at the lower of cost or market under the average method, and consists 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

Common 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 \$0.001 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 June 30, 2017 cumulative deferred tax assets of approximately \$23.5 million are fully reserved, and no provision or liability for federal or state income taxes has been included in the financial statements. Carryover amounts 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
18.7	2036
16.4	2037

Research and development costs

The Company expenses research and development costs as they are incurred. Research and Development costs were approximately \$5.8 million and \$259 thousand for the three-months ended June 30, 2017 and 2016 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.

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 employees have 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 August 9, 2017, the date on which the consolidated financial statements were available to be issued.

2. INVENTORY

As of June 30, 2017, and December 31, 2016, our inventory consisted of the following:

	<u>2017</u>	<u>2016</u>
Finished Goods	-	212,884
Work in Process	1,760,278	987,665
Parts	7,706,010	1,264,286
	<u>9,466,288</u>	<u>2,464,835</u>

3. PROPERTY, PLANT AND EQUIPMENT, NET

As of March 31, 2017, and December 31, 2016, our property, plant and equipment, net, consisted of the following:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Land	700,000	700,000
Buildings	5,900,000	5,900,000
Leasehold Improvements	19,225	19,225
Software	86,050	57,587
Equipment	814,742	808,512
Vehicles and prototypes	98,788	62,905
	<u>7,618,805</u>	<u>7,548,229</u>
Less accumulated depreciation	(1,814,626)	(1,545,598)
	<u>5,804,179</u>	<u>6,002,631</u>

4. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Secured mortgage payable to Bank for the purchase of the 100 Commerce Drive Building due in monthly installments of \$11,900.	1,755,908	1,767,950
Note payable, former building owner interest payment only due in monthly installments of \$1,604 interest at 5.5%. A balloon payment of \$350 thousand plus unpaid interest due August 2018.	350,000	350,000
Note payable to the City of Loveland paid off in May 2017	-	50,000
	<u>2,105,908</u>	<u>2,167,950</u>
Less current portion	30,493	79,521
Long term debt	<u>2,075,415</u>	<u>2,088,429</u>

Aggregate maturities of debt are as follows:

2018	363,373
2019	33,607
2020	35,858
2021	38,260
2022	44,345
Thereafter	<u>1,559,972</u>
	<u>2,075,415</u>

5. SHAREHOLDER AND RELATED PARTY ADVANCES

As of June 30, 2017, the Company had deposits for \$1,004,201 that were not yet issued as common stock.

6. LEASE OBLIGATIONS

On October 1, 2011, the Company began leasing operating facilities under an agreement expiring on September 30, 2018. The lease expense for the first half of 2016 was \$80,192. The building subject to the lease was purchased in December 2016.

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	Number of Options	Outstanding Stock 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, 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	-	(138,113)	\$ 1.79	\$ 0.49	-
Forfeited	-	-	\$ -	\$ -	-
Expired	492,500	(492,500)	\$ 3.83	\$ 1.65	-
Balance December 31, 2016	955,471	2,144,321	\$ 2.46	\$ 1.53	43
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	-	-	\$ -	\$ -	-
Exercised	-	(87,419)	\$ 1.00	\$ 0.60	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance June 30, 2017	955,471	2,056,902	\$ 3.17	\$ 1.84	43

The Company recorded \$649,267 and \$322,141 compensation expense for stock options to directors, officers and employees for the six months ended June 30, 2017 and 2016 respectively. As of June 30, 2017, unrecognized compensation expense of \$561,215 is related to non-vested options granted to directors, officers and employees which is anticipated to be recognized over the next 7 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:

	Options Available for Grant	Number of Options	Outstanding Stock 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, 2015	99,303	306,773	\$ 0.36	\$ 1.01	41
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	(9,000)	9,000	\$ 4.99	\$ 0.44	52
Exercised	-	(138,312)	\$ 0.34	\$ 0.81	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance December 31, 2016	90,303	177,461	\$ 0.49	\$ 1.05	37
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	-	-	\$ -	\$ -	-
Exercised	-	(5,000)	\$ -	\$ -	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance June 30, 2017	90,303	172,461	\$ 0.57	\$ 1.11	32

The Company recorded \$5,258 and \$19,069 compensation expense for stock options to consultants for the six months ended June 30, 2017 and 2016 respectively. As of June 30, 2017, there was no unrecognized compensation expense for options granted to consultants.

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 Remaining Exercise Term in Months
			Weighted Average Exercise Price per Warrant	Weighted Average Grant Date Fair Value per Warrant	
Balance December 31, 2015	210,227	306,823	\$ 2.79	\$ 1.26	9
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	-	-	\$ -	\$ -	-
Exercised	-	(60,160)	\$ 2.69	\$ 0.43	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	(87,458)	\$ 6.00	\$ 2.70	-
Balance December 31, 2016	210,227	159,205	\$ 2.56	\$ 1.16	17
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	-	-	\$ -	\$ -	-
Exercised	-	-	\$ -	\$ -	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance June 30, 2017	210,227	159,205	\$ 1.38	\$ 0.68	21

The Company recorded no compensation expense for stock warrants to the placement agent and consultants for the six months ended June 30, 2017 and 2016 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:

	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, 2015	348,925	338,925	\$ 20.00	\$ 1.02	4
Additional stock reserved	-	-	-	-	-
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Expired	-	(150,000)	20.00	0.15	-
Balance December 31, 2016	348,925	188,925	\$ 20.00	\$ 1.02	4
Additional stock reserved	-	-	-	-	-
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Expired	-	-	-	-	-
Balance June 30, 2017	348,925	188,925	\$ 20.00	\$ 1.30	4

The Company recorded no compensation expense for stock warrants to directors and officers for the six months ended June 30, 2017 and 2016. 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.

9. PRIVATE PLACEMENT MEMORANDUM AND STOCK OFFERING

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 three-month period ended in March 31, 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 six-month period ending in June 30, 2016 including accrued interest on the notes payable was \$11,375,276 net of the deferred costs.

In February 1, 2017, the Company announced the completion of its underwritten public offering of 6,500,000 shares of its common stock at a public offering price of \$3.00 per share. In addition, the underwriters exercised an option to purchase an additional 975,000 shares of common stock at the public offering price, less the underwriting discounts and commissions.

All of the shares in the offering were sold by Workhorse Group, with gross proceeds to Workhorse Group of approximately \$22.4 million and net proceeds of approximately \$20.5 million, after deducting underwriting discounts and commissions and estimated offering expenses.

In June 2017, the Company entered into a certain stock sales agreement at the market offering for \$25 million. As of June 30, 2017, the Company issued 451,411 shares from this facility.

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

Overview and Quarter Highlights

We are a technology company focused on providing sustainable and cost-effective electric mobility solutions to the transportation sector. As an American manufacturer, we design and build high-performance, battery-electric vehicles and aircraft that make movement of people and goods more efficient and less harmful to the environment. We approach our development through two divisions, Automotive OEM and Aviation Manufacturer.

Automotive

Last Mile Electric Delivery Vehicles

Workhorse battery-electric and range-extended delivery vans are currently in production at our Union City, Indiana plant and are in use by our customers on daily routes across nine states and more than 26 cities. Our delivery customers include companies such as UPS, FedEx Express, Alpha Baking and Brink's. Data from our in-house-developed telematics system demonstrates our vehicles have logged more than 1,000,000 customer miles on the road and are averaging approximately a 500% increase in fuel economy as compared to conventional gasoline-based trucks of the same size and duty cycle.

In addition to a five-fold improvement in fuel economy, we anticipate that the performance of our vehicles on-route will reduce long-term vehicle maintenance expense by approximately 50% as compared to fossil-fueled trucks. These significant combined savings from both reduced fuel usage and lower maintenance have enabled us to demonstrate to delivery fleets that our E-GEN truck is the lowest cost vehicle they can own over the life of the vehicle. We believe that our range-extended E-GEN truck is the first commercial truck to have a total cost-of-ownership that is less than a comparable gasoline, diesel, propane or natural gas-powered truck. As an example, on our 19,500lb. E-GEN truck, we estimate that we will save a typical customer over \$150,000 on each truck over the typical 15-year life of these vehicles. In addition to the strong economic advantages, our vehicles enable fleets to eliminate or dramatically reduce the tail pipe emissions from their fleet of trucks.

