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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

or

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

For the transition period from __________ to __________

Commission file number: 000-53704

WORKHORSE GROUP INC.
(Exact name of registrant as specified in its charter)

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

100 Commerce Drive, Loveland, Ohio 45140
(Address of principal executive offices, including zip code)

(513) 360-4704
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth comp any, 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 ☐

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	WKHS	The NASDAQ Capital Market

The number of shares of the Registrant's Common Stock, $0.001 par value per share, outstanding as of August 4, 2020, was105,134,924.

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Forward-Looking Statements

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

All references in this Form 10-Q that refer to the "Company", "Workhorse Group", "Workhorse", "we," "us" or "our" are to Workhorse Group Inc.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Workhorse Group Inc.
Condensed Consolidated Balance Sheets

	June 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 26,197,831	$ 23,868,416
Restricted cash held in escrow	—	1,000,000
Accounts receivable, less allowance for doubtful accounts of $0 at June 30, 2020 and December 31, 2019	42,577	7,921
Lease receivable, current	33,100	33,100
Inventory, net	4,176,289	1,798,146
Prepaid expenses	4,752,206	4,812,088
Total current assets	35,202,003	31,519,671
Property, plant and equipment, net	7,082,138	6,830,181
Investment in LMC	13,059,700	12,194,800
Lease receivable, long-term	109,869	129,177
Total Assets	$ 55,453,710	$ 50,673,829
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 2,061,799	$ 1,678,983
Accrued liabilities	3,018,415	3,105,184
Warranty liability	4,079,769	6,001,864
Warrant liability	—	16,335,000
Customer deposits	124,000	303,000
Current portion of long-term debt	627,111	—
Current portion of Convertible Note, at fair value	95,330,000	19,620,000
Total current liabilities	105,241,094	47,044,031
Long-term debt	783,889	—
Convertible Note, at fair value	—	19,400,000
Mandatorily redeemable Series B preferred stock	19,905,522	19,142,908
Commitments and contingencies		
Stockholders' deficit:		
Series A preferred stock, par value $0.001 per share, 75,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2020 and December 31, 2019	—	—
Common stock, par value $0.001 per share, 250,000,000 shares authorized, 89,330,123 shares issued and outstanding at June 30, 2020 and 67,105,000 shares issued and outstanding at December 31, 2019	89,330	67,105
Additional paid-in capital	233,715,623	143,826,315
Accumulated deficit	(305,381,748)	(178,806,530)
Accumulated other comprehensive income	1,100,000	—
Total stockholders' deficit	(70,476,795)	(34,913,110)
Total Liabilities and Stockholders' Deficit	$ 55,453,710	$ 50,673,829

See accompanying notes to the condensed consolidated financial statements.

Workhorse Group Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net sales	$ 91,942	$ 5,508	$ 176,242	$ 369,690
Cost of sales	1,511,360	930,164	3,259,335	2,327,770
Gross loss	(1,419,418)	(924,656)	(3,083,093)	(1,958,080)
Operating expenses				
Selling, general and administrative	3,949,081	1,996,054	9,514,868	4,086,944
Research and development	1,616,604	1,216,727	3,518,840	2,579,002
Total operating expenses	5,565,685	3,212,781	13,033,708	6,665,946
Other income	—	—	864,900	—
Loss from operations	(6,985,103)	(4,137,437)	(15,251,901)	(8,624,026)
Interest expense, net	124,346,806	15,922,763	111,323,317	17,700,346
Loss before provision for income taxes	(131,331,909)	(20,060,200)	(126,575,218)	(26,324,372)
Provision for income taxes	—	—	—	—
Net loss	(131,331,909)	(20,060,200)	(126,575,218)	(26,324,372)
Net loss attributable to common stockholders per share - basic and diluted	$ (1.76)	$ (0.33)	$ (1.77)	$ (0.44)
Weighted average number of common shares outstanding - basic and diluted	74,701,343	60,530,168	71,583,551	60,530,168

See accompanying notes to the condensed consolidated financial statements.

Workhorse Group Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	$ (131,331,909)	$ (20,060,200)	$ (126,575,218)	$ (26,324,372)
Other comprehensive income				
Credit risk adjustment in fair value of Convertible Note	—	—	1,100,000	—
Comprehensive loss	$ (131,331,909)	$ (20,060,200)	$ (125,475,218)	$ (26,324,372)

See accompanying notes to the condensed consolidated financial statements.

Workhorse Group Inc.
Condensed Consolidated Statements of Stockholders' Deficit
(Unaudited)

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
	Number of Shares	Amount	Number of Shares	Amount				
Balance as of March 31, 2019	61,496,990	$ 61,497	—	$ —	$ 129,764,361	$ (147,821,668)	$ —	$ (17,995,810)
Issuance of common stock	3,957,432	3,958	—	—	2,924,542	—	—	2,928,500
Stock options and warrants exercised	510,894	511	—	—	(511)	—	—	—
Deemed dividend	116,496	116	—	—	86,091	(86,207)	—	—
Stock-based compensation	—	—	—	—	185,848	—	—	185,848
Effect of reclassification of warrants	—	—	—	—	857,072			857,072
Value of warrants issued with preferred stock	—	—	—	—	6,709,961	—	—	6,709,961
Net loss for the three months ended June 30, 2019	—	—	—	—	—	(20,060,200)	—	(20,060,200)
Balance as of June 30, 2019	66,081,812	$ 66,082	—	$ —	$ 140,527,364	$ (167,968,075)	$ —	$ (27,374,629)

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' 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	7,183,488	7,184	—	—	5,921,051	—	—	5,928,235
Stock options and warrants exercised	510,894	511	—	—	(511)	—	—	—
Deemed dividend	116,496	116	—	—	86,091	(86,207)	—	—
Stock-based compensation	—	—	—	—	876,918	—	—	876,918
Effect of reclassification of warrants	—	—	—	—	857,072			857,072
Value of warrants issued with preferred stock	—	—	—	—	6,709,961	—	—	6,709,961
Net loss for the six months ended June 30, 2019	—	—	—	—	—	(26,324,372)	—	(26,324,372)
Balance as of June 30, 2019	66,081,812	$ 66,082	—	$ —	$ 140,527,364	$ (167,968,075)	$ —	$ (27,374,629)

Workhorse Group Inc.
Condensed Consolidated Statements of Stockholders' Deficit
(Unaudited)

