

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 March 31, 2019

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"/>	Smaller reporting company	<input checked="" 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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value per share	WKHS	The NASDAQ Capital Market

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

<b>Common Stock, \$0.001 par value per share</b>	<b>65,454,422</b>
(Class)	(Outstanding at May 7, 2019)

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## Forward-Looking Statements

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

All references in this Form 10-K that refer to the “Company”, “Workhorse Group”, “Workhorse”, “we,” “us” or “our” 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.  
Condensed Consolidated Balance Sheets  
March 31, 2019 Unaudited and December 31, 2018

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,847,936	\$ 1,512,750
Accounts receivable, less allowance for doubtful accounts of \$0 at March 31, 2019 and December 31, 2018	362,350	-
Lease receivable	41,375	48,271
Inventory	2,490,798	2,533,616
Prepaid expenses and deposits	2,048,834	2,274,595
	<u>7,791,293</u>	<u>6,369,232</u>
Noncurrent assets:		
Property, plant and equipment, net	5,140,764	5,237,451
Lease receivable	193,774	198,090
	<u>\$ 13,125,831</u>	<u>\$ 11,804,773</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 3,639,233	\$ 4,340,463
Accrued liabilities	3,900,388	3,946,386
Warranty liability	6,911,167	7,058,769
Warrant liability	2,390,884	1,822,819
Customer deposits	394,000	406,000
Duke financing obligation	1,340,700	1,340,700
Revolving loan	4,104,140	-
	<u>22,680,512</u>	<u>18,915,137</u>
Long-term debt	8,441,129	8,312,079
Stockholders' equity (deficit):		
Series A preferred stock, par value of \$.001 per share 75,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2019 and December 31, 2018	-	-
Common stock, par value of \$.001 per share 100,000,000 shares authorized, 61,496,990 shares issued and outstanding at March 31, 2019 and 58,270,934 shares issued and outstanding at December 31, 2018	61,497	58,271
Additional paid-in capital	129,764,361	126,076,782
Accumulated deficit	(147,821,668)	(141,557,496)
	<u>(17,995,810)</u>	<u>(15,422,443)</u>
	<u>\$ 13,125,831</u>	<u>\$ 11,804,773</u>

See accompanying notes to condensed consolidated financial statements.

**Workhorse Group, Inc.**  
**Condensed Consolidated Statements of Operations**  
**For the Three Months Ended March 31, 2019 and 2018**  
**(Unaudited)**

	Three Months Ended	
	March 31,	
	<u>2019</u>	<u>2018</u>
Net sales	\$ 364,182	\$ 560,229
Cost of sales	1,397,606	1,698,280
Warranty expense	-	16,090
Gross loss	<u>(1,033,424)</u>	<u>(1,154,141)</u>
Operating expenses		
Selling, general and administrative	2,090,890	2,400,147
Research and development	1,362,275	2,337,631
Total operating expenses	<u>3,453,165</u>	<u>4,737,778</u>
Interest expense, net	<u>1,777,583</u>	<u>525,887</u>
Net loss	<u>\$ (6,264,172)</u>	<u>\$ (6,417,806)</u>
Basic and diluted loss per share	<u>\$ (0.11)</u>	<u>\$ (0.16)</u>
Weighted average number of common shares outstanding	<u>55,260,519</u>	<u>40,258,234</u>

See accompanying notes to condensed consolidated financial statements.

**Workhorse Group, Inc.**  
**Condensed Consolidated Statements of Stockholders Equity (Deficit)**  
**March 31, 2019 and December 31, 2018**  
**(Unaudited)**

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Number of Shares	Amount	Number of Shares	Amount			
Balance as of December 31, 2017	41,529,181	\$ 41,529	\$ -	\$ -	\$ 107,760,036	\$ (104,290,000)	\$ 3,511,565
Issuance of common stock	395,226	395	-	-	1,187,020	-	1,187,415
Stock options and warrants exercised	42,143	42	-	-	87,273	-	87,315
Share based compensation for the period ended March 31, 2018	-	-	-	-	72,178	-	72,178
Net loss from operations, the year ended December 31, 2018	-	-	-	-	-	(6,417,808)	(6,417,808)
Balance as of March 31, 2018	<u>41,966,550</u>	<u>\$ 41,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,106,507</u>	<u>\$ (110,707,808)</u>	<u>\$ (1,559,335)</u>

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Number of Shares	Amount	Number of Shares	Amount			
Balance as of December 31, 2018	58,270,934	58,271	-	-	126,076,782	(141,557,496)	(15,422,443)
Issuance of common stock	3,226,056	3,226	-	-	2,996,509	-	2,999,735
Share based compensation	-	-	-	-	691,070	-	691,070
Net loss from operations, the three months ended March 31, 2019	-	-	-	-	-	(6,264,172)	(6,264,172)
Balance as of March 31, 2019	<u>61,496,990</u>	<u>\$ 61,497</u>	<u>-</u>	<u>-</u>	<u>\$ 129,764,361</u>	<u>\$ (147,821,668)</u>	<u>\$ (17,995,810)</u>

See accompanying notes to the consolidated financial statements.

**Workhorse Group, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2019 and 2018**  
**(Unaudited)**

	2019	2018
<b>Cash flows from operating activities:</b>		
Net loss	\$ (6,264,172)	\$ (6,417,806)
Adjustments to reconcile net loss from operations to cash used by operations:		
Depreciation	96,687	48,359
Amortization of Marathon loan issuance costs	129,050	-
Amortized discount and debt issuance costs on Senior Secured Notes	-	493,750
Stock based compensation	691,070	72,178
Change in fair value - warrants	568,066	-
Effects of changes in operating assets and liabilities:		
Accounts receivable and lease receivable	(351,138)	693,278
Inventory	42,818	(405,627)
Prepaid expenses and deposits	225,761	730,365
Accounts payable and accrued liabilities	(747,229)	(70,024)
Warranty	(147,602)	61,312
Customer deposits	(12,000)	212,595
Net cash used by operations	(5,768,689)	(4,581,620)
<b>Cash flows from investing activities:</b>		
Capital expenditures	-	-
Net cash provided by investing activities	-	-
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	-	(9,024)
Proceeds from revolving loans	4,104,140	-
Issuance of common stock	2,999,735	1,187,415
Exercise of warrants and options	-	87,315
Net cash provided by financing activities	7,103,875	1,265,706
Change in cash and cash equivalents	1,335,186	(3,315,914)
Cash at the beginning of the period	1,512,750	4,069,477
Cash at the end of the period	\$ 2,847,936	\$ 753,563

See accompanying notes to condensed consolidated financial statements.

**Workhorse Group Inc.**  
**Notes to Condensed 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 condensed consolidated financial statements:

*Nature of operations and principles of consolidation*

Workhorse Group Inc. and its predecessor companies (“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 our solution, we also develop cloud-based, real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. Although we operate as a single unit through our subsidiaries, we approach our development through two divisions, Automotive and Aviation. We are currently focused on our core competency of bringing the N-GEN electric cargo van to market and fulfilling our existing backlog of orders. We are also exploring other opportunities in monetizing our intellectual property which could include a sale, license or other arrangement of assets that are outside of our core focus.

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. Our existing capital resources will be insufficient to fund our operations through the first half of 2019. Unless and until we are able to generate a sufficient amount of revenue, reduce our costs and/or enter a strategic relationship, we expect to finance future cash needs through public and/or private offerings of equity securities and /or debt financings. 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. These conditions raise substantial doubt about the ability of the Company to continue as a going concern.

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

The Company has continued to raise capital. Management believes the proceeds from these offerings, future offerings, and the Company’s anticipated revenue, provides an opportunity to continue as a going concern. If additional funding is required, the Company plans to obtain working capital from either debt or equity financing from the sale of common stock, preferred stock, and/or convertible debentures. Obtaining such working capital is not assured. The Company is currently in a production ramp up mode and placing greater emphasis on manufacturing capability.

In the opinion of Management, the Unaudited Condensed Consolidated Financial Statements include all adjustments that are necessary for the fair presentation of Workhorse’s respective financial conditions, results of operations and cash flows for the interim periods presented. Such adjustments are of a normal, recurring nature. Intercompany balances and transactions are eliminated in consolidation. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Workhorse contained in its Annual Report on Form 10-K for the year ended December 31, 2018.

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.



## 2. INVENTORY

As of March 31, 2019, and December 31, 2018, our inventory consisted of the following:

	2019	2018
Raw materials	\$ 4,276,819	\$ 4,319,637
Work in process	702,079	702,079
Finished goods	-	-
	4,978,898	5,021,716
Less: Inventory reserve	2,488,100	2,488,100
	<u>\$ 2,490,798</u>	<u>\$ 2,533,616</u>

## 3. REVENUE

### *Revenue Recognition*

Net sales include products and shipping and handling charges, net of estimates for customer allowances. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with the majority of revenue recognized at the point in time the customer obtains control of the products. We recognize revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. The majority of our contracts have a single performance obligation and are short term in nature.

### *Accounts Receivable*

Credit is extended based upon an evaluation of the customer's financial condition. Accounts receivable are stated at their estimated net realizable value. The allowance for doubtful accounts is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs.

The Company has elected the following practical expedients allowed under ASU 2014-09:

- Performance obligations are satisfied within one year from a given reporting date, consequently we omit disclosure of the transaction price apportioned to remaining performance obligations on open orders

### *Disaggregation of Revenue*

Our revenues related to the following types of business were as follows for the periods ended March 31:

	Three Months Ended	
	2019	2018
Automotive	\$ 240,000	\$ 404,854
Aviation	-	-
Other	124,182	155,375
Total revenues	<u>\$ 364,182</u>	<u>\$ 560,229</u>

#### 4. **DEBT**

Debt consists of the following:

	March 31, 2019	December 31, 2018
Marathon Tranche One Loan, due December 31, 2021, interest only quarterly payments, variable interest rate of 10.4% as of March 31, 2019 (discount is based on warrant valuation of approximately 9.7%)	\$ 10,000,000	\$ 10,000,000
Marathon Tranche Two Loan, due December 31, 2021, interest only quarterly payments, variable interest rate of 10.4% as of March 31, 2019 (discount is based on warrant valuation of approximately 9.7%)	4,104,140	-
Marathon Credit Agreement unamortized discount and issuance costs	(1,558,871)	(1,687,921)
Net Marathon Credit Agreement	12,545,269	8,312,079
Less current portion	4,104,140	-
Long-term debt	\$ 8,441,129	\$ 8,312,079

On December 31, 2018, the Company entered into a Credit Agreement (the "Credit Agreement"), among the Company, as borrower, Marathon Asset Management, LP, on behalf of certain entities it manages, as lenders (collectively, with their permitted successors and assignees, the "Lenders"), and Wilmington Trust, National Association, as the agent ("Wilmington"). The Credit Agreement provided the Company with a \$10 million tranche of term loans (the "Tranche One Loans") which may not be re-borrowed following repayment and (ii) a \$25 million tranche of revolving loans which may be re-borrowed following repayment (the "Tranche Two Loans" together with the Tranche One Loans, the "Loans").