Our progress toward gross margin profitability is supported by 1,000,000 miles of real-world deliveries, customer feedback and telematics data. The result is the design of our next generation E-GEN platform comprising new, light-weight materials and a more efficient drivetrain. This next generation platform is the basis for our USPS next generation delivery vehicle and our W-15 Pickup Truck. We are in late stage discussions with two parcel delivery companies, as well as, an online retailer for purchases of these vehicles. It is uncertain when or if these discussions will result in firm purchase orders.

We anticipate the new E-GEN design will drive higher volume unit sales and our goal will be to improve our pathway to positive gross margins as demand develops. In pursuing positive gross margins with the new E-GEN design, we are using higher density lithium-cells from our supplier Panasonic. Additionally, we have automated sections of our battery-pack assembly factory so that our battery packs are now more cost-effective. The composite materials also dramatically lighten the vehicles such that less battery is required to move the vehicle on its daily route. On longer routes, we also include a cost-effective and well-proven internal combustion generator set. This genset is purchased via our volume supply agreement with BMW and ensures the vehicles will have enough energy to complete their routes during periods of peak delivery in a highly cost-effective manner.

In the second quarter 2017, we initiated production of 200 E-GEN trucks that are on order from UPS. We delivered six E-GEN trucks in the second quarter 2017. We delivered an additional 36 E-GEN vehicles so far in the third quarter 2017. With 195 workhorse vehicles delivered and the additional 170 currently in backlog, we are further refining our manufacturing processes and transitioning our supply chain to include more Tier 1 suppliers. This activity demonstrates our ability to scale up production capacity to record levels.

We believe we are the only medium-duty battery-electric truck OEM in the U.S. Our goal is to continue to increase sales and production and to lower our component costs to a point that will allow us to achieve gross margin profitability of the delivery van platform.

In March of 2013, we purchased the former Workhorse Custom Chassis assembly plant in Union City, Indiana from Navistar International (NAV: NYSE). With this acquisition, we acquired the capability to be an Original Equipment Manufacturer (OEM) of Class 3-6 commercial-grade, medium-duty truck chassis, to be marketed under the Workhorse® brand.

The Workhorse Custom Chassis acquisition includes other important assets including the Workhorse brand and logo, intellectual property, schematics, logistical support from Up-Time Parts (a Navistar subsidiary) and access to a network of 400-plus sales and service outlets across North America. We believe the combination of our assembly capability, coupled with our battery-electric product development expertise gives Workhorse a unique opportunity to manufacture at scale in the U.S.

W-15 Pickup Truck

The success of our E-GEN total-cost-of-ownership value proposition to fleet buyers of medium-duty vehicles encouraged us to bring this same philosophy to the much higher volume segment of light-duty trucks. Our first product offering in the light-duty truck environment is our W-15 Range-Extended Electric Pickup Truck, which is presently under development and is targeted for initial production to begin in late 2018. We believe that the W-15 has the potential to transform the pickup truck market in the United States.

We had a highly successful unveiling of our W-15 pickup truck in Long Beach, CA the week of May 1st, 2017. As part of the unveiling, we also announced that we had secured letters-of-intent for the W-15 from a mixture of top corporate fleets representing the utility, municipality and automotive logistics sectors. The LOIs represent more than 5,000 units.

We have also had many inquiries from general consumers with respect to the availability of the W-15 being sold to consumers. Our current plan is to release the W-15 for availability to consumers if we reach the point where at least 10,000 consumers place a pre-order that is accompanied by a \$1,000 deposit.

To realize further efficiencies, we intend to assemble the W-15 at our existing 250,000 square foot facility in Union City, Indiana. This plant has the capability to produce more than 60,000 vehicles per year. The battery packs for all Workhorse vehicles will be built in our Loveland, Ohio battery pack plant using Panasonic cells produced in Japan.

Ryder Systems Agreement

On April 27, 2017, we entered into a Services Partner Agreement (the “Ryder Agreement”) with Ryder Truck Rental, Inc. (“Ryder”). The Ryder Agreement provides that Ryder shall in the United States, Mexico and Canada, (i) serve as the primary distributor, except with respect to certain exclusive accounts, (ii) serve as the sole and exclusive provider of certain repair services and (iii) serve the sole and exclusive distributor of certain vehicle parts. We are working closely with the Ryder team to roll out our sale service and support network

Post Office Replenishment Program

Workhorse, with our partner VT Hackney, is one of five awardees that the United States Postal Service selected to build prototype vehicles for USPS Next Generation Delivery Vehicle project. The Post Office has stated that the number of vehicles to be replaced in the project is approximately 180,000. We are on track to deliver our prototypes to the USPS by the September 2017 deadline. The Post Office has stated that they intend to test the prototypes for six months and select a winning bid(s) following the testing process.

Aviation

Delivery Drones

Our Horsefly Delivery Drone is a custom-designed, purpose-built drone that is fully integrated with our electric trucks. We have a patent pending on this architecture and we believe we are the only company in the world with a working drone/truck system. The Horsefly delivery drone and truck system is designed to work within the FAA Rule 107 that permits the use of commercial drones in U.S. airspace under certain conditions.

UPS conducted a successful real-world test with us in February 2017 and it received worldwide news coverage. The knowledge we have gained in building electric delivery trucks for last-mile delivery has led us to believe that a drone/truck delivery system can have significant cost savings in the parcel delivery ecosystem.

As stated in UPS’s press release issued on February 21, 2017, a reduction of just one mile per driver per day over one year can save UPS up to \$50 million. Rural delivery routes are the most expensive to serve due to the time and vehicle expenses required to complete each delivery. In this test, the drone made one delivery while the driver continued down the road to make another. We believe that this truck/drone architecture represents significant cost savings for delivery fleets and that we are first to market with such a system. We continue to work closely with the FAA as we strive to bring the system to the point of daily drone deliveries across rural America.

Manned Multicopter

We continue to leverage our knowledge of high-voltage battery packs, electric motor controls, range extending generators and lightweight carbon fiber chassis to design to expand into areas that fit within our corporate mission statement. On June 17th at the Paris Air show, we launched our multi-copter platform that can carry a pilot and passenger. The product is called SureFly™, and it is meant to be a short haul, vertical takeoff and landing aircraft that is less expensive to buy and operate, and much safer and easier to fly when compared to a conventional helicopter. We believe that the typical application would be agriculture, package delivery and logistics in remote areas, emergency responders, military, and commuters in highly congested larger cities.

In light of the robust response to the launch, we are working closely with the FAA and several of our industry partners to bring the SureFly solution to market. We expect to test our first manned hover in late 2017. We believe that our range-extended truck experience combined with our Horsefly delivery drone aviation development experience will give us competitive advantages and speed-to-market with such an aircraft. We have targeted 2019 to receive our certification from the FAA and have begun accepting \$1,000 deposits from potential customers.

Results of Operations

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Sales	\$ 270,000	\$ 1,234,600	\$ 2,048,037	\$ 1,470,600
Cost of Sales	<u>995,925</u>	<u>2,294,675</u>	<u>5,308,013</u>	<u>2,759,052</u>
Gross loss	<u>(725,925)</u>	<u>(1,060,075)</u>	<u>(3,259,976)</u>	<u>(1,288,452)</u>
Operating Expenses				
Selling, general and administrative	2,640,590	1,616,390	4,748,172	2,787,382
Research and development	<u>5,811,333</u>	<u>258,798</u>	<u>9,054,655</u>	<u>3,199,738</u>
Total operating expenses	<u>8,451,923</u>	<u>1,875,188</u>	<u>13,802,827</u>	<u>5,987,120</u>
Interest expense, net	<u>21,852</u>	<u>567</u>	<u>57,503</u>	<u>40,270</u>
Net loss	<u>\$ (9,199,700)</u>	<u>\$ (2,935,830)</u>	<u>\$ (17,120,306)</u>	<u>\$ (7,315,842)</u>

Sales

Sales for the three months ended June 30, 2017 and 2016 were \$270 thousand and \$1.2 million respectively and were related to delivery of the production vehicles for UPS and other customers. The decrease in sales consisted primarily on delays in the supply chain during the quarter that were remediated in the month of July.