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
	Number of Shares	Amount	Number of Shares	Amount				
Balance as of March 31, 2020	69,493,836	$ 69,494	—	$ —	$ 150,883,717	$ (174,049,839)	$ 1,100,000	$ (21,996,628)
Stock options and warrants exercised, and vesting of restricted shares	12,479,122	12,479	—	—	46,902,920	—	—	46,915,399
Common stock issued for preferred stock dividends	308,642	309	—	—	499,691	—	—	500,000
Conversion of Convertible Note	6,837,381	6,837	—	—	33,534,630	—	—	33,541,467
Common stock issued for interest on Convertible Note	211,142	211	—	—	724,474	—	—	724,685
Stock-based compensation	—	—	—	—	1,170,191	—	—	1,170,191
Net loss for the three months ended June 30, 2020	—	—	—	—	—	(131,331,909)	—	(131,331,909)
Other comprehensive income	—	—	—	—	—	—	—	—
Balance as of June 30, 2020	89,330,123	$ 89,330	—	$ —	$ 233,715,623	$ (305,381,748)	$ 1,100,000	$ (70,476,795)

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
	Number of Shares	Amount	Number of Shares	Amount				
Balance as of December 31, 2019	67,105,000	$ 67,105	—	$ —	$ 143,826,315	$ (178,806,530)	—	$ (34,913,110)
Stock options and warrants exercised, and vesting of restricted shares	12,911,234	12,911	—	—	47,145,488	—	—	47,158,399
Common stock issued for preferred stock dividends	617,284	618	—	—	999,382	—	—	1,000,000
Conversion of Convertible Note	8,384,270	8,384	—	—	38,726,635	—	—	38,735,019
Common stock issued for interest on Convertible Note	312,335	312	—	—	988,585	—	—	988,897
Stock-based compensation	—	—	—	—	2,029,218	—	—	2,029,218
Net loss for the six months ended June 30, 2020	—	—	—	—	—	(126,575,218)	—	(126,575,218)
Other comprehensive income	—	—	—	—	—	—	1,100,000	1,100,000
Balance as of June 30, 2020	89,330,123	$ 89,330	—	$ —	$ 233,715,623	$ (305,381,748)	$ 1,100,000	$ (70,476,795)

See accompanying notes to the condensed consolidated financial statements.

Workhorse Group Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net loss	$ (126,575,218)	$ (26,324,372)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	368,372	193,786
Tooling expense	353,786	—
Amortization of discount and debt issuance costs on long-term debt	—	260,103
Amortization of discount on mandatorily redeemable Series B preferred stock	762,614	119,471
Change in fair value of Convertible Note and loss on conversion to common stock	96,145,019	—
Change in fair value of warrant liability	12,176,690	14,910,668
Change in fair value of investment in LMC	(864,900)	—
Dividends for mandatorily redeemable Series B preferred stock paid in common stock	1,000,000	—
Interest on Convertible Note paid in common stock	988,897	—
Stock-based compensation	2,029,218	876,918
Write down of inventory	—	22,221
Effects of changes in operating assets and liabilities:		
Accounts and lease receivable	(15,348)	24,135
Inventory	(2,378,143)	313,712
Prepaid expenses	59,882	554,276
Accounts payable and accrued liabilities	296,047	(2,228,966)
Warranty liability	(1,922,095)	(485,209)
Customer deposits	(179,000)	(47,000)
Net cash used in operating activities	(17,754,179)	(11,810,257)
Cash flows from investing activities:		
Capital expenditures	(974,115)	(2,965,372)
Net cash used in investing activities	(974,115)	(2,965,372)
Cash flows from financing activities:		
Proceeds from long-term debt	1,411,000	5,854,140
Proceeds from issuance of Series B preferred stock	—	25,000,000
Issuance of common stock	—	5,928,235
Exercise of warrants and options	18,646,709	—
Net cash provided by financing activities	20,057,709	36,782,375
Change in cash and cash equivalents	1,329,415	22,006,746
Cash, cash equivalents and restricted cash, beginning of the period	24,868,416	1,512,750
Cash and cash equivalents, end of the period	$ 26,197,831	$ 23,519,496

Supplemental disclosure of non-cash activities:

During the six months ended June 30, 2020, the Company issued8,384,270 shares of common stock in connection with the conversion of the Convertible Note, which were valued at $38,735,019. The Company recorded additional paid-in capital with the offset as a reduction to the fair value of the Convertible Note.

During the six months ended June 30, 2020, the change in fair value of the Convertible Note included a $1,100,000 adjustment attributed to changes in credit risk. The Company recorded other comprehensive income with the offset as a reduction to the fair value of the Convertible Note.

See accompanying notes to the condensed consolidated financial statements.

Workhorse Group Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING PRINCIPLES

Nature of operations

Workhorse Group Inc. ("Workhorse", the "Company", "we", "us" or "our") is a technology company focused on providing sustainable and cost-effective solutions to the commercial transportation sector. We are an American manufacturer who designs and builds high performance electric vehicles. As part of our solutions, we also develop cloud-based, real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. We are currently focused on bringing the C-Series electric delivery truck 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.

Principles of consolidation

The condensed consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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 are expected to be sufficient to fund our operations into 2022. Unless and until we are able to generate a sufficient amount of revenue, reduce our costs and/or enter into 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 and debt. 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. 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 financial conditions, results of operations and cash flows for the interim periods presented. Such adjustments are of a normal, recurring nature. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. These condensed consolidated financial statements should 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, 2019.

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.

Impact of COVID-19 Pandemic

In December 2019, a novel coronavirus disease ("COVID-19") was reported and on January 30, 2020, the World Health Organization ("WHO") declared it a Public Health Emergency of International Concern. On February 28, 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic.

As of the date of this filing, our locations and primary suppliers continue to operate. However, the broader implications of COVID-19 on our results of operations and overall financial performance remain uncertain. We may experience constrained supply or other business disruptions that could materially impact our business, results of operations and overall financial performance in future periods. See Risk Factors for further discussion of the possible impact of the COVID-19 pandemic on our business.

2. INVENTORY, NET

Inventory, net consists of the following:

	June 30, 2020	December 31, 2019
Raw materials	$ 5,412,613	$ 3,741,097
Work in process	927,351	422,176
Finished goods	—	—
	6,339,964	4,163,273
Less inventory reserve	(2,163,675)	(2,365,127)
Total inventory, net	$ 4,176,289	$ 1,798,146

3. INVESTMENT IN LMC

The Company has a ten percent ownership interest in Lordstown Motors Corp. ("LMC") with a value of $13.1 million and $12.2 million as of June 30, 2020 and December 31, 2019, respectively. The investment was obtained pursuant to the transaction with LMC described below. During the six months ended June 30, 2020, the Company received additional shares as part of its anti-dilution feature with LMC, which were valued at approximately $0.9 million. There were no additional shares received during the three months ended June 30, 2020.