In accordance with the Credit Agreement, the Company issued each Lender a Common Stock Purchase Warrant to purchase, in the aggregate, 8,053,390 shares of common stock of the Company at an exercise price of \$1.25 per share exercisable in cash only for a period of three years and then for cash or cashless thereafter (collectively, the "Initial Warrants"). Until the later of the repayment of all obligations owed to the Lenders or two years from the closing date, the Company will be required to issue additional Common Stock Purchase Warrants (the "Additional Warrants") to the Lenders equal to 10%, in the aggregate, of any additional equity issuances, subject to certain exceptions, on substantially the same terms and conditions of the Initial Warrants, except that (i) the applicable expiration date thereof shall be five years from the issuance date of the applicable warrant, (ii) the initial exercise price shall be a price equal to the price per share of common stock used in the relevant issuance multiplied by 110% and (iii) the holder shall be entitled to exercise the warrant on a cashless exercise at any time the warrant is exercisable.

	At March 31, 2019
Principal amounts:	
Tranche One - Principal	\$ 10,000,000
Tranche Two - Current amount drawn	4,104,140
Unamortized debt discount and issuance costs (1)	(1,558,871)
Net debt carrying amount	\$ 12,545,269
Carrying amount of warrant the liability component (2)	\$ 1,295,637

(1) Includes the unamortized portion of the initial warrant liability of \$965,747 and issuance costs of \$722,174.

(2) Includes marked to market liability of initial Marathon warrant liability and subsequent warrant issuances.

#### 5. **DUKE FINANCING OBLIGATION**

On November 28, 2018, the Company entered into a Sales Agreement with Duke Energy One, Inc., a wholly-owned subsidiary of Duke Energy Corporation (NYSE: DUK) ("Duke"), pursuant to which the Company sold Duke 615,000 battery cells (the "615,000 Cells") in consideration of \$1,340,700. Workhorse will continue to use the cells in the near term for the delivery of trucks to UPS and DHL. Until May 1, 2019, the Company has the right and option to require Duke to sell the 615,000 Cells back to the Company and Duke has the right and option to require the Company to purchase the 615,000 Cells at price equal to the price the 615,000 Cells were sold.

On November 28, 2018, in consideration for consenting to the Company selling the 615,00 Cells to Duke, which served as collateral for Arosa the Loan Agreement, the Company entered into a Limited Consent, Waiver and Release with Arosa pursuant to which the Company issued Arosa 2,000,000 shares of common stock and restocked the exercise price of warrants previously issued to Arosa to \$1.25 per share. In addition, while the Arosa Loan remained outstanding, the exercise price of the Arosa Warrants will be restocked to equal the price of any equity issued by the Company, including the issuance of any common stock purchase warrants or other derivative convertible securities, if the issuing price of such securities is less than \$1.25.

On April 30, 2019, Duke and the Company entered into an agreement to amend the initial Sales Agreement to extend the expiration date from May 1, 2019 to October 15, 2019.

The Duke transactions was accounted for as a financing obligation and as such, the Company has recorded a \$1,340,700 liability related to the transaction.

6. **STOCK BASED COMPENSATION**

*Options to directors, officers, consultants and employees*

The Company maintains, as adopted by the board of directors, the 2017 Stock Incentive Plan, the 2016 Stock Incentive Plan, 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 options to employees, officers, directors or consultants of the Company. Non-qualified stock options granted under the plans may only be granted with an exercise price equal to 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 2017 Stock Incentive Plan authorized 5,000,000 shares with vesting in sixteen equal quarterly tranches.

In addition to the Plans, the Company has granted, on various dates, stock options to directors, officers, consultants 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, consultants and employees:

	Outstanding Stock Options				
	Options Available for Grant	Number of Options	Weighted Average Exercise Price per Option	Weighted Average Grant Date Fair Value per Option	Weighted Average Remaining Exercise Term in Months
Balance December 31, 2017	4,145,774	3,851,371	3.11	1.84	43
Additional stock reserved	-	-	-	-	-
Granted	(340,000)	340,000	1.18	0.54	56
Exercised	-	(52,500)	1.24	0.68	-
Forfeited	-	-	-	-	-
Expired	-	(271,250)	3.22	1.58	-
Balance December 31, 2018	3,805,774	3,867,621	\$ 4.05	\$ 1.84	64
Additional stock reserved	-	-	-	-	-
Granted	(2,000,000)	2,000,000	0.97	0.55	88
Exercised	-	-	-	-	-
Forfeited	1,359,069	(1,359,069)	4.73	1.94	31
Expired	-	-	-	-	-
Balance March 31, 2019	3,164,843	4,508,552	\$ 2.48	\$ 1.24	65

7. **INCOME TAXES**

As the Company has not generated taxable income since inception, the cumulative deferred tax assets remain fully reserved, and no provision or liability for federal or state income taxes has been included in the financial statements.

8. **EARNINGS 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 presented, 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.

9. **RECENT ACCOUNTING DEVELOPMENTS**

*Accounting Guidance Adopted in 2018*

Effective January 1, 2018, we adopted Financial Accounting Standards Board (FASB) 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). 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. The Company adopted ASU No. 2016-10, using the modified retrospective approach, which did not have a material impact on the Company's condensed consolidated financial statements. Additional information is available in Note 4, "Revenue."

Effective January 1, 2018, we adopted FASB 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)." .. 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. The Company adopted ASU No. 2016-08, using the modified retrospective approach, which did not have a material impact on the Company's condensed consolidated financial statements. Additional information is available in Note 4, "Revenue."

*Accounting Guidance Adopted in 2019*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which 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 were applied using the current period adjustment method, as defined, and were effective on January 1, 2019. The adoption of this standard did not have a material impact on the condensed consolidated financial statements.

## 10. STOCK OFFERINGS

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 \$25.0 million through Cowen as its sales agent. As of March 31, 2019, the Company issued 4,464,777 shares from this facility for proceeds of approximately \$8.7 million.

On September 14, 2017, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Cowen relating to the public offering and sale (the “Offering”) of 3,749,996 shares of the Company’s common stock, and five-year warrants (exercisable beginning on the date of issuance) to purchase up to an aggregate of 2,812,497 shares of the Company’s common stock. Each investor received a warrant to purchase 0.75 shares of the Company’s common stock at an exercise price of \$3.80 per share, for each share of common stock purchased.

Pursuant to the Underwriting Agreement, Cowen purchased 3,749,996 shares of the Company’s common stock and accompanying warrants at a price per share of \$3.20. The net proceeds to the Company were approximately \$10.9 million after deducting underwriting discounts and commissions and offering expenses. The sale of such shares and accompanying warrants closed on September 18, 2017. The warrants contain full ratchet anti-dilution protection upon the issuance of any common stock, securities convertible into common stock or certain other issuances at a price below the then existing exercise price of the warrants, with certain exceptions.

On June 4, 2018, the Company and holders of all outstanding Warrants to Purchase Common Stock of the Company issued September 18, 2017 (collectively, the “Warrants”) entered into separate, privately-negotiated exchange agreements (the “Exchange Agreements”), pursuant to which the Company issued to such holders an aggregate of 1,968,736 shares of the Company’s common stock in exchange for the Warrants. The closing of the exchanges contemplated by the Exchange Agreements occurred on June 5, 2018. In addition, the “Down Round” feature of the Warrants was triggered in the second quarter of 2018, causing the strike price to decrease from \$3.80 per share to \$2.62 per share. As a result, the Company recorded approximately \$765,179 as a deemed dividend which represents the value transferred to the Warrant holders due to the Down Round being triggered. The deemed dividend was recorded as a reduction of Retained Earnings and increase in Additional Paid-in-Capital and reduced net income available to common shareholders by the same amount.

On August 9, 2018, the Company entered into an Underwriting Agreement (the “Underwriting Agreement”) with National Securities Corporation (the “Underwriter”), relating to the public offering and sale (the “2018 Offering”) of 9,000,000 shares of our Common Stock at a price per share of \$1.15 for aggregate gross proceeds of \$10.4 million. This offering closed on August 13, 2018. Pursuant to the Underwriting Agreement, the Company granted the Underwriter a 45-day option to purchase from the Company up to an additional 1,350,000 shares of Common Stock at the offering price to cover over allotments, if any. On August 14, 2018, the Underwriter exercised its over-allotment option and acquired an additional 1,288,800 shares of Common Stock at a price per share of \$1.15 for aggregate gross proceeds of \$1.4 million. The over-allotment closing occurred on August 14, 2018. The Company used the net proceeds from this offering for working capital, general corporate purposes and repayment of debt and other obligations.

Commencing February 11, 2019, the Company entered into and closed Subscription Agreements with accredited investors (the “February 2019 Accredited Investors”) pursuant to which the February 2019 Accredited Investors purchased 1,499,684 shares of the Company’s common stock for a purchase price of \$1,365,000. If, prior to the six month anniversary, the Company issues shares of its common stock for a purchase price per share less than the purchase price paid by the February 2019 Accredited Investors subject to standard carve-outs (a “Down Round”), the Company will issue additional shares of common stock (for no additional consideration) to the February 2019 Accredited Investors such that the effective purchase price per share is equal to the purchase price per share paid in the Down Round. Benjamin Samuels and Gerald Budde, directors of the Company, acquired 841,928 and 26,310 shares of common stock, respectively, as part of this offering, provided, however, their per share purchase was \$0.9501, which was above the closing price the date prior to close and they did not receive the Down Round protection.

## 11. SUBSEQUENT EVENTS

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

### *Second Amendment to Credit Agreement*

On April 1, 2019, the Company entered into the Second Amendment to Credit Agreement (the “Marathon Second Amendment”), among the Company, as borrower, certain affiliates of Marathon Asset Management, LP, as lenders (collectively, with their permitted successors and assignees, the “Lenders”), and Wilmington Trust, National Association, as the agent (“Wilmington”) amending certain terms of the Credit Agreement, dated as of December 31, 2018 (as amended, restated, amended and restated or otherwise modified prior to the date hereof), between the Company, the Lenders and Wilmington. The Marathon Second Amendment delayed the application of certain financial covenants including:

- (i) the minimum liquidity, providing that at least \$4 million must be maintained at all times on or after April 30, 2019 rather than beginning on March 31, 2019;
- (ii) the maximum total leverage ratio (ratio of total debt borrowed by the Company and its subsidiaries to EBITDA), providing that the maximum total leverage ratio shall not exceed 4.50:1.00 on the last day of the quarter ending December 31, 2019, rather than beginning with the quarter ending September 30, 2019, which total leverage ratio is adjusted for subsequent quarters as set forth in the Credit Agreement; and
- (iii) the maximum debt service coverage ratio (ratio of EBITDA (for the four consecutive fiscal quarters most recently ended, subject to certain adjustments set forth in the Credit Agreement) to interest expense and payments for operating leases), providing that the maximum debt service coverage ratio shall not exceed 1.25:1.00 on the last day of the quarter ending December 31, 2019, rather than beginning with the quarter ending September 30, 2019, which debt service coverage ratio is adjusted for subsequent quarters as set forth in the Credit Agreement.