Sales for the six months ended June 30, 2017 and 2016 were \$2.0 million and \$1.5 million, the increase consisted in the completion of the delivery of the initial UPS order and the initiation of the next.

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 months ended June 30, 2017 and 2016 were \$995.9 thousand and \$2.3 million respectively. Materials and components for the manufacturing of the initial units were acquired at low volume pricing. There were additional overhead costs in the quarter due to lower sales volumes indicated above.

Cost of Sales for the six months ended June 30, 2017 and 2016 were \$5.3 million and \$2.8 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 June 30, 2017 and 2016 were \$2.6 million and 1.6 million respectively. The increase consisted primarily in employee salaries and benefits, promotional activities and consulting, due to increased activity in the period.

SG&A expenses during the six months ended June 30, 2017 and 2016 were \$4.7 million and 2.8 million respectively. The increase consisted primarily in employee salaries and benefits, consulting and investor relations, due to 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.

R&D expenses during the three months ended June 30, 2017 were \$5.8 million, an increase from \$259 thousand for the three months ended June 30, 2016. The increase in R&D expenses consisted primarily in consulting and materials related to the start of the Next Generation Delivery Vehicles (NGDVs) project.

R&D expenses during the six months ended June 30, 2017 were \$9.1 million, an increase from \$3.2 million for the six months ended June 30, 2016. The increase in 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, the construction and completion of the prototypes for the pickup truck and the SureFly Optocopter.

Interest Expenses

Our interest expense is incurred primarily from our long-term loans for financing Property, Plant and Equipment.

Interest expenses during the three months ended June 30, 2017 and 2016 were \$21.8 and \$567 respectively. Interest expense for 2017 was related to the Long-Term loan on the Loveland Headquarters R&D building. Interest expense for the first quarter of 2016 was related to the Navistar loan which was paid off during the second quarter of 2016.

Interest expenses during the six months ended June 30, 2017 and 2016 were \$57.5 and \$40.3 thousand respectively. Interest expense for 2017 was related to the Long-Term loan on the Loveland Headquarters R&D building. Interest expense for the first quarter of 2016 was related to the Navistar loan which was paid off during the second quarter of 2016.

Liquidity and Capital Resources

Cash Requirements

From inception, we have financed our operations primarily through sales of equity securities. We have consumed substantial amounts of capital to date as we continue our research and development activities and manufacturing our vehicles.

As of June 30, 2017, we had approximately \$5.4 million in cash, cash equivalents and short-term investments, as compared to approximately \$469 thousand as of December 31, 2016, an increase of approximately \$5.0 million. The increase was primarily attributable to the closing of our underwritten public offering in February 2017 and collection of accounts receivable from customers.

We believe that our existing capital resources will be sufficient to support our current and projected funding requirements, through October 2017. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development of our business and research and development activities, including risks and uncertainties that could impact the rate of progress of our development activities, we are unable to estimate with certainty the amounts of increased capital outlays and operating expenditures.

Our operations will require significant additional funding for the foreseeable future. Unless and until we are able to generate a sufficient amount of revenue and reduce our costs, we expect to finance future cash needs through public and/or private offerings of equity securities and/or debt financings. We do not currently have any committed future funding. To the extent we raise additional capital by issuing equity securities, our stockholders could at that time experience substantial dilution. Any debt financing that we are able to obtain may involve operating covenants that restrict our business. On June 22, 2017, the Company entered into an at the market issuance sales agreement (the "Cowen Agreement") with Cowen and Company, LLC ("Cowen") under which the Company may offer and sell, from time to time at its sole discretion, shares of its Common Stock, having an aggregate offering price of up to \$25,000,000 through Cowen as its sales agent. Cowen may sell the Common Stock by any method permitted by law deemed to be an "at the market offering" as defined in Rule 415 of the Securities Act of 1933, as amended, including without limitation sales made by means of ordinary brokers' transactions on the Nasdaq Global Select Market or otherwise at market prices prevailing at the time of sale, in block transactions, or as otherwise directed by the Company. Cowen will use commercially reasonable efforts to sell the Common Stock from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company will pay Cowen a commission of 3.0% of the gross sales proceeds of any Common Stock sold through Cowen under the Cowen Agreement, and also has provided Cowen with customary indemnification rights. The Company is not obligated to make any sales of Common Stock under the Agreement. The offering of shares of Common Stock pursuant to the Cowen Agreement will terminate upon the earlier of (i) the sale of all Common Stock subject to the Cowen Agreement or (ii) termination of the Cowen Agreement in accordance with its terms. The shares of Common Stock being offered pursuant to the Cowen Agreement will be offered and sold pursuant to the Company's shelf registration statement on Form S-3 (File No. 333-213100). On June 22, 2017, the Company filed a prospectus supplement relating to the ATM Offering with the Securities and Exchange Commission (the "SEC"). As of June 30, 2017, the Company issued 451,411 shares of Common Stock for gross proceeds of \$1.7 million under the Cowen Agreement.

Our future funding requirements will depend upon many factors, including, but not limited to:

- our ability to acquire or license other technologies or compounds that we may seek to pursue;
- our ability to manage our growth;
- competing technological and market developments;
- the costs and timing of obtaining, enforcing and defending our patent and other intellectual property rights; and
- expenses associated with any unforeseen litigation.

Insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs, limit our sales activities, limit or cease production or negatively impact our operations.

For the six months ended June 30, 2017, we maintained an investment portfolio primarily in money market funds, U. S. treasury bills, government-sponsored enterprise securities, and corporate bonds and commercial paper. Cash in excess of immediate requirements is invested with regard to liquidity and capital preservation. Wherever possible, we seek to minimize the potential effects of concentration and degrees of risk. We will continue to monitor the impact of the changes in the conditions of the credit and financial markets to our investment portfolio and assess if future changes in our investment strategy are necessary

Summary of Cash Flows

	<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Net cash used in operating activities	\$ (19,739,137)	\$ (9,244,629)
Net cash provided by (used in) investing activities	\$ 54,407	\$ (90,665)
Net cash used and provided by financing activities	\$ 24,636,096	\$ 5,320,293

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 six months ended June 30, 2017 and 2016, cash used in operating activities was \$19.7 million and \$9.2 million respectively. The decrease in operating cash flows in 2017 as compared to 2016 was mainly due to an increase in operating losses, inventory purchases, offset by increases in accounts payable and reductions of accounts receivable.

Cash Flows from Investing Activities

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

During the six months ended June 30, 2017 and 2016, net cash provided in investing activities was \$54 thousand and used \$90 thousand respectively. For the six months ended in June 30, 2017 we spent on new equipment and software used mainly for R&D and manufacturing activities, offset by leasing of vehicles to customers. For the six months ended June 30, 2016 we used funds for the purchase of new equipment and software used mainly for R&D and manufacturing activities.

Cash Flows from Financing Activities

During the six months ended June 30, 2017 and 2016, net cash provided by financing activities was \$24.6 million and \$5.3 million respectively. Cash flows from financing activities during the six months ended June 30, 2017 consisted primarily of a net of \$20.5 million from a stock public offering.

The Company established an at the market facility to complement the above mentioned public offering and may seek to raise additional capital through public or private debt or equity financings in order to fund its 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

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities in which we invest may have market risk. This means that a change in prevailing interest rates may cause the fair value amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the market value amount of our investment will decline. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including money market funds and government and non-government debt securities and the maturities of each of these instruments is less than one year. In quarter ended June 30, 2017, we maintained an investment portfolio primarily in money market funds. Due to the primarily short-term nature and low interest rate yields of these investments, we believe we do not have a material exposure to interest rate risk and market risk arising from our investments. Therefore, no quantitative tabular disclosure is provided.