We have elected the measurement alternative allowed under generally accepted accounting principles ("GAAP") for our investment in LMC, which does not have a readily determinable fair value. Under the measurement alternative, we measure this investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions in an identical or similar investment in LMC.

At each reporting period, we evaluate our investment in LMC to determine if there are any events or circumstances that are likely to have a significant adverse effect on the fair value of the investment. Examples of such impairment indicators include, but are not limited to, a significant deterioration in earnings performance, recent financing rounds at reduced valuations, a significant adverse change in the regulatory, economic or technological environment of an investee or a significant doubt about an investee’s ability to continue as a going concern. If we identify an impairment indicator, we will estimate the fair value of the investment and compare it to its carrying value. Our estimation of fair value considers financial information related to the investee available to us, including valuations based on recent third-party equity investments in the investee. If the fair value of the investment is less than its carrying value, the investment is impaired and an impairment loss equal to the difference between the investment’s carrying value and its fair value is recognized under the measurement alternative.

LMC Transaction

On November 7, 2019, the Company entered into a transaction with LMC (the "LMC Transaction") pursuant to which the Company granted LMC a perpetual and worldwide license to certain intellectual property relating to the Company’s W-15 electric pickup truck platform and its related technology (the “Licensed Intellectual Property”) for consideration as described below. LMC will endeavor to, among other things, raise sufficient third-party capital for the acquisition, retrofitting, and restart of the Lordstown Assembly Complex, and the ongoing operating costs, which amounts are expected to be significant (the “Capital Raise”).

Consideration

- A ten percent ownership interest in the common stock of LMC in exchange for the Company's obligations under the License Agreement. The LMC common stock received provides the Company with anti-dilution rights for two years.
- One percent of the aggregate debt and equity commitments funded to LMC upon completion of the Capital Raise (the "Royalty Advance"). Any amount paid to the Company from the Capital Raise is non-refundable.
- A one percent royalty on the gross sales price of the first200,000 vehicles sold, but only to the extent that the aggregate amount of such royalty fees exceeds the amount paid as the Royalty Advance.
- Upon completion of the Capital Raise, the Company intends to transfer approximately 6,000 existing vehicles orders to LMC. LMC will pay afour percent commission on the gross sales price of any transferred orders fulfilled by LMC. The success of the Capital Raise is not within the Company's control, and it therefore cannot provide assurance that it will receive the Royalty Advance or receive the projected underlying royalty from the production of vehicles.

The consideration includes a fixed and variable component:

- The fixed component consists of the ten percent ownership interest in LMC and any amounts received under the Minimum Royalty. The fair value of the LMC ownership interest received was $12.2 million.
- The variable component consists of the four percent commission and the one percent royalty. Variable consideration will be recognized when each vehicle for which a royalty or commission is owed is sold.

4. 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.

Revenues related to repair and maintenance services are recognized over time as services are provided. Payment for used vehicles, services, and merchandise are typically received at the point when control transfers to the customer or in accordance with payment terms customary to the business.

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.

As performance obligations are satisfied within one year from a given reporting date we omit disclosures 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Automotive	$ 85,000	$ —	$ 85,000	$ 240,000
Aviation	—	—	60,783	—
Other	6,942	5,508	30,459	129,690
Total revenues	$ 91,942	$ 5,508	$ 176,242	$ 369,690

5. CONVERTIBLE NOTE AND LONG-TERM DEBT

Convertible Note and long-term debt consist of the following:

	June 30, 2020	December 31, 2019
Convertible Note, at fair value	95,330,000	39,020,000
Long-term debt	1,411,000	—
Less current portion	(95,957,111)	(19,620,000)
Convertible Note and long-term debt, net of current portion	$ 783,889	$ 19,400,000

Convertible Note

Current Activity

The fair value of the Convertible Note as of June 30, 2020 and December 31, 2019 was $95.3 million and $39.0 million, respectively, and the contractual principal balance as of June 30, 2020 and December 31, 2019 was $18.5 million and $40.5 million, respectively. In electing the fair value option, the Company recognizes changes in fair value related to changes in credit risk, if any, in other comprehensive income and the remaining change in fair value in interest expense. For the six months ended June 30, 2020, the fair value of the Convertible Note increased $56.3 million which included a $1.1 million adjustment to other comprehensive income attributed to changes in credit risk and a $75.2 million adjustment to interest expense. The change related to credit risk was primarily caused by an increase in credit rating yield for comparable companies during the first quarter of 2020.

During the three months ended June 30, 2020, $17.5 million par value of the Convertible Note was converted to 6,837,381 shares of common stock resulting in a loss of $20.1 million, which is recorded in interest expense. During the six months ended June 30, 2020, $22.0 million par value of the Convertible Note was converted to 8,384,270 shares of common stock resulting in a loss of $21.0 million, which is recorded in interest expense.

Based on the contractual principal balance as of June 30, 2020, the number of warrants exercisable following the full or partial redemption of the Convertible Note is 6,975,410. The exercise price is the greater of the conversion price of the Convertible Note on the day the warrants become exercisable or the weighted average 30 day price of our common stock.

Subsequent Activity

The fair value of the Convertible Note as of the date of this filing is zero. During the period July 1, 2020 through August 3, 2020, the remaining $18.5 million par value of the Convertible Note was converted to 6,065,576 shares of common stock resulting in a loss of $14.9 million, which is recorded in interest expense. Based on the contractual principal balance, the number of warrants exercisable following the full redemption of the Convertible Note is zero.

Background

On December 9, 2019, the Company issued a $41.0 million par value Convertible Note (the "Convertible Note") due November 2022, with a stated interest rate of 4.50% per annum. The Company has elected to account for the Convertible Note using the fair value option allowed under GAAP. Interest is payable quarterly beginning February 1, 2020. The Convertible Note is initially convertible at a rate of $3.05 per share subject to change for anti-dilution adjustments or certain corporate events.

Any principal repayment of the Convertible Note is at 112% of the par value. Beginning March 1, 2020 the holder of the Convertible Note may require the Company to redeem up to $1.5 million par value ("Redemption Payment") of the Convertible Note monthly. Subject to certain limitations, the Company at its discretion can pay some or all of Redemption Payment in cash or shares of common stock.

The Convertible Note is a senior secured obligation of the Company secured by substantially all assets of the Company and ranks senior to all unsecured debt of the Company. The Convertible Note contains certain covenants, including that we maintain at all times liquidity calculated as unrestricted, unencumbered cash and cash equivalents in a minimum of $8.0 million.