### *Warrant Amendments*

On April 16, 2019, the Company entered into an Amendment No. 1 to Common Stock Purchase Warrants with Marathon Asset Management LP, on behalf of certain entities it manages, as warrant holders (collectively, the “Holders”) (collectively, the “Marathon Warrant Amendments”), amending certain terms of the existing warrants issued by the Company in favor of each Holder. Pursuant to the Marathon Warrant Amendments, unless the Company has obtained the approval of its shareholders as required by the Nasdaq Capital Market, the number of shares to be issued under warrants held by the Holders shall not exceed 19.99% of the issued and outstanding common stock of the Company as of December 31, 2018. The Marathon Warrant Amendments also provide that the failure to obtain shareholder approval of an increase in the number of authorized shares of common stock of the Company, sufficient to enable the Company to issue common stock upon exercise of the warrants held by each Holder, will constitute an event of default under the existing credit agreement among the Company, as borrower, the Holders, as lenders, and Wilmington Trust, National Association, as the agent.

On April 17, 2019, the Company and Arosa Opportunistic Fund LP (“Arosa”) entered into Amendment No. 1 to Common Stock Purchase Warrant (the “Arosa Warrant Amendment”), amending certain terms of the existing warrants issued by the Company. Pursuant to the Arosa Warrant Amendment, until the Company obtains shareholder approval of an increase in the number of authorized shares of common stock of the Company, the Company will not be required to reserve shares of common stock for issuance under the warrants held by Arosa. If the Company does not increase the number of authorized shares of common stock by June 30, 2019, the amendment will be null and void.

### *Subscription Agreement*

On April 30, 2019, the Company entered into a subscription agreement (the “Subscription Agreement”), with certain investors (the “Investors”) pursuant to which the Company agreed to issue and sell, in a registered public offering by the Company directly to the Investors (the “Registered Direct Offering”), 3,957,432 shares of Common Stock. The purchase price per share was \$0.74.

The closing of the Registered Direct Offering occurred on May 1, 2019. The Subscription Agreement contains customary representations, warranties and agreements by us and customary conditions to closing. The representations, warranties and covenants contained in the Subscription Agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties.

The net proceeds to the Company are expected to be approximately \$2.9 million, after deducting estimated expenses payable by the Company associated with the Registered Direct Offering. The Company expects to use the net proceeds from this offering for working capital, general corporate purposes and repayment of debt and other obligations.

### *Third Amendment to Credit Agreement*

On April 30, 2019, the Company entered into the Third Amendment to Credit Agreement (the “Marathon Third Amendment”), among the Company, as borrower, certain affiliates of Marathon Asset Management, LP, as lenders (collectively, with their permitted successors and assignees, the “Lenders”), and Wilmington Trust, National Association, as the agent (“Wilmington”) amending certain terms of the Credit Agreement, dated as of December 31, 2018 (as amended, restated, amended and restated or otherwise modified prior to the date hereof), between the Company, the Lenders and Wilmington. The Marathon Third Amendment amended the minimum liquidity covenant, providing that at least \$4 million must be maintained at all times at or after May 31, 2019 rather than at all times on or after April 30, 2019. Unless the Company fails to maintain minimum liquidity as of the last day of any calendar month, the Company may cure a failure to maintain minimum liquidity by increasing liquidity to \$4,000,000 within five business days of the occurrence.

## 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 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 our solution, we also develop cloud-based, real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. Although we operate as a single unit through our subsidiaries, we approach our development through two divisions, Automotive and Aviation. We are currently focused on our core competency of bringing the N-GEN electric cargo van to market and fulfilling our existing backlog of orders. We are also exploring other opportunities in monetizing our intellectual property which could include a sale, license or other arrangement of assets that are outside of our core focus.

Workhorse electric delivery vans are currently in production and are in use by our customers on U.S. roads. Our delivery customers include companies such as UPS, FedEx Express, Alpha Baking and W.B. Mason. Data from our in-house developed telematics system demonstrates our vehicles on the road 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 improved 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.

We are an OEM capable of manufacturing Class 3-6 commercial-grade, medium-duty truck chassis at our Union City, Indiana facility, marketed under the Workhorse® brand. All Workhorse last mile delivery vans are assembled in the Union City assembly facility.

From our development modeling and the existing performance of our electric vehicles on American roads, we estimate that our E-GEN Range-Extended Electric delivery vans will save over \$150,000 in fuel and maintenance savings over the 20-year life of the vehicle. Due to the positive return-on-investment, we place a premium price for our vehicles when selling to major fleet buyers. We expect that fleet buyers will be able to achieve a four-year or better return-on-investment (without government incentives), which we believe justifies the higher acquisition cost of our vehicles.

Our goal is to continue to increase sales and production, while executing on our cost-down strategy to a point that will enable us to achieve gross margin profitability of the last mile-delivery van platform. As a key strategy, we have developed the Workhorse N-GEN platform, which has been accelerated from our development efforts on the USPS Next Generation Delivery Vehicle ("NGDV") program.

The Workhorse N-GEN electric cargo van platform will be available in multiple size configurations, 450, 700 and 1,000 cubic feet. We intend to initiate the launch with the 450 cubic foot configuration where it is designed to compete with the Sprinter, Transit and RAM ProMaster gasoline/diesel trucks in the commercial sector with an emphasis on last-mile delivery and other service-oriented businesses, such as telecom. This ultra-low floor platform incorporates state-of-the-art safety features, economy and performance. We expect these vehicles offer fleet operators the most favorable total cost-of-ownership of any comparable vehicle available today. We believe we are the first American OEM to market a U.S. built electric cargo van, and early indications of fleet interest are significant. We expect the N-GEN trucks will be supported by our Ryder Systems partnership. Using N-GEN light duty prototypes, we delivered over 100,000 packages in San Francisco and Ohio during our testing. During the period we achieved 50 MPGe and successfully demonstrated the role the vehicle can have in last mile delivery.

As a direct result of the USPS award and development efforts, Workhorse has begun development on the Workhorse W-15, a medium- and light-duty pickup truck platform aimed at commercial fleets. The W-15 pickup truck powertrain is a smaller version of its sister vehicle, the medium-duty battery electric powertrain, and will have two purpose-built variants, a W-15 work truck (pickup) and an N-GEN cargo van. Either of these two variants will appeal to delivery fleets, utility companies, telecom companies, municipalities and more.

Our HorseFly™ delivery drone is a custom designed, purpose-built drone that is fully integrated in our electric trucks. HorseFly is an octocopter designed with a maximum gross weight of 30 lbs., a 10 lb. payload and a maximum air speed of 50 mph. It is designed and built to be rugged and consisting of redundant systems to further meet the FAA's required rules and regulations.

SureFly™ is our entry into the emerging VTOL market. It is designed to be a two-person, 400-pound payload aircraft with a hybrid internal combustion/electric power generation system. Our approach in the design is to build the safest and simplest way to fly rotary wing aircraft in the world. We believe it is a practical answer to personal flight, as well as, commercial transportation segments, including air taxi series, agriculture and beyond.

The FAA to-date has granted 14 separate Experimental Airworthiness Certifications, registered as N834LW, for the aircraft. These certifications come after an extensive design review and inspection of the aircraft with each renewed certificate.

In November 2018, Workhorse signed cooperative research and development agreement with a branch of the U.S. Military to test SureFly with a specific focus on military applications. This further expands the potential market for the aircraft.

We are continuing with our efforts to consummate a sale of the SureFly business although we cannot guarantee that we will be successful in such efforts.



## Results of Operations

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

	Three Months Ended March 31,	
	2019	2018
Sales	\$ 364,182	\$ 560,229
Cost of sales	1,397,606	1,698,280
Warranty expense	-	16,090
Gross loss	(1,033,424)	(1,154,141)
Operating expenses		
Selling, general and administrative	2,090,890	2,400,147
Research and development	1,362,275	2,337,631
Total operating expenses	3,453,165	4,737,778
Interest expense, net	1,777,583	525,887
Net loss	<u>\$ (6,264,172)</u>	<u>\$ (6,417,806)</u>

### *Sales*

Net sales for the three months ended March 31, 2019 and 2018 were approximately \$0.4 million and \$0.6 million, respectively. The decrease was primarily due to a decrease in volume of trucks sold partially offset by improved pricing in 2019.

### *Cost of Sales*

Cost of sales for the three months ended March 31, 2019 and 2018 were \$1.4 million and \$1.7 million, respectively. The cost of sales decrease was primarily due to a decrease in volume of trucks sold due to strategic shift to the development of the N-GEN platform.

### *Selling, General and Administrative Expenses*

Selling, general and administrative (“SG&A”) expenses during the three months ended March 31, 2019 and 2018 were \$2.1 million and \$2.4 million, respectively. The decrease related primarily to lower spending in areas such as marketing and employee-related costs partially offset by an increase in stock compensation expense of approximately \$0.7 million.

### *Research and Development Expenses*

Research and development (“R&D”) expenses during the three months ended March 31, 2019 and 2018 were \$1.4 million and \$2.4 million, respectively. The decrease in R&D expenses is due to the decrease in prototype expenses for the USPS NGDV and SureFly.

### *Interest Expense, Net*

Interest expense, net during the three months ended March 31, 2019 and 2018 was \$1.8 million and \$0.5 million, respectively. The increase was primarily attributable to the higher levels of debt associated with the Marathon Credit Facility.

## 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 R&D activities and manufacturing our vehicles.

As of March 31, 2019, we had approximately \$2.8 million in cash, cash equivalents and short-term investments, as compared to approximately \$1.5 million as of December 31, 2018, an increase of approximately \$1.3 million. The increase was primarily attributable to the amount drawn on the Marathon Tranche Two debt partially offset by the operating loss for the period.

We believe our existing capital resources will not be sufficient to support our current and projected funding requirements and we will need additional funding. 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, debt financings and/or monetization of existing assets. With the exception of contingent and royalty payments that we may receive under our existing collaborations, 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 we are able to obtain may involve operating covenants that restrict our business.