We have operated primarily in the United States. Accordingly, we have not had any significant exposure to foreign currency rate fluctuations.

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 June 30, 2017 that materially affected, or

are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as set forth below, 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. In May 2017, Autokinetics, Inc. (“AK”) filed a complaint against the Company in the Circuit Court for the County of Oakland, State of Michigan (File No. 2017-158748-CB). AK claims Breach of Contract and Unjust Enrichment/Quantum Meruit and is seeking damages in the amount of \$2,098,550. In June 2017, the Company filed an Answer as well as a Counterclaim against AK and J. Bruce Emmons, President of AK, for Breach of Contract, Unjust Enrichment, Promissory Estoppel, Conversion and Statutory Conversion. The Company intends to vigorously defend against this action and pursue all available legal remedies. The Company believes it has substantial legal and factual defenses to the plaintiffs’ claims.

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 \$80.2 million for the period from inception (February 20, 2007) through June 30, 2017. 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.

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 \$19.2 million and \$9.2 million for the six months ended June 30, 2017 and 2016 respectively. 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 in 2017 and beyond, which may not be available to us on acceptable terms or at all. If we cannot access additional financing when we need it and on acceptable terms, our business may fail.

Our business plan to design, produce, sell and service commercial electric vehicles through our Union City facility will require substantial continued capital investment. Our research and development activities will also require substantial continued investment. For the year ended December 31, 2016, our independent registered public accounting firm issued a report on our 2016 financial statements that contained 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. For example, our existing capital resources, will be insufficient to fund our operations beyond the end of the fourth quarter of 2017. Accordingly, we will need additional financing. We will also need additional financing beyond 2017. If we are not able to obtain additional financing and/or substantially increase revenue from sales, we will be unable to continue as a going concern. As a result, we may have to liquidate our assets and may receive less than the value at which those assets are carried on our consolidated financial statements, and investors will likely lose a substantial part or all of their investment. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all, particularly given we do not now have a committed credit facility with any government or financial institution. Further, if there remains doubt about our ability to continue as a going concern, investors or other financing sources may be unwilling to provide additional funding on acceptable terms or at all. If we cannot obtain additional financing when we need it and on terms acceptable to us, we will not be able to continue as a going concern.

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 we are unable to perform under these orders, our business may fail.

On June 4, 2014, the Company entered into a Vehicle Purchase Agreement with United Parcel Service Inc. ("UPS") which outlined the relationship by which the Company would sell vehicles to UPS. 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 specified numbers of vehicles per month. However, these deadlines are expected to evolve as the individual 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. Also, there is no assurance that UPS will not terminate its agreement with the Company pursuant to the termination provisions therein. 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 assurance, due to the Company's financial constraints and status as a development stage company, 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 negatively impacted.

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.

We offer no financing on our vehicles. As such, our business is dependent on cash sales, which may adversely affect our growth prospects.

While most of our current customers are well-established companies with significant purchasing power, many of our potential smaller and medium-sized customers may need to rely on credit or leasing arrangements to gain access to our vehicles. Unlike some of our competitors who provide credit or leasing services for the purchase of their vehicles, we do not provide, and currently do not have commercial arrangements with a third party that provides, such financial services. We believe the current limited availability of credit or leasing solutions for our vehicles could adversely affect our revenues and market share in the commercial electric vehicle market.

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.

Increases in costs, disruption of supply or shortage of lithium-ion cells could harm our business.

We may experience increases in the cost or a sustained interruption in the supply or shortage of lithium-ion cells. Any such increase, supply interruption or shortage could materially and negatively impact our business, prospects, financial condition and operating results. The prices for these lithium-ion cells can fluctuate depending on market conditions and global demand for these materials and could adversely affect our business and operating results. We are exposed to multiple risks relating to lithium-ion cells including:

- the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells we may require going forward;
- disruption in the supply of cells due to quality issues or recalls by battery cell manufacturers;
- an increase in the cost of raw materials used in the cells; and
- fluctuations in the value of the Japanese yen against the U.S. dollar in the event our purchasers of lithium-ion cells are denominated in Japanese yen.

Our business is dependent on the continued supply of battery cells for the battery packs used in our vehicles. While we believe several sources of the battery cells are available for such battery cells, we have fully qualified only Panasonic for the supply of the cells used in such battery packs and have very limited flexibility in changing cell suppliers. Any disruption in the supply of battery cells could disrupt production of our vehicles until such time as a different supplier is fully qualified. Furthermore, fluctuations or shortages in petroleum, tariff or trade issues and other economic or tax conditions may cause us to experience significant increases in freight charges. Substantial increases in the prices for the battery cells or prices charged to us, 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 vehicle prices in response to increased costs in our battery cells could result in cancellations of vehicle orders and therefore materially and adversely affect our brand, image, business, prospects and operating results.

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

We believe that much of the present and projected demand for commercial electric vehicles results from concerns about volatility in the cost of petroleum-based fuel, the dependency of the United States on oil from unstable or hostile countries, government regulations and economic incentives promoting fuel efficiency and alternative forms of energy, as well as the belief that climate change results in part from the burning of fossil fuels. If the cost of petroleum-based fuel decreased significantly, the outlook for the long-term supply of oil to the United States improved, the government eliminated or modified its regulations or economic incentives related to fuel efficiency and alternative forms of energy, or if there is a change in the perception that the burning of fossil fuels negatively impacts the environment, the demand for commercial electric vehicles could be reduced, and our business and revenue may be harmed.

Diesel and other petroleum-based fuel prices have been extremely volatile, and we believe this continuing volatility will persist. Lower diesel or other petroleum-based fuel prices over extended periods of time may lower the perception in government and the private sector that cheaper, more readily available energy alternatives should be developed and produced. If diesel or other petroleum-based fuel prices remain at deflated levels for extended periods of time, the demand for commercial electric vehicles may decrease, which would have an adverse effect on our business, prospects, financial condition and operating results.

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. This often depends upon the cost for an operator adopting electric vehicle technology as compared to the cost of traditional internal combustion technology. When the price of oil is low, as it recently has been, it is difficult to convince commercial fleet operations to change to more expensive electric vehicles.

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. Our growth has also been negatively impacted by the relatively low price of oil over the last few years.

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.

As part of our sales efforts, we must educate fleet managers as to the economical savings we believe they will benefit from during the life of the vehicle. As such, we believe that operators of commercial vehicle fleets should 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.

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.

We depend upon key personnel and need additional personnel. The loss of key personnel or the inability to attract additional personnel may adversely affect our business and results of operations.

Our success depends on the continuing services of Stephen Burns, CEO, and top management. On May 19, 2017, Mr. Burns and the Company entered into an Executive Retention Agreement whereby Mr. Burns was retained as Chief Executive Officer in consideration of an annual salary of \$325,000. Further, the Company entered Executive Retention Agreements with Duane Hughes as Chief Operating Officer/President and Julio Rodriguez as Chief Financial Officer. 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 our 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 results of the 2016 United States presidential and congressional elections may create regulatory uncertainty for the alternative energy sector and may materially harm our business, financial condition and operating results.

Donald Trump's victory in the U.S. presidential election, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the United States in the congressional election, may create regulatory uncertainty in the alternative energy sector. During the election campaign, President Trump made comments suggesting that he was not supportive of various clean energy programs and initiatives. It remains unclear what specifically President Trump would or would not do with respect to these programs and initiatives, and what support he would have for any potential changes to such legislative programs and initiatives in the United States Congress, even if both the House of Representatives and Senate are controlled by the Republican Party. If President Trump and/or the United States Congress take action or publicly speak out about the need to eliminate or further reduce legislation, regulations and incentives supporting alternative energy, such actions may result in a decrease in demand for alternative energy in the United States and may materially harm our business, financial condition and operating results.

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.

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.

Our business may be adversely affected by union activities.