The primary reason for electing the fair value option is for simplification and cost-benefit considerations of accounting for the Convertible Note (the hybrid financial instrument) at fair value in its entirety versus bifurcation of the embedded derivatives. The significant inputs to the valuation of the Convertible Note at fair value are Level 3 inputs since they are not observable directly. The fair value was determined using a binomial lattice valuation model, which is widely used for valuing convertible notes. The significant assumptions used in the model are the credit spread and volatility of the Company's common stock.

The Convertible Note was issued with15,459,016 warrants to purchase common stock of the Company at an initial exercise price of $3.05. The warrants are only exercisable at the option of the Company following the full or partial redemption of the Convertible Note. In the event the Convertible Note is redeemed in part, the percentage of the warrants that will become exercisable upon such redemption will be equal to a percentage of the original principal amount of the Note redeemed at such time. Each exercise of the warrants entitles the holder to common shares equal to 115% of the total principal amount redeemed at such time divided by the conversion price. The Convertible Note and the warrants were determined to be freestanding instruments and were accounted for separately.

Paycheck Protection Program Term Note

On April 14, 2020, the Company entered into a Paycheck Protection Program Term Note (“PPP Term Note” or the “Note”) with PNC Bank, N.A. (“PNC”) under the Paycheck Protection Program of the recently enacted Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Company received total proceeds of $1.4 million from the PPP Term Note, which is due on April 13, 2022. In accordance with the requirements of the CARES Act, the Company will use the proceeds primarily for payroll costs. Interest accrues on the Note at the rate of 1.0% per annum. The Company may apply to PNC for forgiveness of the amount due on the Note which shall be an amount equal to the sum of payroll costs, mortgage interest, rent obligations and covered utility payments incurred during the eight weeks following disbursement on the Note.

Neither principal nor interest shall be due or payable during the period from April 14, 2020 through the six-month anniversary of the date of the Note. On November 15, 2020, the outstanding principal of the Note that is not forgiven shall convert to an amortizing term loan and shall be due and payable in equal monthly installments until April 13, 2022. Additionally on November 15, 2020, all accrued interest that is not forgiven shall be due and payable.

The Company has elected to account for the PPP Term Note as debt and will accrue interest over the term of the Note. During the six months ended June 30, 2020, the Company did not make any repayments or apply for forgiveness of any amount due on the Note.

Purchase Warrants

In December 31, 2018, the Company entered into a Credit Agreement (the "Credit Agreement"), with Marathon Asset Management, LP. In conjunction with entering into the Credit Agreement, the Company issued Common Stock Purchase Warrants (“Initial Warrants”) to purchase 8,053,390 shares of common stock at an exercise price of $1.25 per share. The Credit Agreement was paid in 2019. Until December 31, 2020, the Company must issue additional Warrants to the Lenders equal to 10%, in the aggregate, of any additional equity issuances on substantially the same terms and conditions of the Initial Warrants, except that (i) the expiration date shall be five years from the issuance date, (ii) the exercise price shall be equal to 110% of the issuance price per share in the relevant issuance, and (iii) the holder shall be entitled to exercise the warrant on a cashless basis at any time.

The Initial Warrants are classified as liability financial instruments and required to be marked-to-market at each balance sheet date with a corresponding charge to interest expense. The Initial Warrants were exercised during the six months ended June 30, 2020, resulting in the issuance of 8,053,390 shares of common stock. The Initial Warrants were marked-to-market at each exercise date, which resulted in a charge to interest expense of $12.2 million for the six months ended June 30, 2020. As of June 30, 2020 and December 31, 2019, the warrant liability for the Initial Warrants was zero and $16.3 million, respectively. Any additional warrants issued in connection with the Credit Agreement have been classified as equity instruments and are not required to be marked-to-market at each balance sheet date.

6. MANDATORILY REDEEMABLE SERIES B PREFERRED STOCK

On June 5, 2019, the Company closed agreements for the sale of1,250,000 units consisting of one share of Series B Preferred Stock (the “Preferred Stock”), with a stated value of $20.00 per share (the “Stated Value”) and a common stock purchase warrant to purchase 7.41 shares of the common stock (the “Warrants”) for an aggregate purchase price of $25.0 million. The Preferred Stock is not convertible and does not hold voting rights.

The Preferred Stock ranks senior to the Company’s common stock with respect to dividend rights and rights upon liquidation, winding-up or dissolution. The Preferred Stock is entitled to annual dividends at a rate equal to 8.0% per annum on the Stated Value. The Warrants have an exercise price of $1.62 per share and expire seven years from the date of issuance. Accrued dividends are payable quarterly in shares of common stock of the Company based on a fixed share price of $1.62. During the three and six months ended June 30, 2020, the Company issued 308,642 and 617,284 shares of common stock to the holders of the Preferred Stock, respectively.

In June 2023, the Company is required to redeem all the outstanding shares of the Preferred Stock at the Stated Value, plus accrued and unpaid dividends. At any time prior to such date, the Company may redeem any outstanding shares of Preferred Stock at the Stated Value, plus accrued and unpaid dividends.

The aggregate number of shares of common stock issued in payment of dividends on the Preferred Stock when added to the number of shares of common stock issued upon exercise of any warrants shall not exceed 19.9% of either (a) the total number of shares of common stock outstanding on the date hereof; or (b) the total voting power of the Company’s securities outstanding on the date hereof that are entitled to vote on a matter being voted on by holders of the common stock, unless and until the Company obtains stockholder approval permitting such issuances.

As the Preferred Stock is mandatorily redeemable, it is classified as a liability on the condensed consolidated balance sheets. All dividends payable on the Preferred Stock are classified as interest expense.

The Preferred Stock and Warrants are considered freestanding financial instruments and have been accounted for separately. The Warrants are considered equity instruments and not marked-to-market at each reporting period. On the date of issuance, the value of the Warrants was $6.7 million, which was determined using the Black-Scholes valuation model. The fair value of the Warrants was recorded as an increase to additional paid-in capital and a discount of the Preferred Stock. The discount is being amortized to interest expense using the effective interest method through May 2023. Amortization of the discount for the three and six months ended June 30, 2020 was $0.4 million and $0.8 million, respectively.