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

- our ability to acquire or license other technologies or compounds 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 have required and may continue to cause 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 three months ended March 31, 2019, we maintained an investment portfolio primarily in money market funds. 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

	Three Months Ended	
	March 31,	
	2019	2018
Net cash used in operating activities	\$ (5,768,689)	\$ (4,581,620)
Net cash used in investing activities	\$ -	\$ -
Net cash provided by financing activities	\$ 7,103,875	\$ 1,265,706

#### 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 and interest expense. 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 three months ended March 31, 2019 and 2018, cash used by operating activities was \$5.8 million and \$4.6 million, respectively. The increase in net cash used in operations in 2019 as compared to 2018 was mainly due to changes in accounts receivable, accounts payable and accrued liabilities.

### *Cash Flows from Financing Activities*

During the three months ended March 31, 2019 and 2018, net cash provided by financing activities was \$7.1 million and \$1.3 million, respectively. The increase in cash flows from financing activities was primarily driven by the \$4.1 million drawn on the Marathon Tranche Two debt.

The Company 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**

Our accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. Our Unaudited Condensed Consolidated Financial Statements are prepared in conformity with GAAP and follow general practices within the industry in which we operate. The preparation of the financial statements requires management to make certain judgments and assumptions in determining accounting estimates. Accounting estimates are considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and different estimates reasonably could have been used in the current period, or changes in the accounting estimate are reasonably likely to occur from period to period, that would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies" included in our Annual Report on Form 10-K for the year ended December 31, 2018, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

For a discussion of our quantitative and qualitative disclosures about market risk, see "Quantitative and Qualitative Disclosures About Market Risks" included in our Annual Report on Form 10-K for the year ended December 31, 2018, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no material changes to the information provided in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **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.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective due to material weaknesses in our internal control over financial reporting that existed as of March 31, 2019, as discussed below.

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we identified the following material weaknesses:

- The Company has not established adequate financial reporting monitoring activities to mitigate the risk of accounting errors.
- The lack of a fully implemented enterprise resource planning (“ERP”) system caused over reliance on manual entries.

With respect to our internal control over financial reporting, these material weaknesses have been and continue to be discussed among management and our Audit Committee. Management intends to review, revise and improve our internal control over financial reporting until the material weaknesses in internal control over financial reporting are remediated.

Management’s specific remediation to address these material weaknesses will and has included among other items:

- Complete implementation of the ERP system modules covering purchase orders and inventory.
- Hire an international accounting firm to assist the company with a broad-based review of our internal control environment including the identification of controls gaps and implementation of controls to remediate those gaps.

We believe the initiated remediation measures will strengthen our internal control over financial reporting and should eventually remediate the material weaknesses identified. However, because we are still assessing the design and operating effectiveness of these measures and need to put more controls in place, the identified material weaknesses have not been remediated as of March 31, 2019. We will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that we deem appropriate.

We assessed the material weaknesses’ impact to the condensed consolidated financial statements to ensure they were prepared in accordance with GAAP and present fairly the condensed consolidated financial position, financial results of operations and cash flows as of and for the three months ended March 31, 2019. Based on these additional procedures and assessment, we concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material aspects, our financial position, results of operations and cash flows for the periods presented.

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

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved from time to time in legal proceedings incidental to the conduct of our business. We do not believe that any liability that may result from these proceedings will have a material adverse effect on our Unaudited Condensed Consolidated Financial Statements.

### ITEM 1A. RISK FACTORS

For a detailed discussion of risk factors affecting us, see “Part I – Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

In connection with Mr. Hughes appointment as Chief Executive Officer, the Company entered into an amended and restated retention agreement (the “Retention Agreement”) with Mr. Hughes effective February 4, 2019. Pursuant to the Retention Agreement, Mr. Hughes was granted an option to purchase 1,000,000 shares of the Company’s common stock that will vest over a three-year period. The stock option award was granted under the Company’s 2017 Incentive Stock Plan with an exercise price equal to \$0.97. The shares subject to such options will vest over three years in equal quarterly installments commencing March 31, 2019. In connection with his appointment as Chief Executive Officer, on February 4, 2019, the Company entered into a letter agreement (the “Director Agreement”) with Mr. Hughes setting forth certain terms of his appointment as director of the Company. The Director Agreement provides that Mr. Hughes will be granted an option to purchase 50,000 shares of the Company’s common stock at \$0.97 per share. The options will expire ten years from the vesting period with 10,000 options vesting immediately and 4,000 every June 30 and December 31 thereafter.

Under the Services Agreement entered with Stephen Burns, the Company granted Mr. Burns an option to purchase 1,000,000 shares of the Company’s common stock which vested immediately. The stock option award was granted under the Company’s 2017 Incentive Stock Plan with an exercise price equal to \$0.97.

In connection with the appointment of Mr. Willison as Chief Operating Officer, the Company entered into a retention agreement with Mr. Willison effective February 18, 2019. Pursuant to the Retention Agreement, the Company, subject to the approval by the Company’s shareholders of the Company’s 2019 Stock Incentive Plan, will grant an option to purchase 400,000 shares of the Company’s common stock that will vest over a four-year period. The stock option award will be granted under the Company’s 2019 Incentive Stock Plan with an exercise price equal to the closing price of the Company’s common stock on the date of shareholder approval of the 2019 Incentive Stock Plan. The shares subject to such options will vest over four years in equal quarterly installments commencing at the end of the calendar quarter in which the 2019 Incentive Stock Plan is approved.

Commencing February 11, 2019, the Company entered into and closed Subscription Agreements with accredited investors (the “February 2019 Accredited Investors”) pursuant to which the February 2019 Accredited Investors purchased 1,499,684 shares of the Company’s common stock for a purchase price of \$1,365,000. The Company used the proceeds for general working capital. If, prior to the six month anniversary, the Company issues shares of its common stock for a purchase price per share less than the purchase price paid by the February 2019 Accredited Investors subject to standard carve-outs (a “Down Round”), the Company will issue additional shares of common stock (for no additional consideration) to the February 2019 Accredited Investors such that the effective purchase price per share is equal to the purchase price per share paid in the Down Round. Benjamin Samuels and Gerald Budde, directors of the Company, acquired 841,928 and 26,310 shares of common stock, respectively, as part of this offering, provided, however, their per share purchase was \$0.9501, which was above the closing price the date prior to close and they did not receive the Down Round protection.

The offer, sale and issuance of the above securities was made to accredited investors and the Company relied upon the exemptions contained in Section 4(a)(2) of the Securities Act and/or Rule 506 of Regulation D promulgated there under with regard to the sale. No advertising or general solicitation was employed in offering the securities. The offer and sales were made to accredited investors and transfer of the common stock will be restricted by the Company in accordance with the requirements of the Securities Act of 1933, as amended.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

*Special Meeting*

The Company held a Special Meeting on May 2, 2019 in Loveland, Ohio. Of the 61,496,990 shares of Common Stock outstanding on March 25, 2019, the record date, 51,319,811 shares were represented at the Annual Meeting, in person or by proxy, constituting a quorum. The proposals considered at the Special Meeting are described in detail in the Proxy Statement. The proposals described below were voted upon at the Special Meeting and the number of votes cast with respect to each proposal was as set forth below:

(1) Approve the 2019 Incentive Stock Plan and to authorize 8,000,000 shares of Common Stock for issuance thereunder. This matter was determined based on majority of the shares cast.

<b>For</b>	<b>Against</b>	<b>Abstain</b>
22,014,450	3,819,294	84,613

(2) Approve an amendment of the Company's articles of incorporation to increase the number of authorized shares of common stock from 100,000,000 to 250,000,000. This matter was determined based on majority of the shares outstanding.

<b>For</b>	<b>Against</b>	<b>Abstain</b>
42,833,121	7,870,553	616,137

*Amendment to the Company's Articles of Incorporation*

On May 3, 2019, the Company filed an amendment to its Articles of Incorporation with the State of Nevada to increase its authorized shares of common stock from 100,000,000 to 250,000,000.