Although none of our employees are currently represented by a labor union, it is common throughout the automotive industry for many employees at automotive companies to belong to a union, which can result in higher employee costs and increased risk of work stoppages. Our employees may join or seek recognition to form a labor union, or we may be required to become a union signatory. Our production facility in Union City, Indiana was purchased from Navistar. Prior employees of Navistar were union members and our future work force at this facility may be inclined to vote in favor of forming a labor union. Furthermore, we are directly or indirectly dependent upon companies with unionized work forces, such as parts suppliers and trucking and freight companies, and work stoppages or strikes organized by such unions could have a material adverse impact on our business, financial condition or operating results. If a work stoppage occurs, it could delay the manufacture and sale of our trucks and have a material adverse effect on our business, prospects, operating results or financial condition. The mere fact that our labor force could be unionized may harm our reputation in the eyes of some investors and thereby negatively affect our stock price. Consequently, the unionization of our labor force could negatively impact our company's health.

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, have occasionally 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 would 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 occasion, 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. Highly publicized incidents of laptop computers and cell phones bursting into flames have focused consumer attention on the safety of these cells. These events also have raised questions about the suitability of these lithium-ion cells for automotive applications. There can be no assurance that a field failure of our battery packs will not occur, which would damage the vehicle or lead to personal injury or death and may subject us to lawsuits. Furthermore, there is some risk of electrocution if individuals who attempt to repair battery packs on our vehicles do not follow applicable maintenance and repair protocols. Any such damage or injury would likely lead to adverse publicity and potentially a safety recall. Any such adverse publicity could adversely affect our business, prospects, financial condition and operating results.

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

Risks Related to Owning Our Common Stock

If we fail to continue to meet the listing standards of NASDAQ, our common stock may be delisted, which could have a material adverse effect on the liquidity of our common stock.

Our common stock is currently listed on the Nasdaq Capital Market. The NASDAQ Stock Market LLC has requirements that a company must meet in order to remain listed on NASDAQ. In particular, NASDAQ rules require us to maintain a minimum bid price of \$1.00 per share of our common stock. If the closing bid price of our common stock were to fall below \$1.00 per share for 30 consecutive trading days or we do not meet other listing requirements, we would fail to be in compliance with NASDAQ's listing standards. There can be no assurance that we will continue to meet the minimum bid price requirement, or any other requirement in the future. If we fail to meet the minimum bid price requirement, The NASDAQ Stock Market LLC may initiate the delisting process with a notification letter. If we were to receive such a notification, we would be afforded a grace period of 180 calendar days to regain compliance with the minimum bid price requirement. In order to regain compliance, shares of our common stock would need to maintain a minimum closing bid price of at least \$1.00 per share for a minimum of 10 consecutive trading days. In addition, we may be unable to meet other applicable NASDAQ listing requirements, including maintaining minimum levels of stockholders' equity or market values of our common stock in which case, our common stock could be delisted. If our common stock were to be delisted, the liquidity of our common stock would be adversely affected and the market price of our common stock could decrease.

The trading of our shares of common has been relatively thin and there is no assurance that a liquid market for our shares of common stock will develop.

Our common stock has traded on the Nasdaq Capital Market, under the symbol "WKHS", since January 2016. Since that date, our common stock has been relatively thinly traded. There can be no assurance that we will be able to successfully develop a liquid market for our common shares. The stock market in general, and early stage public companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. If we are unable to develop a market for our common shares, you may not be able to sell your common shares at prices you consider to be fair or at times that are convenient for you, or at all.

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 has been low and may fluctuate and cause significant price variations to occur. We have experienced significant volatility in the price of our stock. In addition, the stock markets in general can experience considerable price and volume fluctuations.

We have not paid dividends in the past and have no immediate plans to pay dividends.

We plan to reinvest all of our earnings, to the extent we have earnings, in order to develop our products, deliver on our orders and cover operating costs and to otherwise become and remain competitive. We do not plan to pay any cash dividends with respect to our securities in the foreseeable future. We cannot assure you that we would, at any time, generate sufficient surplus cash that would be available for distribution to the holders of our common stock as a dividend. Therefore, you should not expect to receive cash dividends on our common stock.

Shares eligible for future sale may adversely affect the market for our common stock.

Of the 37,324,038 shares of our common stock outstanding as of the date hereof, approximately 22.7 million shares are held by “non-affiliates” and are freely tradable without restriction pursuant to Rule 144. In addition, our Registration Statement on Form S-3 for purposes of registering the resale of 1,033,717 shares of common stock and 1,833,193 shares of common stock issuable upon exercise of stock purchase warrants has been declared effective. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our common stock.

Shareholders may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock at prices that may not be the same as the price per share in our prior offerings. We may sell shares or other securities in any future offering at a price per share that is lower than the price per share paid by historical investors, which would result in those newly issued shares being dilutive. In addition, investors purchasing shares or other securities in the future could have rights superior to existing stockholders, which could impair the value of existing shareholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the price per share paid by our historical investors.

Our charter documents and Nevada law may inhibit a takeover that stockholders consider favorable.

Provisions of our certificate of incorporation and bylaws and applicable provisions of Nevada law may delay or discourage transactions involving an actual or potential change in control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. The provisions in our certificate of incorporation and bylaws:

- limit who may call stockholder meetings;
- do not provide for cumulative voting rights; and
- provide that all vacancies may be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum.

There are limitations on director/officer liability.

As permitted by Nevada law, our certificate of incorporation limits the liability of our directors for monetary damages for breach of a director’s fiduciary duty except for liability in certain instances. As a result of our charter provision and Nevada law, shareholders may have limited rights to recover against directors for breach of fiduciary duty. In addition, our certificate of incorporation provides that we shall indemnify our directors and officers to the fullest extent permitted by law.

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

During the six months ended June 30, 2017, warrant holders exercised stock purchase warrants to receive an aggregate of 542.7 thousand shares of common stock in consideration of an aggregate of \$967 thousand in cash consideration.

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

On April 27, 2017, the Company entered into a Services Partner Agreement (the “Ryder Agreement”) with Ryder Truck Rental, Inc. (“Ryder”). The Ryder Agreement provides that Ryder shall serve as the primary distributor, except with respect to certain exclusive accounts, in the United States, Mexico and Canada. During the fourth quarter of every year commencing in the fourth quarter of 2018, Ryder and the Company will mutually establish sales goals for each type of vehicle for the following year as well as standards relating to parts availability, service responsiveness and other key performance indicators. Ryder shall also serve as the sole and exclusive provider of certain repair services and the sole and exclusive distributor of certain vehicle parts in the United States, Canada and Mexico. The Company has agreed to provide a warranty for each vehicle and part for varying time period and mileage. For all repair services performed by Ryder on the Company’s vehicles during the warranty period, excluding physical damage repairs resulting from, but not limited to, collision, driver behavior, fire or act of God, the Company will reimburse Ryder for such services. The term of the Ryder Agreement is through December 31, 2027 unless terminated sooner. On the fifth anniversary of the Ryder Agreement, if there are any material changes in the relationship or the external market that have a direct impact on the material terms of the Ryder Agreement, the parties may seek to renegotiate the affected terms of the Ryder Agreement. In the event that the parties do not reach a mutual agreement within 90 days of the commencement of the renegotiation, either party may terminate the Ryder Agreement with 30 days prior written notice to the other party or decide to continue under the current terms for the remainder of the term.

On May 2, 2017, the Company unveiled its W-15 plug-in, battery-electric range-extended prototype pickup truck at the Advanced Clean Transportation Exhibition (ACT Expo) in Long Beach, California.

Workhorse held its Annual Meeting on August 7, 2017 in Loveland, Ohio. As of June 14, 2017, the record date for the annual meeting, 36,219,559 shares of common stock were outstanding and 30,221,736 shares of common stock were represented at the Annual Meeting, in person or by proxy, constituting a quorum. The proposals considered at the Annual Meeting are described in detail in the Proxy Statement. The proposals described below were voted upon at the Annual Meeting and the number of votes cast with respect to each proposal was as set forth below:

(1) Elect five (5) directors until his successor is duly elected and qualified, or until his earlier death, resignation or removal. The five directors receiving the highest vote were appointed to the board. The following Directors were elected to the board.