7. STOCK-BASED COMPENSATION

The Company maintains, as approved by the board of directors, the 2019 Stock Incentive Plan (the "Plan") providing for the issuance of stock-based based awards to employees, officers, directors or consultants of the Company. Non-qualified stock options may only be granted with an exercise price equal to the market value of the Company’s common stock on the grant date. Awards under the Plan may be either vested or unvested options, or unvested restricted stock. The Plan has authorized 8,000,000 shares for issuance of stock-based awards. As of June 30, 2020, there were shares available for issuance of future stock awards, which includes 6,641,577 shares available under the 2019 and 2017 incentive plans.

Stock-based compensation expense

The following table summarizes stock-based compensation expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Stock options	$ 347,328	$ 185,848	$ 427,758	$ 876,918
Restricted stock	822,863	—	1,601,460	—
Total stock-based compensation	$ 1,170,191	$ 185,848	$ 2,029,218	$ 876,918

Stock options

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

	Number of Options	Weighted Average Exercise Price per Option	Weighted Average Grant Date Fair Value per Option	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2019	3,725,000	$ 2.32		
Granted	875,075	1.81	0.61	
Exercised	(22,500)	2.75		
Forfeited	(117,594)	4.42		
Expired	(12,500)	2.74		
Balance, June 30, 2020	4,447,481	$ 2.16		
Number of options exercisable at June 30, 2020	3,117,500	$ 2.39		5.4

As of June 30, 2020, unrecognized compensation expense was $0.6 million for unvested options which is expected to be recognized over the next1.2 years.

Restricted stock

The following table summarizes restricted stock activity:

	Number of Unvested Shares	Weighted Average Grant Date Fair Value per Share
Balance, December 31, 2019	1,768,726	$ 2.57
Granted	643,220	2.67
Vested	(467,368)	2.53
Forfeited	—	—
Balance, June 30, 2020	1,944,578	$ 2.61

As of June 30, 2020, unrecognized compensation expense was $4.3 million for unvested restricted stock awards which is expected to be recognized over the next2.1 years.

8. 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.

9. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net loss available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted earnings per share is calculated using the treasury stock method, on the basis of the weighted average number of shares outstanding plus the dilutive effect, if any, of stock options, unvested restricted stock and warrants. The if converted method is used for determining the impact of the Convertible Note.

The following table shows the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	$ (131,331,909)	$ (20,060,200)	$ (126,575,218)	$ (26,324,372)
Deemed dividends	—	86,207	—	86,207
Net income loss attributable to common stockholders	$ (131,331,909)	$ (20,146,407)	$ (126,575,218)	$ (26,410,579)
Basic weighted average shares outstanding	74,701,343	60,530,168	71,583,551	60,530,168
Dilutive effect of options and warrants	—	—	—	—
Dilutive effect of Convertible Note	—	—	—	—
Diluted weighted average shares outstanding	74,701,343	60,530,168	71,583,551	60,530,168
Anti-dilutive options and warrants excluded from diluted average shares outstanding	24,294,118	33,315,619	24,294,118	33,315,619

Excluded from the table above are the warrant shares related to the Convertible Note, which represent11,803,279 and 13,278,689 warrants calculated using the if converted method for the three and six months ended June 30, 2020, respectively. The warrants are issuable at the option of the Company following the full or partial redemption of the Convertible Note. In the event the Convertible Note is redeemed, the percentage of the warrants that will be issued upon such redemption will be equal to the percentage of the principal amount at such time. Therefore, as the principal balance of the Convertible Note decreases, the number of potential warrants to be issued decreases proportionally.

Also excluded from the table above are the shares on the conversion of the Convertible Note, which represent9,958,506 and 12,488,899 shares of common stock calculated using the if converted method for the three and six months ended June 30, 2020, respectively. The Convertible Note is convertible into shares of the Company's common stock.

10. RECENT ACCOUNTING DEVELOPMENTS

Accounting Guidance Not Yet Adopted

In June 2016, the FASB issued an accounting standard update that revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The guidance is effective for the Company on January 1, 2023, including interim periods and should be applied on a modified retrospective basis. The Company expects that the adoption of this guidance will not have a material impact on the Company's financial condition and operations.

11. STOCKHOLDERS' EQUITY

Warrants

In connection with the issuance of debt, common stock and preferred stock, the Company issued warrants to purchase shares of the Company's common stock.The following table summarizes warrant activity:

	Number of Warrants	Weighted Average Exercise Price per Warrant
Balance, December 31, 2019	30,527,776	$ 1.82
Granted, Marathon debt	68,586	1.78
Exercised	(12,651,146)	1.48
Expired	(43,157)	1.40
Balance, June 30, 2020	17,902,059	$ 2.06

The above table excludes 6,975,410 warrants issued with the Convertible Note. The warrants are only exercisable at the option of the Company following the full or partial redemption of the Convertible Note.

2019 Stock Offerings

In February 2019, the Company sold 1,616,683 shares of common stock to investors (the “February 2019 Investors”) for net proceeds of $1.5 million. Through July 2019, if the Company issued shares of its common stock for a lower price per share than the price paid by the February 2019 Investors (a “Down Round”), the Company was required to issue additional shares of common stock (for no additional consideration) resulting in the effective purchase price per share being equal to the purchase price per share paid in the Down Round. On May 1, 2019 the Down Round provision of the agreement was triggered and an additional 116,496 shares of common stock were issued to the February 2019 Investors which was accounted for as a $86,207 deemed dividend. The deemed dividend was recorded as a reduction of retained earnings and increase in additional paid-in-capital and increased the net loss to common shareholders by the same amount.

Benjamin Samuels and Gerald Budde, directors of the Company, acquired 841,928 and 26,310 shares of common stock, respectively, as part of the February 2019 offering at a price per share of $0.95, which was above the closing price the date prior to close. They did not receive the Down Round protection.

On June 22, 2017, the Company entered into an at the market issuance sales agreement with Cowen and Company, LLC under which the Company may offer and sell shares of its common stock having an aggregate offering price of up to $25.0 million. For the three months ended March 31, 2019, the Company issued 1,609,373 shares under this agreement for net proceeds of approximately $1.5 million. This agreement was canceled in the first quarter of 2019.

12. OTHER TRANSACTION

On October 31, 2019, the Company and ST Engineering Hackney, Inc. ("Seller") entered into an Asset Purchase Agreement ("Purchase Agreement") to purchase certain assets of Seller ("Acquired Assets") and assume certain liabilities of Seller. Upon execution of the Purchase Agreement, the Company deposited $ 1.0 million in cash and shares of its common stock having a value of $6.6 million ("Escrow Shares") into an escrow account ("Escrow Account") as collateral. The number of Escrow Shares is subject to adjustment if the value of the Escrow Shares is less than $5.3 million or greater than $7.9 million on certain dates. In January 2020, the transaction closed and the initial payment of $1.0 million was released from the Escrow Account and recorded as a selling expense. The transaction will be accounted for as customer acquisition costs as the primary asset acquired is the right to bid on a customer contract. As each payment is made the Company will determine if there is future benefit associated with the contract and if it is determined that there is, the payment will be capitalized as a customer acquisition cost and expensed over the period of benefit.