**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#">Certificate of Designation for Series A Preferred Stock (1)</a>
3.2	<a href="#">Certificate of Change (2)</a>
3.3	<a href="#">Certificate of Correction (2)</a>
3.4	<a href="#">Articles of Merger (3)</a>
3.5	<a href="#">Certificate of Correction (Articles of Merger) (3)</a>
3.6	<a href="#">Certificate of Amendment to the Certificate of Incorporation (4)</a>
3.7	<a href="#">Certificate of Incorporation (5)</a>
3.8	<a href="#">Articles of Merger between AMP Holding Inc. Workhorse Group Inc. (6)</a>
3.9	<a href="#">Certificate of Change filed December 9, 2015 (7)</a>
3.10	<a href="#">Certificate of Amendment to the Certificate of Incorporation dated August 8, 2017 (8)</a>
3.11*	<a href="#">Certificate of Amendment to the Certificate of Incorporation dated May 3, 2019</a>
4.1	<a href="#">Stock Option Agreement by and between Workhorse Group Inc. and Gerald Budde dated December 17, 2015 (9)</a>
4.2	<a href="#">Stock Option Agreement by and between Workhorse Group Inc. and H. Benjamin Samuels dated December 17, 2015 (9)</a>
4.3	<a href="#">Stock Option Agreement by and between Workhorse Group Inc. and Harry DeMott dated September 16, 2016 (11)</a>
4.4	<a href="#">Securities Purchase Agreement entered between Workhorse Group Inc. and Joseph T. Lukens dated January 10, 2017 (12)</a>
4.5	<a href="#">6% Convertible Debenture issued to Joseph T. Lukens dated January 10, 2017 (12)</a>
4.6	<a href="#">Form of Warrant – September 2017 (13)</a>
4.7	<a href="#">Form of Senior Secured Note dated December 26, 2017 (14)</a>
4.8	<a href="#">Form of Promissory Note dated June 7, 2018 (16)</a>
4.9	<a href="#">Form of Warrant to Purchase Common Stock issued to a fund managed by Arosa Capital Management LP dated July 6, 2018 (17)</a>
4.10	<a href="#">Form of Promissory Note dated July 5, 2018 (18)</a>
4.11	<a href="#">Stock Option Agreement by and between Workhorse Group Inc. and Michael L. Clark dated September 28, 2018 (19)</a>
4.12	<a href="#">Form of Amended and Restated Warrant to Purchase Common Stock issued to Arosa Opportunistic Fund LP dated November 28, 2018 (29)</a>
4.13	<a href="#">Form of Common Stock Purchase Warrants, each dated December 31, 2018 (30)</a>
4.14	<a href="#">Form of Subscription Agreement – February 2019 (31)</a>
4.15*	<a href="#">2019 Stock Incentive Plan</a>
4.16	<a href="#">Form of Amendment No. 1 to Common Stock Purchase Warrant (Marathon) (36)</a>
4.17	<a href="#">Amendment No. 1 to Common Stock Purchase Warrant (Arosa) (36)</a>
10.1	<a href="#">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)</a>
10.2	<a href="#">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)</a>
10.3	<a href="#">Director Agreement by and between AMP Holding Inc. and Raymond Chess dated October 24, 2013 (15)</a>
10.4	<a href="#">Director Agreement by and between Workhorse Group Inc. and Gerald Budde dated December 17, 2015 (9)</a>
10.5	<a href="#">Director Agreement by and between Workhorse Group Inc. and Benjamin Samuels dated December 17, 2015 (9)</a>
10.6	<a href="#">Director Agreement by and between Workhorse Group Inc. and Harry DeMott dated September 15, 2016 (11)</a>
10.7	<a href="#">Form of Warrant Exercise Agreement (20)</a>
10.8	<a href="#">Conversion Agreement between Joseph T. Lukens and the Company dated January 27, 2017 (21)</a>
10.9	<a href="#">Services Partner Agreement between Workhorse Group Inc. and Ryder Truck Rental, Inc. dated April 27, 2017 (22)</a>
10.10	<a href="#">Executive Retention Agreement by and between Workhorse Group Inc. and Stephen S. Burns dated May 19, 2017 (23)</a>
10.11	<a href="#">Executive Retention Agreement by and between Workhorse Group Inc. and Julio Rodriguez dated May 19, 2017 (23)</a>
10.12	<a href="#">Sales Agreement, dated June 22, 2017, by and between Workhorse Group Inc. and Cowen and Company, LLC (24)</a>
10.13	<a href="#">Executive Retention Agreement by and between Workhorse Group Inc. and Paul Gaitan dated August 9, 2017 (26)</a>
10.14	<a href="#">Letter Agreement by and between Workhorse Group Inc. and Julio Rodriguez dated August 9, 2017 (26)</a>
10.15	<a href="#">Form of Indemnification Agreement (23)</a>
10.16	<a href="#">Form of Employee Invention Assignment, Confidentiality, Non-Compete and Non-Solicit Agreement (23)</a>
10.17	<a href="#">Form of Exchange Agreement (27)</a>
10.18	<a href="#">Form of Amendment Agreement dated June 28, 2018 (28)</a>
10.19	<a href="#">Loan Agreement between Workhorse Group Inc. and a fund managed by Arosa Capital Management LP dated July 6, 2018 (18)</a>
10.20	<a href="#">Guarantee and Collateral Agreement between Workhorse Group Inc., Workhorse Technologies Inc., Workhorse Properties Inc., Workhorse Motor Works Inc., Surefly, Inc. and a fund managed by Arosa Capital Management LP dated July 6, 2018 (18)</a>
10.21	<a href="#">Intellectual Property Security Agreement between Workhorse Group Inc., Workhorse Technologies Inc., Workhorse Properties Inc., Workhorse Motor Works Inc., Surefly, Inc. and a fund managed by Arosa Capital Management LP dated July 6, 2018 (18)</a>
10.22	<a href="#">First Amendment to Loan Agreement between Workhorse Group Inc., Workhorse Technologies Inc., Workhorse Properties Inc., Workhorse Motor Works Inc., Surefly, Inc. and a fund managed by Arosa Capital Management LP dated August 2, 2018 (17)</a>
10.23	<a href="#">Director Agreement by and between Workhorse Group Inc. and Michael L. Clark dated September 28, 2018 (19)</a>

<b>Exhibit No.</b>	<b>Description</b>
10.24	<a href="#">Sales Agreement between Workhorse Group Inc. and Duke Energy One, Inc. dated November 28, 2018 (29)</a>
10.25	<a href="#">Limited Consent, Waiver and Release by and between Workhorse Group Inc. and Arosa Opportunistic Fund LP (29)</a>
10.26	<a href="#">Credit Agreement among Workhorse Group Inc., as the Borrower, Marathon Structured Product Strategies Fund, LP, Marathon Blue Grass Credit Fund, LP, Marathon Centre Street Partnership, L.P. and TRS Credit Fund, LP, as the Lenders, and Wilmington Trust, National Association, as the Agent, dated December 31, 2018 (30)</a>
10.27	<a href="#">Security Agreement, dated December 31, 2018, among Workhorse Group Inc., a Nevada corporation, Workhorse Technologies Inc., an Ohio corporation, Workhorse Properties Inc., an Ohio corporation, Workhorse Motor Works Inc. an Indiana corporation, Surefly, Inc., a Delaware corporation, and Wilmington Trust, National Association, in its capacity as agent (30)</a>
10.28	<a href="#">Pledge Agreement, dated December 31, 2018, among Workhorse Group Inc., a Nevada corporation, Workhorse Technologies Inc., an Ohio corporation, Workhorse Properties Inc., an Ohio corporation, Workhorse Motor Works Inc. an Indiana corporation, Surefly, Inc., a Delaware corporation, Wilmington Trust, National Association, in its capacity as agent (30)</a>
10.29	<a href="#">Guarantee, dated December 31, 2018, by Workhorse Technologies Inc., an Ohio corporation, Workhorse Properties Inc., an Ohio corporation, Workhorse Motor Works Inc. an Indiana corporation, and Surefly, Inc., a Delaware corporation (30)</a>
10.30	<a href="#">Registration Rights Agreement, dated December 31, 2018, among Workhorse Group Inc., Marathon Structured Product Strategies Fund, LP, Marathon Blue Grass Credit Fund, LP, Marathon Centre Street Partnership, L.P. and TRS Credit Fund, LP (30)</a>
10.31	<a href="#">Services Agreement between Stephen S. Burns and Workhorse Group Inc. dated February 4, 2019 (31)</a>
10.32	<a href="#">Amended and Restated Executive Retention Agreement between Duane Hughes and Workhorse Group Inc. dated February 4, 2019 (31)</a>
10.33	<a href="#">Retorior Agreement between Duane Hughes and Workhorse Group Inc. dated February 4, 2019 (31)</a>
10.34	<a href="#">Retention Agreement between Robert Willison and Workhorse Group Inc. dated February 18, 2019 (33)</a>
10.35	<a href="#">First Amendment, Waiver and Consent to Credit Agreement among Workhorse Group Inc., as the Borrower, Marathon Structured Product Strategies Fund, LP, Marathon Blue Grass Credit Fund, LP, Marathon Centre Street Partnership, L.P. and TRS Credit Fund, LP, as the Lenders, and Wilmington Trust, National Association, as the Agent, dated March 13, 2019 (34)</a>
10.36	<a href="#">Second Amendment to Credit Agreement dated April 1, 2019 by and among Workhorse Group Inc., as the Borrower, Marathon Structured Product Strategies Fund, LP, Marathon Blue Grass Credit Fund, LP, Marathon Centre Street Partnership, L.P. and TRS Credit Fund, LP, as the Lenders, and Wilmington Trust, National Association, as the Agent (35)</a>
10.37	<a href="#">Form of Subscription Agreement – April 2019 (37)</a>
10.38	<a href="#">Third Amendment to Credit Agreement dated as of April 30, 2019 by and among Workhorse Group Inc., as the Borrower, Marathon Structured Product Strategies Fund, LP, Marathon Blue Grass Credit Fund, LP, Marathon Centre Street Partnership, L.P. and TRS Credit Fund, LP, as the Lenders, and Wilmington Trust, National Association, as the Agent (37)</a>
21.1	<a href="#">List of Subsidiaries (34)</a>
31.1	<a href="#">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.</a>
31.2	<a href="#">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.</a>
32.1	<a href="#">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</a>
32.2	<a href="#">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</a>
99.1	<a href="#">Nominating and Corporate Governance Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015 (8)</a>
99.2	<a href="#">Compensation Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015 (8)</a>
99.3	<a href="#">Audit Committee Charter adopted by the Board of Directors of Workhorse Group Inc. on December 17, 2015 (8)</a>
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

\* Filed herewith.

- (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 April 16, 2015.
- (7) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 10, 2015.
- (8) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 9, 2017.
- (9) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 21, 2015.



- (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 8-K Current Report filed with the Securities and Exchange Commission on September 16, 2016.
- (12) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on January 12, 2017.
- (13) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on September 14, 2017.
- (14) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 27, 2017.
- (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 June 12, 2018.
- (17) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 6, 2018.
- (18) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on July 10, 2018.
- (19) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on October 1, 2018.
- (20) Incorporated by reference to the Form S-3/A Registration Statement filed with the Securities and Exchange Commission on December 12, 2016.
- (21) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on January 27, 2017.
- (22) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on May 3, 2017.
- (23) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on May 19, 2017.
- (24) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on June 22, 2017.
- (25) Intentionally left blank.
- (26) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on August 11, 2017.
- (27) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on June 4, 2018.
- (28) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on June 29, 2018.
- (29) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on December 3, 2018.
- (30) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on January 2, 2019.
- (31) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on February 5, 2019.
- (32) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 15, 2019.
- (33) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 19, 2019.
- (34) Incorporated by reference to the Form 10-K Annual Report filed with the Securities Exchange Commission on March 18, 2019.
- (35) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on April 2, 2019.
- (36) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on April 22, 2019.
- (37) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on April 30, 2019.

**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.

Dated: May 7, 2019

**WORKHORSE GROUP INC.**

By: /s/ Duane A. Hughes  
Name: Duane A. Hughes  
Title: Chief Executive Officer  
(Principal Executive Officer)

Dated: May 7, 2019

By: /s/ Paul Gaitan  
Name: Paul Gaitan  
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 325,000,000 shares of capital stock, consisting of 250,000,000 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 (continued on Exhibit A)

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:

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)

X   
\_\_\_\_\_  
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

**Reset**

## **Exhibit A**

or qualifications, limitations, or restrictions for each series, including, but not by way of limitation, the power to fix the redemption and liquidation preferences, the rate of dividends payable and the time for and the priority of payment thereof and to determine whether such dividends shall be cumulative or not and to provide for and fix the terms of conversion of such Preferred Stock or any series thereof into Common Stock of the Corporation and fix the voting Power, if any, of shares of Preferred Stock or any series thereof.

Pursuant to NRS 78.385 and NRS 78.390, and any successor statutory provisions, the Board of Directors is authorized to adopt a resolution to increase, decrease, add, remove or otherwise alter any current or additional classes or series of this Corporation's capital stock by a board resolution amending these Articles, in the Board or Directors' sole discretion for increases or decreases of any class or series of authorized stock where applicable pursuant to NRS 78.207 and any successor statutory provision, or otherwise subject to the approval of the holders of at least a majority of shares having voting rights, either in a special meeting or the next annual meeting of shareholders. Notwithstanding the foregoing, where any shares of any class or series would be materially and adversely affected by such change, shareholder approval by the holders of at least a majority of such adversely affected shares must also be obtained before filing an amendment with the Office of the Secretary of State of Nevada. The capital stock of this Corporation shall be non-assessable and shall not be subject to assessment to pay the debts of the Corporation."