	For	Against	Abstain
Raymond Chess	13,984,816	5,615,634	197,500
Harry DeMott	14,424,891	5,175,559	197,500
H. Benjamin Samuels	18,992,800	800,150	5,000
Gerald B. Budde	14,349,263	5,443,687	5,000
Stephen S. Burns	14,995,104	4,842,846	0

(2) To ratify the appointment of Clark, Schaefer, Hackett & Co. as the Company's independent registered public accounting firm for the year ending December 31, 2017. This matter was approved by a majority of the votes cast on this matter.

For	Against	Abstain
24,485,572	5,559,796	176,368

(3) To approve the Workhorse Group Inc. 2017 Incentive Stock Plan and the reservation of 5,000,000 shares of common stock thereunder. This matter was approved by a majority of the votes cast on this matter.

For	Against	Abstain
13,573,745	5,622,255	601,950

(4) To recommend, by non-binding vote, the approval of the compensation disclosed in the Proxy Statement of the Company's executive officers, who are named in the Summary Compensation Table. This matter was approved by a majority of the votes cast on this matter.

For	Against	Abstain
14,219,252	4,906,669	672,029

(5) To approve the amendment to the Certificate of Incorporation to increase the authorized shares of common stock to 100,000,000. This matter was approved by a majority of the shares outstanding.

For	Against	Abstain
23,463,651	6,612,279	65,539

On August 8, 2017, the Company filed an amendment to its Certificate of Incorporation increasing its authorized shares of common stock from 50,000,000 to 100,000,000 as approved by the stockholders of the Company.

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)
3.8	Articles of Merger between AMP Holding Inc. Workhorse Group Inc. (16)
3.9	Certificate of Change filed December 9, 2015 (20)
3.10	Certificate of Amendment to the Certificate of Incorporation dated August 8, 2017
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)
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 Agreement entered between AMP Holding Inc and the December 2014 Investors (31)
4.10	Form of Common Stock Purchase Warrant issued to the December 2014 Investors (31)
4.11	Intentionally Left Blank
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	Intentionally left blank.
4.23	Securities Purchase Agreement entered between Workhorse Group Inc. and Joseph T. Lukens dated January 10, 2017 (26)
4.24	6% Convertible Debenture issued to Joseph T. Lukens dated January 10, 2017 (26)
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)
10.11	Form of Warrant Exercise Agreement (25)
10.12	Conversion Agreement between Joseph T. Lukens and the Company dated January 27, 2017 (27)
10.13	Services Partner Agreement between Workhorse Group Inc. and Ryder Truck Rental, Inc. dated April 27, 2017 (29)
10.14	Executive Retention Agreement by and between Workhorse Group Inc. and Stephen S. Burns dated May 19, 2017 (30)
10.15	Executive Retention Agreement by and between Workhorse Group Inc. and Duane Hughes dated May 19, 2017 (30)
10.16	Executive Retention Agreement by and between Workhorse Group Inc. and Julio Rodriguez dated May 19, 2017 (30)
10.17	Sales Agreement, dated June 22, 2017, by and between Workhorse Group Inc. and Cowen and Company, LLC (32)
21.1	List of Subsidiaries (28)
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
99.2	Compensation Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015
99.3	Audit Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015
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) 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.
- (25) Incorporated by reference to the Form S-3/A Registration Statement filed with the Securities and Exchange Commission on December 12, 2016.
- (26) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on January 12, 2017.
- (27) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on February 1, 2017.
- (28) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on November 14,

2016.

- (29) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on May 3, 2017.
- (30) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on May 19, 2017.
- (31) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on December 11, 2014.
- (32) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on June 22, 2017.

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: August 9, 2017

By: /s/ Stephen S. Burns
Name: Stephen S. Burns
Title: Chief Executive Officer
(Principal Executive Officer)

Dated: August 9, 2017

By: /s/ Julio C. Rodriguez
Name: Julio C. Rodriguez
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)



090204



BARBARA K. CEGAVSKE
Secretary of State
202 North Carson Street
Carson City, Nevada 89701-4201
(775) 684-5708
Website: www.nvsos.gov

Certificate of Amendment
(PURSUANT TO NRS 78.385 AND 78.390)

USE BLACK INK ONLY - DO NOT HIGHLIGHT

ABOVE SPACE IS FOR OFFICE USE ONLY

Certificate of Amendment to Articles of Incorporation
For Nevada Profit Corporations
(Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock)

1. Name of corporation:

Workhorse Group Inc.

2. The articles have been amended as follows: (provide article numbers, if available)

“FOURTH: The authorized capital stock of this Corporation is 175,000,000 shares of capital stock, consisting of 100,000,000 shares of common stock with full voting rights and with a par value of \$0.001 per share, and 75,000,000 shares of preferred stock, with a par value of \$.001 per share (the “Preferred Stock”). The Preferred Stock may be issued from time to time in one or more series with such designations, preferences and relative participating, optional or other special rights and qualifications, limitations or restrictions thereof, as shall be stated in the resolutions adopted by the Corporation’s Board of Directors (the “Board”) providing for the issuance of such Preferred Stock or series thereof; and the Board is hereby vested with authority to fix such designations, preferences and relative participating, optional or other special rights or qualifications, limitations, or restrictions for each series, including,

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the articles of incorporation* have voted in favor of the amendment is: 64.8%

4. Effective date and time of filing: (optional)

Date: _____ Time: _____
(must not be later than 90 days after the certificate is filed)

5. Signature: (required)

Signature of Officer

* If any proposed amendment would alter or change any preference or any relative or other right given to any class or series of outstanding shares, then the amendment must be approved by the vote, in addition to the affirmative vote otherwise required, of the holders of shares representing a majority of the voting power of each class or series affected by the amendment regardless to limitations or restrictions on the voting power thereof.

IMPORTANT: Failure to include any of the above information and submit with the proper fees may cause this filing to be rejected.

This form must be accompanied by appropriate fees.

Nevada Secretary of State Amend Profit-After
Revised: 1-5-15

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Stephen S. Burns, Chief Executive Officer, certify that:

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

Date: August 9, 2017

/s/ Stephen S. Burns

Stephen S. Burns,
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Julio C. Rodriguez, Chief Financial Officer, certify that:

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

Date: August 9, 2017

/s/ Julio C. Rodriguez

Julio C. Rodriguez, Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly report of Workhorse Group Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen S. Burns, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2017

/s/ Stephen S. Burns
Stephen S. Burns,
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly report of Workhorse Group Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Julio C. Rodriguez, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2017

/s/ Julio C. Rodriguez
Julio C. Rodriguez,
Chief Financial Officer
(Principal Financial and Accounting Officer)

WORKHORSE GROUP INC.
NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER

A. Purpose

The purpose of the Nominating and Corporate Governance Committee of the Board of Directors (the “Board”) of Workhorse Group Inc. (the “Company”) is to:

- recommend to the Board the persons to be nominated for election as directors at any meeting of stockholders and the persons (if any) to be elected by the Board to fill any vacancies on the Board;
- develop and recommend to the Board a set of corporate governance guidelines applicable to the Company; and
- oversee the evaluation of the Board.

B. Structure and Membership

1. Number. The Nominating and Corporate Governance Committee shall consist of such number of directors as the Board shall from time to time determine.
2. Independence. Except as otherwise permitted by the applicable rules of NASDAQ, each member of the Nominating and Corporate Governance Committee shall be an “independent director” as defined by such rules.
3. Chair. Unless the Board elects a Chair of the Nominating and Corporate Governance Committee, the Committee shall elect a Chair by majority vote.
4. Compensation. The compensation of Nominating and Corporate Governance Committee members shall be as determined by the Board.
5. Selection and Removal. Members of the Nominating and Corporate Governance Committee shall be appointed by the Board, upon the recommendation of the Committee. The Board may remove members of the Nominating and Corporate Governance Committee from such Committee, with or without cause.