The purchase price for the Acquired Assets was $7.0 million, $1.0 million of which was payable from the Escrow Account upon satisfaction of certain conditions, and the remaining $6.0 million (the “Second Payment”) is payable in cash within 45 days if additional conditions are met. The Purchase Agreement provides that the Company shall make additional payments to Seller in the event the Second Payment is not made within 45 days of when the payment is due. In the event the Second Payment is not made to Seller within 105 days the payment is due, the Seller may, at its option, require that the escrow agent release to Seller Escrow Shares with a value (based on the then-current market price of the shares) equal to $6.0 million in satisfaction of the Second Payment.

13. FAIR VALUE MEASUREMENTS

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 — Unobservable inputs reflecting the reporting entity’s own assumptions or external inputs from inactive markets.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company's warrant liability is measured at fair value using Level 3 inputs on issuance and at each reporting date. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the Company's estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. Significant assumptions used in the fair value models include: the estimates of the redemption dates; credit spreads; dividend payments; and the market price and volatility of the Company's common stock. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

The following table sets forth a reconciliation of the warrant liability:

		June 30, 2020
Warrant liability, beginning of year	$	16,335,000
Exercise of warrants		(28,511,690)
Change in fair value for the period		12,176,690
Warrant liability, end of period	$	—

The Company's Convertible Note is measured at fair value using Level 3 inputs on issuance and at each reporting date. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the Company's estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. Significant assumptions used in the fair value model includes: the estimates of the redemption dates; credit spreads; and the market price and volatility of the Company's common stock. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

The following table sets forth a reconciliation of the Convertible Note:

		June 30, 2020
Convertible Note, beginning of year	$	39,020,000
Conversion of Convertible Note into common stock		(38,735,019)
Change in fair value for the period and loss on conversion to common stock		96,145,019
Change in fair value for the period, attributed to changes in credit risk		(1,100,000)
Convertible Note, end of period	$	95,330,000

14. 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.

High Trail Convertible Note

The Company entered into a securities purchase agreement, with HT Investments MA LLC pursuant to which the Company agreed to issue and sell a senior secured convertible note for the principal amount of $70.0 million (the "Note"). The closing of the offering took place on July 16, 2020.

The Company did not pay underwriting discounts or commissions. However, after discounts the proceeds before expenses were $69.0 million. The Company expects to use the net proceeds from this offering for working capital to finance the production of its trucks and for general corporate purposes.

The Note ranks equal with the Company's outstanding senior secured note and senior to all unsecured debt of the Company, and will be due on July 1, 2023. Interest is payable quarterly beginning October 1, 2020 at a rate of 4.5% per annum. The Note is initially convertible at a rate of $19.00 per share, subject to customary anti-dilution adjustments and adjustments for certain corporate events.

Any principal repayment of the Note is at 110% of the par value (the "Repayment Price"). Beginning October 1, 2020, the holder of the Note may require the Company to redeem up to $3.5 million of the par value ("Redemption Payment"). Subject to certain limitations, the Company, at its discretion, can pay some or all of the Redemption Payment in cash or shares of common stock. The Company may redeem all (or any portion in excess of $8.0 million) of the Note at any time at the greater of (a) 115% of the conversion value, calculated based on the highest volume weighted average price during the period beginning 30 days prior to such redemption and ending the day prior to the redemption date, or (b) 105% of the Repayment Price, in each case plus accrued and unpaid interest.

Pursuant to the credit agreement entered into between the Company and Marathon Asset Management, LP, on behalf of certain entities it manages (the "Marathon Lenders") dated December 31, 2018, until December 31, 2020, the Company must issue additional warrants to the Marathon Lenders when the Company makes certain equity issuances, in amount equal to approximately 10% of the Company's fully diluted equity interests, and on substantially the same terms and conditions of the initial warrants issued, except that (i) the expiration date shall be five years from the issuance date, (ii) the exercise price shall be equal to 110% of the issuance price per share in the relevant issuance, and (iii) the holder shall be entitled to exercise the warrant on a cashless basis at any time. Accordingly, the Company issued the Marathon Lenders warrants to acquire an aggregate of 409,356 shares of common stock exercisable at a price of $20.90 per share.

Lordstown Motors Corp. Merger

On November 7, 2019, the Company entered into a transaction with LMC pursuant to which the Company granted LMC a perpetual and worldwide license to certain intellectual property relating to the Company's W-15 electric pickup truck platform and its related technology (the "Licensed Intellectual Property") in exchange for royalties, equity interests in LMC, and other consideration (the "LMC Transaction"). LMC will endeavor to, among other things, raise sufficient third-party capital for the acquisition, retrofitting, and restart of the Lordstown Assembly Complex, and the ongoing operating costs it expects to incur (the "Capital Raise"). Among other consideration, LMC is required to pay the Company one percent of the aggregate debt and equity commitments funded to LMC upon completion of the Capital Raise (the "Royalty Advance"). LMC must also pay a one percent royalty on the gross sales price of the first 200,000 vehicles sold, but only to the extent that the aggregate amount of such royalty fees exceed the amount paid as the Royalty Advance.

In order to fully implement its business plan and close on the Capital Raise, on August 1, 2020, LMC entered into an Agreement and Plan of Merger (the "LMC Merger Agreement") with DiamondPeak Holdings Corp., pursuant to which LMC agreed to merge with and into a subsidiary of DiamondPeak (the "LMC Merger"). The LMC Merger Agreement may be terminated under certain circumstance, including, termination at the option of either party if the LMC Merger is not consummated by February 1, 2021, and conditions precedent including no Material Adverse Effect (as defined in the Merger Agreement), the retention by LMC of certain key employees and LMC having cash on hand equal to or in excess of $300 million. The shareholders of LMC will receive in the aggregate 58% of the issued and outstanding shares of Class A Common Stock of DiamondPeak as of the closing of the LMC Merger. Further, on August 1, 2020, DiamondPeak entered into subscription agreements with certain investors, pursuant to which, DiamondPeak agreed to issue and sell, in private placements to close immediately prior to the closing of the LMC Merger, an aggregate of 50 million shares of Class A Common Stock for $10.00 per share.