**2019 Incentive Stock Plan**  
**WORKHORSE GROUP INC.**  
**2019 INCENTIVE STOCK PLAN**

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**This WORKHORSE GROUP INC. 2019 Incentive Stock Plan** (the “**Plan**”) is designed to retain directors, executives, selected employees and consultants and reward them for making major contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the Plan thereby providing Participants with a proprietary interest in the growth and performance of the Company.

1. Definitions.

- (a) “**Board**” - The Board of Directors of the Company.
- (b) “**Cause**” means (a) embezzlement or misappropriation of funds; (b) conviction of, or entry of a plea *ofinolo contendre* to, a felony involving moral turpitude; (c) commission of material acts of dishonesty, fraud, or deceit; (d) breach of any material provisions of any employment agreement, confidentiality agreement or invention assignment agreement; (e) habitual or willful neglect of duties; (f) breach of fiduciary duty; or (g) material violation of any other duty whether imposed by law or the Board.
- (c) “**Code**” - The Internal Revenue Code of 1986, as amended from time to time.
- (d) “**Committee**” - The Compensation Committee of the Company’s Board, or such other committee of the Board that is designated by the Board to administer the Plan, composed of not less than two members of the Board who are disinterested persons, as contemplated by Rule 16b-3 (“**Rule 16b-3**”) promulgated under the Exchange Act.
- (e) “**Company**” - WORKHORSE GROUP INC. and its subsidiaries including subsidiaries of subsidiaries.
- (f) “**Exchange Act**” - The Securities Exchange Act of 1934, as amended from time to time.
- (g) “**Fair Market Value**” - The fair market value of the Company’s issued and outstanding Stock as determined in good faith by the Board or Committee.
- (h) “**Grant**” - The grant of any form of stock option, stock award, or stock purchase offer, whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.
- (i) “**Grant Agreement**” - An agreement between the Company and a Participant that sets forth the terms, conditions and limitations applicable to a Grant.

- (j) “ **Option** ” - Either an Incentive Stock Option, in accordance with Section 422 of Code, or a Nonstatutory Option, to purchase the Company’s Stock that may be awarded to a Participant under the Plan. A Participant who receives an award of an Option shall be referred to as an “ **Optionee** .”
  - (k) “ **Participant** ” - A director, officer, employee or consultant of the Company to whom an Award has been made under the Plan.
  - (l) “ **Restricted Stock Purchase Offer** ” - A Grant of the right to purchase a specified number of shares of Stock pursuant to a written agreement issued under the Plan.
  - (m) “ **Securities Act** ” - The Securities Act of 1933, as amended from time to time.
  - (n) “ **Stock** ” - Authorized and issued or unissued shares of common stock of the Company.
  - (o) “ **Stock Award** ” - A Grant made under the Plan in stock, denominated in units of stock or denominated in some other method reflecting an increase in value of stock or some other security of the Company, for which the Participant is not obligated to pay additional consideration.
2. Administration. The Plan shall be administered by the Board, provided however, that the Board may delegate such administration to the Committee. Subject to the provisions of the Plan, the Board and/or the Committee shall have authority to (a) grant, in its discretion, Incentive Stock Options in accordance with Section 422 of the Code, or Nonstatutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the Stock covered by any Grant; (c) determine which eligible persons shall receive Grants and the number of shares, restrictions, terms and conditions (including performance terms and conditions or market criteria) to be included in such Grants; (d) construe and interpret the Plan; (e) promulgate, amend and rescind rules and regulations relating to its administration, and correct defects, omissions and inconsistencies in the Plan or any Grant; (f) consistent with the Plan and with the consent of the Participant, as appropriate, amend any outstanding Grant or amend the exercise date or dates thereof; (g) determine the duration and purpose of leaves of absence which may be granted to Participants without constituting termination of their employment for the purpose of the Plan or any Grant; and (h) make all other determinations necessary or advisable for the Plan’s administration. The interpretation and construction by the Board of any provisions of the Plan or selection of Participants shall be conclusive and final. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Grant made thereunder.
3. Eligibility; Cancellation.
- (a) General: The persons who shall be eligible to receive Grants shall be directors, officers, employees or consultants to the Company. The term consultant shall mean any person, other than an employee, who is engaged by the Company to render services and is compensated for such services. An Optionee may hold more than one Option. Any issuance of a Grant to an officer or director of the Company subsequent to the first registration of any of the securities of the Company under the Exchange Act shall comply with the requirements of Rule 16b-3.

- (b) Incentive Stock Options: Incentive Stock Options may only be issued to employees of the Company. Incentive Stock Options may be granted to officers or directors, provided they are also employees of the Company. Payment of a director's fee shall not be sufficient to constitute employment by the Company.

The Company shall not grant an Incentive Stock Option under the Plan to any employee if such Grant would result in such employee holding the right to exercise for the first time in any one calendar year, under all Incentive Stock Options granted under the Plan or any other plan maintained by the Company, with respect to shares of Stock having an aggregate fair market value, determined as of the date of the Option is granted, in excess of \$100,000. Should it be determined that an Incentive Stock Option granted under the Plan exceeds such maximum for any reason other than a failure in good faith to value the Stock subject to such option, the excess portion of such option shall be considered a Nonstatutory Option. To the extent the employee holds two (2) or more such Options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such Option as Incentive Stock Options under the Federal tax laws shall be applied on the basis of the order in which such Options are granted. If, for any reason, an entire Option does not qualify as an Incentive Stock Option by reason of exceeding such maximum, such Option shall be considered a Nonstatutory Option.

- (c) Nonstatutory Option: The provisions of the foregoing Section 3(b) shall not apply to any Option designated as a “**Nonstatutory Option**” or which sets forth the intention of the parties that the Option be a Nonstatutory Option.
- (d) Stock Awards and Restricted Stock Purchase Offers: The provisions of the foregoing Section 3(b) shall not apply to any Stock Award or Restricted Stock Purchase Offer under the Plan.
- (e) Cancellation and Rescission of Grants. Unless an agreement with a directors, officers, employees or consultants specifies otherwise, the Board or Committee, as applicable, may cancel any unexpired, unpaid, or deferred Grants at any time if the Optionee or Participant is not in compliance with all other applicable provisions of its agreement pertaining to the Grant and/or the Plan.

Upon exercise, payment or delivery pursuant to a Grant, the Optionee or Participant shall certify on a form acceptable to the Board that he or she is in compliance with the terms and conditions of the Plan. Failure to comply with all of the provisions of this Section 3(e) prior to, or during the six months after, any exercise, payment or delivery pursuant to a Grant shall cause such exercise, payment or delivery to be rescinded. The Company shall notify the Optionee or Participant in writing of any such rescission within two years after such exercise, payment or delivery. Within ten days after receiving such a notice from the Company, the Optionee or Participant shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery pursuant to a Grant. Such payment shall be made either in cash or by returning to the Company the number of shares of Stock that the Optionee or Participant received in connection with the rescinded exercise, payment or delivery.

#### 4. Stock.

- (a) Authorized Stock: Stock subject to Grants may be either unissued or reacquired Stock.
- (b) Number of Shares: Subject to adjustment as provided in Section 5(i) of the Plan, the total number of shares of Stock which may be purchased or granted directly by Options, Stock Awards or Restricted Stock Purchase Offers, or purchased indirectly through exercise of Options granted under the Plan shall not exceed 8,000,000. If any Grant shall for any reason terminate or expire, any shares allocated thereto but remaining unpurchased upon such expiration or termination shall again be available for Grants with respect thereto under the Plan as though no Grant had previously occurred with respect to such shares. Any shares of Stock issued pursuant to a Grant and repurchased pursuant to the terms thereof shall be available for future Grants as though not previously covered by a Grant.
- (c) Reservation of Shares: The Company shall reserve and keep available at all times during the term of the Plan such number of shares as shall be sufficient to satisfy the requirements of the Plan. If, after reasonable efforts, which efforts shall not include the registration of the Plan or Grants under the Securities Act, the Company is unable to obtain authority from any applicable regulatory body, which authorization is deemed necessary by legal counsel for the Company for the lawful issuance of shares hereunder, the Company shall be relieved of any liability with respect to its failure to issue and sell the shares for which such requisite authority was so deemed necessary unless and until such authority is obtained.
- (d) Application of Funds : The proceeds received by the Company from the sale of Stock pursuant to the exercise of Options or rights under Stock Purchase Agreements will be used for general corporate purposes.
- (e) No Obligation to Exercise : The issuance of a Grant shall impose no obligation upon the Participant to exercise any rights under such Grant.

5. Terms and Conditions of Options. Options granted hereunder shall be evidenced by agreements between the Company and the respective Optionees, in such form and substance as the Board or Committee shall from time to time approve. Option agreements need not be identical, and in each case may include such provisions as the Board or Committee may determine, but all such agreements shall be subject to and limited by the following terms and conditions:

- (a) Number of Shares: Each Option shall state the number of shares to which it pertains.
- (b) Exercise Price: Each Option shall state the exercise price, which shall be determined as follows:
  - (i) Any Incentive Stock Option granted to a person who at the time the Option is granted owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power or value of all classes of stock of the Company (“ **Ten Percent Holder** ”) shall have an exercise price of no less than 110% of the Fair Market Value of the Stock as of the date of grant; and
  - (ii) Incentive Stock Options granted to a person who at the time the Option is granted is not a Ten Percent Holder and Nonstatutory Options shall have an exercise price of no less than 100% of the Fair Market Value of the Stock as of the date of grant.

For the purposes of this Section 5(b), Fair Market Value , unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, means, as of any given date: (i) if the common stock is listed on a national securities exchange, the closing price of the common stock in the principal trading market for the common stock on such date, as reported by the exchange (or on the last preceding trading date if such security was not traded on such date); (ii) if the common stock is not listed on a national securities exchange, but is traded in the over-the-counter market, the average of the bid and asked prices on such date, as reported by the OTC Bulletin Board or the OTC Markets Inc. or similar publisher of such quotations; and (iii) if the fair market value of the common stock cannot be determined pursuant to clause (i) or (ii) above or if there is no or limited trading volume or limited liquidity in the common stock as determined by the Board in its sole discretion, the Fair Market Value shall be determined by the Board, which determination shall be conclusive and binding.