C. Authority and Responsibilities

General

The Nominating and Corporate Governance Committee shall discharge its responsibilities, and shall assess the information provided by the Company’s management, in accordance with its business judgment.

Board and Committee Membership

1. Selection of Director Nominees. Except where the Company is legally required by contract, bylaw or otherwise to provide third parties with the right to nominate directors, the Nominating and Corporate Governance Committee shall be responsible for recommending to the Board the nominees for election as directors at any meeting of stockholders and the persons to be elected by the Board to fill any vacancies on the Board. In making such recommendations, the Committee shall consider candidates proposed by stockholders. The Committee shall review and evaluate information available to it regarding candidates proposed by stockholders and shall apply the same criteria, and shall follow substantially the same process in considering them, as it does in considering other candidates.
2. Criteria for Selecting Directors. The criteria to be used by the Nominating and Corporate Governance Committee in recommending directors and by the Board in nominating directors are as set forth in the Company's Corporate Governance Guidelines. The Committee shall be responsible for reviewing with the Board, on an annual basis, the requisite skills and criteria for new Board members as well as the composition of the Board as a whole. The Committee may adopt, and periodically review and revise as it deems appropriate, procedures regarding director candidates proposed by stockholders.
3. Search Firms. The Nominating and Corporate Governance Committee shall have the authority to retain and terminate any search firm to be used to identify director nominees, including authority to approve the search firm's fees and other retention terms. The Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of any search firm engaged by the Committee.
4. Selection of Committee Members. The Nominating and Corporate Governance Committee shall be responsible for recommending to the Board the directors to be appointed to each committee of the Board.

Corporate Governance

5. Corporate Governance Guidelines. The Nominating and Corporate Governance Committee is responsible for developing and recommending to the Board a set of Corporate Governance Guidelines applicable to the Company. The Committee shall, from time to time as it deems appropriate, review and reassess the adequacy of such Corporate Governance Guidelines and recommend any proposed changes to the Board for approval.

Evaluation of the Board; Succession Planning

6. Evaluation of the Board. The Nominating and Corporate Governance Committee shall be responsible for overseeing an annual self-evaluation of the Board to determine whether it and its committees are functioning effectively. The Committee shall determine the nature of the evaluation, supervise the conduct of the evaluation and prepare an assessment of the Board's performance, to be discussed with the Board.

7. Succession of Executive Officers and Board Members. The Nominating and Corporate Governance Committee shall oversee an annual review by the Board on succession planning, which shall include transitional leadership in the event of an unplanned vacancy.
8. Additional Powers. The Nominating and Corporate Governance Committee shall have such other duties as may be delegated from time to time by the Board.

D. Procedures and Administration

1. Meetings. The Nominating and Corporate Governance Committee shall meet as often as it deems necessary in order to perform its responsibilities. The Committee may also act by unanimous written consent in lieu of a meeting. The Committee shall keep such records of its meetings as it shall deem appropriate.
2. Subcommittees. The Nominating and Corporate Governance Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member) as it deems appropriate from time to time under the circumstances.
3. Reports to the Board. The Nominating and Corporate Governance Committee shall report regularly to the Board.
4. Charter. The Nominating and Corporate Governance Committee shall, from time to time as it deems appropriate, review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.
5. Independent Advisors. The Nominating and Corporate Governance Committee is authorized, without further action by the Board, to engage such independent legal and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of such advisors as established by the Committee.
6. Investigations. The Nominating and Corporate Governance Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Committee or any advisors engaged by the Committee.
7. Annual Self-Evaluation. At least annually, the Nominating and Corporate Governance Committee shall evaluate its own performance.

WORKHORSE GROUP INC.
COMPENSATION COMMITTEE CHARTER

A. Purpose

The purpose of the Compensation Committee of the Board of Directors (the “Board”) of Workhorse Group Inc. (the “Company”) is to oversee the discharge of the responsibilities of the Board relating to compensation of the Company’s executive officers.

B. Structure and Membership

1. Number. The Compensation Committee shall consist of at least two members of the Board.
2. Independence. Except as otherwise permitted by the applicable NASDAQ rules, each member of the Compensation Committee shall be “independent” as defined by such rules.
3. Chair. Unless the Board elects a Chair of the Compensation Committee, the Compensation Committee shall elect a Chair by majority vote.
4. Compensation. The compensation of Compensation Committee members shall be as determined by the Board.
5. Selection and Removal. Members of the Compensation Committee shall be appointed by the Board, upon the recommendation of the Nominating and Corporate Governance Committee. The Board may remove members of the Compensation Committee from such committee, with or without cause.

C. Authority and Responsibilities

General

The Compensation Committee shall discharge its responsibilities, and shall assess the information provided by the Company’s management, in accordance with its business judgment.

Compensation Matters

1. Executive Officer Compensation. The Compensation Committee, or a majority of the independent directors serving on the Board, shall review and approve, or recommend for approval by the Board, the compensation of the Company’s Chief Executive Officer (the “CEO”) and the Company’s other executive officers, including salary, bonus and incentive compensation levels; deferred compensation; executive perquisites; equity compensation (including awards to induce employment); severance arrangements; change-in-control benefits and other forms of executive officer compensation. The Compensation Committee or the independent directors, as the case may be, shall meet without the presence of executive officers when approving or deliberating on CEO compensation but shall, invite the CEO to be present during the approval of, or deliberations with respect to, other executive officer compensation.
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2. Evaluation of Executive Officers. The Compensation Committee shall be responsible for overseeing the evaluation of the Company's executive officers. In conjunction with the Audit Committee in the case of the evaluation of the senior financial management, the Compensation Committee shall determine the nature and frequency of the evaluation and the persons subject to the evaluation, supervise the conduct of the evaluation and prepare assessments of the performance of the Company's executive officers, to be discussed periodically with the Board.
3. Plan Recommendations and Approvals. The Compensation Committee shall periodically review and make recommendations to the Board with respect to incentive-compensation and equity-based plans that are subject to approval by the Board. In addition, in the case of any tax-qualified, non-discriminatory employee benefit plans (and any parallel nonqualified plans) for which stockholder approval is not sought and pursuant to which options or stock may be acquired by officers, directors, employees or consultants of the Company, the Compensation Committee, or a majority of the independent directors serving on the Board, shall approve such plans.
4. Administration of Plans. The Compensation Committee shall exercise all rights, authority and functions of the Board under all of the Company's stock option, stock incentive, employee stock purchase and other equity-based plans, including without limitation, the authority to interpret the terms thereof, to grant options thereunder and to make stock awards thereunder; provided, however, that, except as otherwise expressly authorized to do so by this charter or a plan or resolution of the Board, the Compensation Committee shall not be authorized to amend any such plan. To the extent permitted by applicable law and the provisions of a given equity-based plan, and consistent with the requirements of applicable law and such equity-based plan, the Compensation Committee may delegate to one or more executive officers of the Company the power to grant options or other stock awards pursuant to such equity-based plan to employees of the Company or any subsidiary of the Company who are not directors or executive officers of the Company. The Compensation Committee, or a majority of the independent directors serving on the Board, shall approve any inducement awards granted in reliance on the exemption from shareholder approval contained in NASDAQ Rule 4350(i)(1)(A)(iv).
5. Review and Discussion of Compensation Discussion and Analysis; Recommendation to Board. The Compensation Committee shall review and discuss annually with management the Company's "Compensation Discussion and Analysis" required by Item 402(b) of Regulation S-K (the "CD&A"). The Compensation Committee shall consider annually whether it will recommend to the Board that the CD&A be included in the Company's Annual Report on Form 10-K, proxy statement on Schedule 14A or information statement on Schedule 14C.

6. Compensation Committee Report. The Compensation Committee shall prepare the annual Compensation Committee Report required by Item 407(e)(5) of Regulation S-K.
7. Additional Powers. The Compensation Committee shall have such other duties as may be delegated from time to time by the Board.