In order to further define the Company's rights with respect to LMC, the Company and LMC entered into an Agreement on August 1, 2020 pursuant to which the parties confirmed that the Company will own 9.99% of DiamondPeak following the closing of the LMC Merger and the Royalty Advance was defined as $4,750,000. Further, the Company has entered into a Registration Rights and Lock Up Agreement with DiamondPeak, which will become effective upon completion of the LMC Merger pursuant to which DiamondPeak has agreed to file a registration statement with the Securities and Exchange Commission, registering the Company's shares of Class A Common Stock held in DiamondPeak within 45 days of the closing of the LMC Merger (the "Filing Deadline") and to use reasonable efforts to have such registration statement declared effective within 60 days of the Filing Deadline, which may be extended up to 120 days in the event the Securities and Exchange Commission elects to review such registration statement. The Company has agreed, subject to certain exceptions, to not sell any of its shares of Class A Common Stock for a period of six months following the closing of the LMC Merger.

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 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. We are currently focused on our core competency of bringing the C-Series electric delivery truck to market and fulfilling our existing backlog of orders.

Workhorse electric delivery trucks 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 60% as compared to fossil-fueled trucks.

We are an OEM capable of manufacturing Class 3-6 commercial-grade, medium-duty trucks at our Union City, Indiana facility, marketed under the Workhorse® brand. Workhorse last mile delivery trucks 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 C-Series delivery trucks will save over $170,000 in fuel and maintenance savings over the 20-year life of the vehicle. We expect that fleet buyers will be able to achieve a three-year or better return-of-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 truck platform. As a key strategy, we have developed the Workhorse C-Series platform, which has been accelerated from our previous development efforts.

The Workhorse C-Series electric delivery truck platform will be available in multiple size configurations, 450, 650 and 1,000 cubic feet. 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 delivery truck, and early indications of fleet interest are significant. We expect the C-Series trucks will be supported by our Ryder Systems partnership. Using C-Series light duty prototypes, we delivered over 100,000 packages in San Francisco and Ohio during our testing. During the testing period we achieved 50 MPGe and successfully demonstrated the role the vehicle can have in last mile delivery.

We are also in compliance with the Federal Motor Vehicle Safety Standards. The Environmental Protection Agency ("EPA") issued Workhorse a Certificate of Conformity ("COC") for our three C-Series trucks and this Certificate gives us permission to sell our vehicles in all 50 states. In addition to the EPA, we applied for and received an Executive Order that enables us to sell our vehicles in California and 13 other states that follow the California Air Resources Board standards. This allows us to have our vehicles on the California Hybrid Incentive Program, which provides a $50,000 incentive per truck.

Our HorseFly™ delivery drone is a custom designed, purpose-built drone that is fully integrated in our electric trucks. HorseFly is 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, consisting of redundant systems to further meet the FAA's required rules and regulations. As part of the divestiture of SureFly in November 2019, the Company formed a 50/50 joint venture to which we contributed our HorseFly technology.

Results of Operations

Our condensed consolidated statements of operations data is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net sales	$ 91,942	$ 5,508	$ 176,242	$ 369,690
Cost of sales	1,511,360	930,164	3,259,335	2,327,770
Gross loss	(1,419,418)	(924,656)	(3,083,093)	(1,958,080)
Operating expenses				
Selling, general and administrative	3,949,081	1,996,054	9,514,868	4,086,944
Research and development	1,616,604	1,216,727	3,518,840	2,579,002
Total operating expenses	5,565,685	3,212,781	13,033,708	6,665,946
Other income	—	—	864,900	—
Loss from operations	(6,985,103)	(4,137,437)	(15,251,901)	(8,624,026)
Interest expense, net	124,346,806	15,922,763	111,323,317	17,700,346
Loss before provision for income taxes	(131,331,909)	(20,060,200)	(126,575,218)	(26,324,372)
Provision for income taxes	—	—	—	—
Net loss	$ (131,331,909)	$ (20,060,200)	$ (126,575,218)	$ (26,324,372)

Net Sales

Net sales for the three months ended June 30, 2020 and 2019 were $92 thousand and $6 thousand, respectively. The increase in net sales is due to an increase in volume related to our initial production of the C-Series.

Net sales for the six months ended June 30, 2020 and 2019 were $0.2 million and $0.4 million, respectively. The decrease in net sales is primarily due to a strategic shift to development of the C-Series, which resulted in a decrease in volume of trucks sold.

Cost of Sales

Cost of sales for the three months ended June 30, 2020 and 2019 were $1.5 million and $0.9 million, respectively. The increase is primarily driven by increases in labor and materials relating to costs for the C-Series production.

Cost of sales for the six months ended June 30, 2020 and 2019 were $3.3 million and $2.3 million, respectively. The increase is primarily driven by increases in labor and materials relating to costs for the C-Series production.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses during the three months ended June 30, 2020 and 2019 were $3.9 million and $2.0 million, respectively. The increase in SG&A expenses is primarily due to increases in consulting expenses, higher employee-related costs and incentive stock expenses.

Selling, general and administrative ("SG&A") expenses during the six months ended June 30, 2020 and 2019 were $9.5 million and $4.1 million, respectively. The increase in SG&A expenses is primarily due to recognition of $1.0 million of selling expense, higher employee-related costs and higher spending on consulting.

Research and Development Expenses

Research and development ("R&D") expenses during the three months ended June 30, 2020 and 2019 were $1.6 million and $1.2 million, respectively. The increase in R&D expenses is primarily due to the finalization of the design of the C-Series.

Research and development ("R&D") expenses during the six months ended June 30, 2020 and 2019 were $3.5 million and $2.6 million, respectively. The increase in R&D expenses is primarily due to the finalization of the design of the C-Series.

Interest Expense, Net

Interest expense, net is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Adjustment to fair value of Convertible Note and loss on conversion to common stock	$ 101,343,165	$ —	$ 96,206,717	$ —
Adjustment to fair value of warrant liability and loss on exercise of warrants	21,321,690	14,342,602	12,176,690	14,910,668
Contractual interest expense	1,031,737	1,205,894	1,954,575	2,139,619
Amortization of discount and debt issuance costs	385,031	403,061	762,615	684,647
Other	265,183	(28,794)	222,720	(34,588)
Total interest expense, net	$ 124,346,806	$ 15,922,763	$ 111,323,317	$ 17,700,346

Interest expense, net for the three months ended June 30, 2020 and 2019 was $124.3 million and $15.9 million, respectively. The change is primarily attributable to the fair value adjustment to our Convertible Note and loss on conversion to common stock of approximately $101.3 million and an increase in mark-to-market adjustments of approximately $7.0 million in 2020 compared to 2019 for warrants issued to lenders. Both changes were due to changes in the Company's stock price for the period.