- (c) Medium and Time of Payment: The exercise price shall become immediately due upon exercise of the Option and shall be paid in cash or check made payable to the Company. Should the Company’s outstanding Stock be registered under Section 12(g) of the Exchange Act at the time the Option is exercised, then the exercise price may also be paid as follows:
  - (i) in shares of Stock held by the Optionee for the requisite period necessary to avoid a charge to the Company’s earnings for financial reporting purposes and valued at Fair Market Value on the exercise date, or
  - (ii) through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable written instructions (a) to a Company designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Company by reason of such purchase and (b) to the Company to deliver the purchased shares directly to such brokerage firm in order to complete the sale transaction.

At the discretion of the Board, exercisable either at the time of Option grant or of Option exercise, the exercise price may also be paid (i) by Optionee’s delivery of a promissory note in form and substance satisfactory to the Company and permissible under applicable securities rules and bearing interest at a rate determined by the Board in its sole discretion, but in no event less than the minimum rate of interest required to avoid the imputation of compensation income to the Optionee under the Federal tax laws, or (ii) in such other form of consideration permitted by the State of Nevada corporations law as may be acceptable to the Board including cashless exercise.



- (d) Term and Exercise of Options: Any Option granted to an employee of the Company shall become exercisable over a period of no longer than five (5) years and no less than twenty percent (20%) of the shares covered thereby shall become exercisable annually unless the Board determines otherwise. No Option shall be exercisable, in whole or in part, prior to one (1) year from the date it is granted unless the Board shall specifically determine otherwise, as provided herein. In no event shall any Option be exercisable after the expiration of ten (10) years from the date it is granted, and no Incentive Stock Option granted to a Ten Percent Holder shall, by its terms, be exercisable after the expiration of five (5) years from the date of the Option. Unless otherwise specified by the Board or the Committee in the resolution authorizing such Option, the date of grant of an Option shall be deemed to be the date upon which the Board or the Committee authorizes the granting of such Option.

Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. During the lifetime of an Optionee, the Option shall be exercisable only by the Optionee and shall not be assignable or transferable by the Optionee, and no other person shall acquire any rights therein. To the extent not exercised, installments (if more than one) shall accumulate, but shall be exercisable, in whole or in part, only during the period for exercise as stated in the Option agreement, whether or not other installments are then exercisable.

- (e) Termination of Status as Employee, Consultant or Director: If Optionee's status as an employee shall terminate for any reason other than Optionee's disability or death, then Optionee (or if the Optionee shall die after such termination, but prior to exercise, Optionee's personal representative or the person entitled to succeed to the Option) shall have the right to exercise the portions of any of Optionee's Incentive Stock Options which were exercisable as of the date of such termination, in whole or in part, not less than 30 days nor more than three (3) months after such termination (or, in the event of " *termination for Cause* ", the Option shall automatically terminate as of the termination of employment as to all shares covered by the Option).

With respect to Nonstatutory Options granted to employees, directors or consultants, the Board may specify such period for exercise, not less than 30 days (except that in the case of " *termination for Cause* " or removal of a director, the Option shall automatically terminate as of the termination of employment or services as to shares covered by the Option, following termination of employment or services as the Board deems reasonable and appropriate. The Option may be exercised only with respect to installments that the Optionee could have exercised at the date of termination of employment or services. Nothing contained herein or in any Option granted pursuant hereto shall be construed to affect or restrict in any way the right of the Company to terminate the employment or services of an Optionee with or without cause.

In the event the terms contained in this Section 5(e) conflict with that of an employment agreement entered between the Company and an Optionee, then the terms of the employment agreement shall govern.

- (f) Disability of Optionee: If an Optionee is disabled (within the meaning of Section 22(e)(3) of the Code) at the time of termination, the three (3) month period set forth in Section 5(e) shall be a period, as determined by the Board and set forth in the Option, of not less than six months nor more than one year after such termination.
- (g) Death of Optionee: If an Optionee dies while employed by, engaged as a consultant to, or serving as a Director of the Company, the portion of such Optionee's Option which was exercisable at the date of death may be exercised, in whole or in part, by the estate of the decedent or by a person succeeding to the right to exercise such Option at any time within (i) a period, as determined by the Board and set forth in the Option, of not less than six (6) months nor more than one (1) year after Optionee's death, which period shall not be more, in the case of a Nonstatutory Option, than the period for exercise following termination of employment or services, or (ii) during the remaining term of the Option, whichever is the lesser. The Option may be so exercised only with respect to installments exercisable at the time of Optionee's death and not previously exercised by the Optionee.

- (h) Nontransferability of Option: No Option shall be transferable by the Optionee, except by will or by the laws of descent and distribution.
- (i) Recapitalization: Subject to any required action of shareholders, the number of shares of Stock covered by each outstanding Option, and the exercise price per share thereof set forth in each such Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock of the Company resulting from a stock split, stock dividend, combination, subdivision or reclassification of shares, or the payment of a stock dividend, or any other increase or decrease in the number of such shares affected without receipt of consideration by the Company; provided, however, the conversion of any convertible securities of the Company shall not be deemed to have been “*effected without receipt of consideration*” by the Company.

In the event of a proposed dissolution or liquidation of the Company, a merger or consolidation in which the Company is not the surviving entity, or a sale of all or substantially all of the assets or capital stock of the Company (collectively, a “**Reorganization**”), unless otherwise provided by the Board, this Option shall terminate immediately prior to such date as is determined by the Board, which date shall be no later than the consummation of such Reorganization. In such event, if the entity which shall be the surviving entity does not tender to Optionee an offer, for which it has no obligation to do so, to substitute for any unexercised Option a stock option or capital stock of such surviving of such surviving entity, as applicable, which on an equitable basis shall provide the Optionee with substantially the same economic benefit as such unexercised Option, then the Board may grant to such Optionee, in its sole and absolute discretion and without obligation, the right for a period commencing thirty (30) days prior to and ending immediately prior to the date determined by the Board pursuant hereto for termination of the Option or during the remaining term of the Option, whichever is the lesser, to exercise any unexpired Option or Options without regard to the installment provisions of Paragraph 6(d) of the Plan; provided, that any such right granted shall be granted to all Optionees not receiving an offer to receive substitute options on a consistent basis, and provided further, that any such exercise shall be subject to the consummation of such Reorganization.

Subject to any required action of shareholders, if the Company shall be the surviving entity in any merger or consolidation, each outstanding Option thereafter shall pertain to and apply to the securities to which a holder of shares of Stock equal to the shares subject to the Option would have been entitled by reason of such merger or consolidation.

In the event of a change in the Stock of the Company as presently constituted, which is limited to a change of all of its authorized shares without par value into the same number of shares with a par value, the shares resulting from any such change shall be deemed to be the Stock within the meaning of the Plan.

To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

Except as expressly provided in this Section 5(i), the Optionee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class, and the number or price of shares of Stock subject to any Option shall not be affected by, and no adjustment shall be made by reason of, any dissolution, liquidation, merger, consolidation or sale of assets or capital stock, or any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class.

The Grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make any adjustments, reclassifications, reorganizations or changes in its capital or business structure or to merge, consolidate, dissolve, or liquidate or to sell or transfer all or any part of its business or assets.

- (j) Rights as a Shareholder: An Optionee shall have no rights as a shareholder with respect to any shares covered by an Option until the effective date of the issuance of the shares following exercise of such Option by Optionee. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as expressly provided in Section 5(i) hereof.
- (k) Modification, Acceleration, Extension, and Renewal of Options: Subject to the terms and conditions and within the limitations of the Plan, the Board may modify an Option, or, once an Option is exercisable, accelerate the rate at which it may be exercised, and may extend or renew outstanding Options granted under the Plan or accept the surrender of outstanding Options (to the extent not theretofore exercised) and authorize the granting of new Options in substitution for such Options, provided such action is permissible under Section 422 of the Code and applicable state securities rules. Notwithstanding the provisions of this Section 5(k), however, no modification of an Option shall, without the consent of the Optionee, alter to the Optionee's detriment or impair any rights or obligations under any Option theretofore granted under the Plan.
- (l) Exercise Before Exercise Date: At the discretion of the Board, the Option may, but need not, include a provision whereby the Optionee may elect to exercise all or any portion of the Option prior to the stated exercise date of the Option or any installment thereof. Any shares so purchased prior to the stated exercise date shall be subject to repurchase by the Company upon termination of Optionee's employment as contemplated by Section 5(n) hereof prior to the exercise date stated in the Option and such other restrictions and conditions as the Board or Committee may deem advisable.
- (m) Other Provisions: The Option agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the Options, as the Board or the Committee shall deem advisable. Shares shall not be issued pursuant to the exercise of an Option, if the exercise of such Option or the issuance of shares thereunder would violate, in the opinion of legal counsel for the Company, the provisions of any applicable law or the rules or regulations of any applicable governmental or administrative agency or body, such as the Code, the Securities Act, the Exchange Act, applicable state securities rules, Nevada corporation law, and the rules promulgated under the foregoing or the rules and regulations of any exchange upon which the shares of the Company are listed. Without limiting the generality of the foregoing, the exercise of each Option shall be subject to the condition that if at any time the Company shall determine that (i) the satisfaction of withholding tax or other similar liabilities, or (ii) the listing, registration or qualification of any shares covered by such exercise upon any securities exchange or under any state or federal law, or (iii) the consent or approval of any regulatory body, or (iv) the perfection of any exemption from any such withholding, listing, registration, qualification, consent or approval is necessary or desirable in connection with such exercise or the issuance of shares thereunder, then in any such event, such exercise shall not be effective unless such withholding, listing registration, qualification, consent, approval or exemption shall have been effected, obtained or perfected free of any conditions not acceptable to the Company.
- (n) Repurchase Agreement: The Board may, in its discretion, require as a condition to the Grant of an Option hereunder, that an Optionee execute an agreement with the Company, pursuant to forms which shall be approved by the Board of Directors from time to time ("**Repurchase Agreement**"), (i) restricting the Optionee's right to transfer shares purchased under such Option without first offering such shares to the Company or another shareholder of the Company upon the same terms and conditions as provided therein; and (ii) providing that upon termination of Optionee's employment with the Company, for any reason, the Company (or another shareholder of the Company, as provided in the Repurchase Agreement) shall have the right at its discretion (or the discretion of such other shareholders) to purchase and/or redeem all such shares owned by the Optionee on the date of termination of his or her employment at a price equal to: (A) the fair value of such shares as of such date of termination; or (B) if such repurchase right lapses at 20% of the number of shares per year, the original purchase price of such shares, and upon terms of payment permissible under applicable state securities rules; provided that in the case of Options or Stock Awards granted to officers, directors, consultants or affiliates of the Company, such repurchase provisions may be subject to additional or greater restrictions as determined by the Board or Committee.

6. Stock Awards and Restricted Stock Purchase Offers.

(a) Types of Grants.