D. Procedures and Administration

1. Meetings. The Compensation Committee shall meet as often as it deems necessary in order to perform its responsibilities. The Compensation Committee may also act by unanimous written consent in lieu of a meeting. The Compensation Committee shall keep such records of its meetings as it shall deem appropriate.
2. Subcommittees. The Compensation Committee may form and delegate authority to one or more subcommittees as it deems appropriate from time to time under the circumstances (including (a) a subcommittee consisting of a single member and (b) a subcommittee consisting of at least two members, each of whom qualifies as a “non-employee director,” as such term is defined from time to time in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, and an “outside director,” as such term is defined from time to time in Section 162(m) of the Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder).
3. Reports to Board. The Compensation Committee shall report regularly to the Board.
4. Charter. The Compensation Committee shall, from time to time as it deems appropriate, review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.
5. Consulting Arrangements. The Compensation Committee shall have the authority to retain and terminate any compensation consultant to be used to assist in the evaluation of executive officer compensation and shall have authority to approve the consultant’s fees and other retention terms. The Compensation Committee shall also have authority to commission compensation surveys or studies as the need arises. The Compensation Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of such consultants as established by the Compensation Committee.
6. Independent Advisors. The Compensation Committee is authorized, without further action by the Board, to engage such independent legal and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Compensation Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of such advisors as established by the Compensation Committee.
7. Investigations. The Compensation Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Compensation Committee or any advisors engaged by the Compensation Committee.
8. Annual Self-Evaluation. At least annually, the Compensation Committee shall evaluate its own performance.

WORKHORSE GROUP INC.
AUDIT COMMITTEE CHARTER

A. Purpose

The purpose of the Audit Committee of the Board of Directors (the “Board”) of Workhorse Group Inc. (the “Company”) is to assist the Board’s oversight of the Company’s accounting and financial reporting processes and the audits of the Company’s financial statements.

B. Structure and Membership

1. Number. Except as otherwise permitted by the applicable NASDAQ rules, the Audit Committee shall consist of at least three members of the Board.
 2. Independence. Except as otherwise permitted by the applicable NASDAQ rules, each member of the Audit Committee shall be independent as defined by such rules, meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 (the “Exchange Act”) (subject to the exemptions provided in Rule 10A-3(c)), and not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.
 3. Financial Literacy. Each member of the Audit Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement, at the time of his or her appointment to the Audit Committee. In addition, at least one member must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Unless otherwise determined by the Board (in which case disclosure of such determination shall be made in the Company’s annual report filed with the SEC), at least one member of the Audit Committee shall be an “audit committee financial expert” (as defined by applicable SEC rules).
 4. Chair. Unless the Board elects a Chair of the Audit Committee, the Audit Committee shall elect a Chair by majority vote.
 5. Compensation. The compensation of Audit Committee members shall be as determined by the Board. No member of the Audit Committee may receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, other than fees paid in his or her capacity as a member of the Board or a committee of the Board.
 6. Selection and Removal. Members of the Audit Committee shall be appointed by the Board, upon the recommendation of the Nominations Committee. The Board may remove members of the Audit Committee from such committee, with or without cause.
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C. Authority and Responsibilities

General

The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the Company's registered public accounting firm (the "independent auditor"), in accordance with its business judgment. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements, for the appropriateness of the accounting principles and reporting policies that are used by the Company and for establishing and maintaining adequate internal control over financial reporting. The independent auditors are responsible for auditing the Company's financial statements and the Company's internal control over financial reporting and for reviewing the Company's unaudited interim financial statements. The authority and responsibilities set forth in this Charter do not reflect or create any duty or obligation of the Audit Committee to plan or conduct any audits, to determine or certify that the Company's financial statements are complete, accurate, fairly presented, or in accordance with generally accepted accounting principles or applicable law, or to guarantee the independent auditor's reports.

Oversight of Independent Auditors

1. Selection. The Audit Committee shall be solely and directly responsible for appointing, evaluating, retaining and, when necessary, terminating the engagement of the independent auditor. The Audit Committee may, in its discretion, seek stockholder ratification of the independent auditor it appoints.
2. Independence. The Audit Committee shall take, or recommend that the full Board take, appropriate action to oversee the independence of the independent auditor. In connection with this responsibility, the Audit Committee shall obtain and review a formal written statement from the independent auditor describing all relationships between the auditor and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Audit Committee shall actively engage in dialogue with the independent auditor concerning any disclosed relationships or services that might impact the objectivity and independence of the auditor.
3. Compensation. The Audit Committee shall have sole and direct responsibility for setting the compensation of the independent auditor. The Audit Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of the independent auditor established by the Audit Committee.

4. Preapproval of Services. The Audit Committee shall preapprove all audit services to be provided to the Company, whether provided by the principal auditor or other firms, and all other services (review, attest and non-audit) to be provided to the Company by the independent auditor; provided, however, that de minimis nonaudit services may instead be approved in accordance with applicable SEC rules.
5. Oversight. The independent auditor shall report directly to the Audit Committee, and the Audit Committee shall have sole and direct responsibility for overseeing the work of the independent auditor, including resolution of disagreements between Company management and the independent auditor regarding financial reporting. In connection with its oversight role, the Audit Committee shall, from time to time as appropriate, receive and consider the reports required to be made by the independent auditor regarding:
 - critical accounting policies and practices;
 - alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with Company management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - other material written communications between the independent auditor and Company management.

Audited Financial Statements

6. Review and Discussion. The Audit Committee shall review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) requires discussion.
7. Recommendation to Board Regarding Financial Statements. The Audit Committee shall consider whether it will recommend to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.
8. Audit Committee Report. The Audit Committee shall prepare an annual committee report for inclusion where necessary in the proxy statement of the Company relating to its annual meeting of security holders.

Review of Other Financial Disclosures

9. Independent Auditor Review of Interim Financial Statements. The Audit Committee shall direct the independent auditor to use its best efforts to perform all reviews of interim financial information prior to disclosure by the Company of such information and to discuss promptly with the Audit Committee and the Chief Financial Officer any matters identified in connection with the auditor's review of interim financial information which are required to be discussed by applicable auditing standards. The Audit Committee shall direct management to advise the Audit Committee in the event that the Company proposes to disclose interim financial information prior to completion of the independent auditor's review of interim financial information.

Controls and Procedures

10. Oversight. The Audit Committee shall coordinate the Board' oversight of the Company's internal control over financial reporting, disclosure controls and procedures and code of conduct. The Audit Committee shall receive and review the reports of the CEO and CFO required by Rule 13a-14 of the Exchange Act.
11. Procedures for Complaints. The Audit Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
12. Related-Party Transactions. The Audit Committee shall review all "related party transactions" (defined as transactions required to be disclosed pursuant to Item 404 of Regulation S-K) on an ongoing basis, and all such transactions shall be approved by the Audit Committee. 13. Additional Powers. The Audit Committee shall have such other duties as may be delegated from time to time by the Board.
13. Additional Powers. The Audit Committee shall have such other duties as may be delegated from time to time by the Board.

D. Procedures and Administration

1. Meetings. The Audit Committee shall meet as often as it deems necessary in order to perform its responsibilities. The Audit Committee may also act by unanimous written consent in lieu of a meeting. The Audit Committee shall periodically meet separately with: (i) the independent auditor; (ii) Company management and (iii) the Company's internal auditors, if any. The Audit Committee shall keep such records of its meetings as it shall deem appropriate.
2. Subcommittees. The Audit Committee may form and delegate authority to one or more subcommittees, as it deems appropriate from time to time under the circumstances (including a subcommittee consisting of a single member). Any decision of a subcommittee to preapprove audit, review, attest or non-audit services shall be presented to the full Audit Committee at its next scheduled meeting.
3. Reports to Board. The Audit Committee shall report regularly to the Board.

4. Charter. At least annually, the Audit Committee shall review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.
5. Independent Advisors. The Audit Committee is authorized, without further action by the Board, to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Audit Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of such advisors as established by the Audit Committee.
6. Investigations. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Audit Committee or any advisors engaged by the Audit Committee.
7. Funding. The Audit Committee is empowered, without further action by the Board, to cause the Company to pay the ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.
8. Annual Self-Evaluation. At least annually, the Audit Committee shall evaluate its own performance.