- (i) Stock Award. All or part of any Stock Award under the Plan may be subject to conditions established by the Board or the Committee, and set forth in the Stock Award Agreement, which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, increases in specified indices, attaining growth rates and other comparable measurements of Company performance. Such Awards may be based on Fair Market Value or other specified valuation. All Stock Awards will be made pursuant to the execution of a Stock Award Agreement pursuant to forms which shall be approved by the Board of Directors from time to time.
- (ii) Restricted Stock Purchase Offer. A Grant of a Restricted Stock Purchase Offer under the Plan shall be subject to such (i) vesting contingencies related to the Participant's continued association with the Company for a specified time and (ii) other specified conditions as the Board or Committee shall determine, in their sole discretion, consistent with the provisions of the Plan. All Restricted Stock Purchase Offers shall be made pursuant to a Restricted Stock Purchase Offer pursuant to forms which shall be approved by the Board of Directors from time to time.

- (b) Conditions and Restrictions. Shares of Stock which Participants may receive as a Stock Award under a Stock Award Agreement or Restricted Stock Purchase Offer under a Restricted Stock Purchase Offer may include such restrictions as the Board or Committee, as applicable, shall determine, including restrictions on transfer, repurchase rights, right of first refusal, and forfeiture provisions. When transfer of Stock is so restricted or subject to forfeiture provisions it is referred to as “**Restricted Stock**”. Further, with Board or Committee approval, Stock Awards or Restricted Stock Purchase Offers may be deferred, either in the form of installments or a future lump sum distribution. The Board or Committee may permit selected Participants to elect to defer distributions of Stock Awards or Restricted Stock Purchase Offers in accordance with procedures established by the Board or Committee to assure that such deferrals comply with applicable requirements of the Code including, at the choice of Participants, the capability to make further deferrals for distribution after retirement. Any deferred distribution, whether elected by the Participant or specified by the Stock Award Agreement, Restricted Stock Purchase Offers or by the Board or Committee, may require the payment be forfeited. Dividends or dividend equivalent rights may be extended to and made part of any Stock Award or Restricted Stock Purchase Offers denominated in Stock or units of Stock, subject to such terms, conditions and restrictions as the Board or Committee may establish.

- (c) Intentionally left blank.

(d) Nonassignability.

- (i) Except pursuant to Section 6(e)(iii) and except as set forth in Section 6(d)(ii), no Grant or any other benefit under the Plan shall be assignable or transferable, or payable to or exercisable by, anyone other than the Participant to whom it was granted.
- (ii) Where a Participant terminates employment and retains a Grant pursuant to Section 6(e)(ii) in order to assume a position with a governmental, charitable or educational institution, the Board or Committee, in its discretion and to the extent permitted by law, may authorize a third party (including but not limited to the trustee of a “blind” trust), acceptable to the applicable governmental or institutional authorities, the Participant and the Board or Committee, to act on behalf of the Participant with regard to such Awards.

- (e) Termination of Employment. If the employment or service to the Company of a Participant terminates, other than pursuant to any of the following provisions under this Section 6(e), all unexercised, deferred and unpaid Stock Awards or Restricted Stock Purchase Offers shall be cancelled immediately, unless the Stock Award Agreement or Restricted Stock Purchase Offer provides otherwise:
- (i) Retirement Under a Company Retirement Plan. When a Participant's employment terminates as a result of retirement, the Board or Committee may permit Stock Awards or Restricted Stock Purchase Offers to continue in effect beyond the date of retirement in accordance with the applicable Grant Agreement and the exercisability and vesting of any such Grants may be accelerated.
  - (ii) Rights in the Best Interests of the Company. When a Participant resigns from the Company and, in the judgment of the Board or Committee, the acceleration and/or continuation of outstanding Stock Awards or Restricted Stock Purchase Offers would be in the best interests of the Company, the Board or Committee may (i) authorize, where appropriate, the acceleration and/or continuation of all or any part of Grants issued prior to such termination and (ii) permit the exercise, vesting and payment of such Grants for such period as may be set forth in the applicable Grant Agreement, subject to earlier cancellation pursuant to Section 9 or at such time as the Board or Committee shall deem the continuation of all or any part of the Participant's Grants are not in the Company's best interest.
  - (iii) Death or Disability of a Participant.
    - (1) In the event of a Participant's death, the Participant's estate or beneficiaries shall have a period up to the expiration date specified in the Grant Agreement within which to receive or exercise any outstanding Grant held by the Participant under such terms as may be specified in the applicable Grant Agreement. Rights to any such outstanding Grants shall pass by will or the laws of descent and distribution in the following order: (a) to beneficiaries so designated by the Participant; if none, then (b) to a legal representative of the Participant; if none, then (c) to the persons entitled thereto as determined by a court of competent jurisdiction. Grants so passing shall be made at such times and in such manner as if the Participant were living.
    - (2) In the event a Participant is deemed by the Board or Committee to be unable to perform his or her usual duties by reason of mental disorder or medical condition which does not result from facts which would be grounds for termination for cause, Grants and rights to any such Grants may be paid to or exercised by the Participant, if legally competent, or a committee or other legally designated guardian or representative if the Participant is legally incompetent by virtue of such disability.
    - (3) After the death or disability of a Participant, the Board or Committee may in its sole discretion at any time (1) terminate restrictions in Grant Agreements; (2) accelerate any or all installments and rights; and (3) instruct the Company to pay the total of any accelerated payments in a lump sum to the Participant, the Participant's estate, beneficiaries or representative; notwithstanding that, in the absence of such termination of restrictions or acceleration of payments, any or all of the payments due under the Grant might ultimately have become payable to other beneficiaries.
    - (4) In the event of uncertainty as to interpretation of or controversies concerning this Section 6, the determinations of the Board or Committee, as applicable, shall be binding and conclusive.
7. Investment Intent. All Grants under the Plan are intended to be exempt from registration under the Securities Act provided by Rule 701 thereunder. Unless and until the granting of Options or sale and issuance of Stock subject to the Plan are registered under the Securities Act or shall be exempt pursuant to the rules promulgated thereunder, each Grant under the Plan shall provide that the purchases or other acquisitions of Stock thereunder shall be for investment purposes and not with a view to, or for resale in connection with, any distribution thereof. Further, unless the issuance and sale of the Stock have been registered under the Securities Act, each Grant shall provide that no shares shall be purchased upon the exercise of the rights under such Grant unless and until (i) all then applicable requirements of state and federal laws and regulatory agencies shall have been fully complied with to the satisfaction of the Company and its counsel, and (ii) if requested to do so by the Company, the person exercising the rights under the Grant shall (i) give written assurances as to knowledge and experience of such person (or a representative employed by such person) in financial and business matters and the ability of such person (or representative) to evaluate the merits and risks of exercising the Option, and (ii) execute and deliver to the Company a letter of investment intent and/or such other form related to applicable exemptions from registration, all in such form and substance as the Company may require. If shares are issued upon exercise of any rights under a Grant without registration under the Securities Act, subsequent registration of such shares shall relieve the purchaser thereof of any investment restrictions or representations made upon the exercise of such rights.

8. Amendment, Modification, Suspension or Discontinuance of the Plan. The Board may, insofar as permitted by law, from time to time, with respect to any shares at the time not subject to outstanding Grants, suspend or terminate the Plan or revise or amend it in any respect whatsoever, except that without the approval of the shareholders of the Company, no such revision or amendment shall (i) increase the number of shares subject to the Plan, (ii) decrease the price at which Grants may be granted, (iii) materially increase the benefits to Participants, or (iv) change the class of persons eligible to receive Grants under the Plan; provided, however, no such action shall alter or impair the rights and obligations under any Option, or Stock Award, or Restricted Stock Purchase Offer outstanding as of the date thereof without the written consent of the Participant thereunder. No Grant may be issued while the Plan is suspended or after it is terminated, but the rights and obligations under any Grant issued while the Plan is in effect shall not be impaired by suspension or termination of the Plan.

In the event of any change in the outstanding Stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the Board or the Committee may adjust proportionally (a) the number of shares of Stock (i) reserved under the Plan, (ii) available for Incentive Stock Options and Nonstatutory Options and (iii) covered by outstanding Stock Awards or Restricted Stock Purchase Offers; (b) the Stock prices related to outstanding Grants; and (c) the appropriate Fair Market Value and other price determinations for such Grants. In the event of any other change affecting the Stock or any distribution (other than normal cash dividends) to holders of Stock, such adjustments as may be deemed equitable by the Board or the Committee, including adjustments to avoid fractional shares, shall be made to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board or the Committee shall be authorized to issue or assume stock options, whether or not in a transaction to which Section 424(a) of the Code applies, and other Grants by means of substitution of new Grant Agreements for previously issued Grants or an assumption of previously issued Grants.

9. Tax Withholding. The Company shall have the right to deduct applicable taxes from any Grant payment and withhold, at the time of delivery or exercise of Options, Stock Awards or Restricted Stock Purchase Offers or vesting of shares under such Grants, an appropriate number of shares for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes. If Stock is used to satisfy tax withholding, such stock shall be valued based on the Fair Market Value when the tax withholding is required to be made.
10. Intentionally Left Blank.
11. Notice. Any written notice to the Company required by any of the provisions of the Plan shall be addressed to the chief financial officer or to the chief executive officer of the Company and shall become effective when it is received by the office of the chief personnel officer or the chief executive officer.
12. Indemnification of Board. In addition to such other rights or indemnifications as they may have as directors or otherwise, and to the extent allowed by applicable law, the members of the Board and the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any claim, action, suit or proceeding, or in connection with any appeal thereof, to which they or any of them may be a party by reason of any action taken, or failure to act, under or in connection with the Plan or any Grant granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such claim, action, suit or proceeding, except in any case in relation to matters as to which it shall be adjudged in such claim, action, suit or proceeding that such Board or Committee member is liable for negligence or misconduct in the performance of his or her duties; provided that within sixty (60) days after institution of any such action, suit or Board proceeding the member involved shall offer the Company, in writing, the opportunity, at its own expense, to handle and defend the same.
13. Governing Law. The Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the Code or the securities laws of the United States, shall be governed by the law of the State of Nevada and construed accordingly.
14. Effective and Termination Dates. The Plan shall become effective on the date it is approved by the holders of a majority of the shares of Stock then outstanding. The Plan shall terminate ten years later, subject to earlier termination by the Board pursuant to Section 8.

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

I, Duane A. Hughes, 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: May 7, 2019

/s/Duane A. Hughes  
Duane A. Hughes,  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Paul Gaitan, 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: May 7, 2019

/s/ Paul Gaitan

Paul Gaitan, 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 March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Duane A. Hughes, 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: May 7, 2019

/s/Duane A. Hughes  
Duane A. Hughes,  
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 March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul Gaitan, 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: May 7, 2019

/s/ Paul Gaitan  
Paul Gaitan,  
Chief Financial Officer  
(Principal Financial and Accounting Officer)