Interest expense, net for the six months ended June 30, 2020 and 2019 was $111.3 million and $17.7 million, respectively. The change is primarily attributable to the fair value adjustment to our Convertible note of approximately $96.2 million partially offset by a $2.7 million decrease in our mark-to-market adjustments for warrants issued to lenders. Both changes were due to changes in the Company's stock price for the period.

Liquidity and Capital Resources

Cash Requirements

From inception, we have financed our operations primarily through sales of equity securities and issuance of debt. We have utilized this capital for research and development and to fund designing, building and delivering vehicles to customers and for working capital purposes.

As of June 30, 2020, we had approximately $26.2 million in cash and cash equivalents, as compared to approximately $23.9 million as of December 31, 2019, an increase of $2.3 million. The increase in cash and cash equivalents is primarily attributable to funds received from the exercise of existing warrants partially offset by spend related to C-Series production ramp up.

We believe our existing capital resources, including additional funds received from warrant exercises and the $70 million senior secured convertible note issued in July 2020, will be sufficient to support our current and projected funding requirements into 2022 at which time additional funding will be required.

Unless we are able to generate a sufficient amount of revenue and reduce our costs, we expect to finance future cash needs through public and/or private offerings of equity securities and/or debt financings. 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 that 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.

For the three and six months ended June 30, 2020, we maintained an investment in a bank money market fund. 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

	Six Months Ended June 30,	
	2020	2019
Net cash used in operating activities	$ (17,754,179)	$ (11,810,257)
Net cash used in investing activities	$ (974,115)	$ (2,965,372)
Net cash provided by financing activities	$ 20,057,709	$ 36,782,375

Cash Flows from Operating Activities

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

During the six months ended June 30, 2020 and 2019, net cash used in operating activities was $17.8 million and $11.8 million, respectively. The increase in net cash used in operations during the six months ended June 30, 2020 as compared to 2019 is primarily attributable to spend related to our ramp-up of the C-Series, including contract labor, employee-related costs and inventory build.

Cash Flows from Investing Activities

During the six months ended June 30, 2020 and 2019, net cash used in investing activities was $1.0 million and $3.0 million, respectively. The decrease in net cash used in investing activities is primarily driven by less capital expenditures during the current year than prior year.

Cash Flows from Financing Activities

During the six months ended June 30, 2020 and 2019, net cash provided by financing activities was $20.1 million and $36.8 million, respectively.

The significant financing activities that occurred in 2020 and 2019 include:

2020

- $18.6 million proceeds from exercise of warrants and options; and
- $1.4 million proceeds from PPP Term Note.

2019

- Issuance of Series B Preferred Stock with net proceeds of $25.0 million;
- Sale of common stock with net proceeds of $5.9 million; and
- $5.8 million drawn on the Marathon Tranche Two loan, which was paid off at the end of 2019.

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, 2019, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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, 2019, 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, 2019. There have been no material changes to the information provided in our Annual Report on Form 10-K for the year ended December 31, 2019.

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.

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of the end of the covered by this Quarterly Report, our disclosure controls and procedures were effective.

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 six months ended June 30, 2020 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. Material legal proceedings which arose, or in which there were material developments, during the six months ended June 30, 2020 are discussed below.

On July 18, 2019, All Cell Technologies, LLC and Illinois Institute of Technology filed a Complaint for Patent Infringement against the Company in the United States District Court for the Southern District of Indiana (Civil Action No. 1:19-cv-2975) claiming infringement of US Patent No. 6,468,689, 6,942,944 and, 8,273,474. On February 28, 2020, the Court ordered a Settlement Conference between the parties for May 22, 2020 before the Magistrate Judge assigned to the case. On June 30, 2020, the Company and All Cell Technologies, LLC and Illinois Institute of Technology entered into a Settlement Agreement pursuant to which the Company was released from all claims by the parties in consideration of a payment of $250,000. The settlement payment was made in July 2020.

On October 15, 2019, Jennifer Johnson-Campbell, individually, and as administrator of the Estate of Cathy and Windham Johnson, deceased, and Jessica Tagney, Individually, filed a Complaint in the Superior Court of Dougherty County in the State of Georgia (Civil Action File No. 2019SUCV2019001345) against the Company in connection with the death of the plaintiff while operating a W-42 truck on October 19, 2017 claiming Strict Liability, Negligence and Punitive Damages. The Company does not believe it manufactured the W-42 that is the subject to the Complaint. On November 15, 2019, the Company removed this case to U.S. District Court for the Middle District of Georgia (Civil Action File No 1:19-cv-00209), and on December 6, 2019, timely filed a motion to dismiss for lack of personal jurisdiction and failure to state a claim, advising the court and the Plaintiffs that the Company was not the manufacturer of the subject W-42 truck and had insufficient contacts with the state of Georgia to justify the exercise of jurisdiction in Georgia. The Plaintiffs responded to the motion to dismiss on December 26, 2019 and subsequently filed a motion for leave to amend their complaint to add Workhorse Trucks, Inc., Navistar, and Workhorse Custom Chassis, LLC. The Company opposed the motion for leave to amend with respect to Workhorse Trucks, Inc. on the grounds that the proposed amendments would be futile, because Georgia courts do not have jurisdiction over either the Company or Workhorse Trucks, Inc. The motions are fully briefed and pending before the Court. In the event that the motion to dismiss is not granted, the Company will vigorously defend themselves and, among other things, move for summary judgment at the close of discovery on the grounds that these entities did not manufacture the subject truck.

On March 20, 2020, the Company filed a Complaint against Outlast Technologies LLC, a manufacturer of battery thermal management matrix products, in the United States District Court for the District of Colorado (Case No. 1:20-cv-00774-NRN) claiming breaches of the implied warranty against infringement and implied warranty for a particular purpose. The products at issue are the battery bricks that the Company is being accused of patent infringement over in the All Cell litigation described above. Following the settlement with All Cell Technologies, LLC, the Company elected to withdraw the Complaint filed against Outlast Technologies LLC.

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, 2019. There have been no material changes in the current period regarding our risk factors, other than the addition of the following:

We face various risks related to health epidemics such as the global COVID-19 pandemic, which may have material adverse consequences on our operations, financial position, cash flows, and those of our customers and suppliers.

We face adverse effects related to the global COVID-19 pandemic, including disruption and volatility in the global capital markets, disruption in our global supply chain and delays in our overall manufacturing activities. We would expect the COVID-19 pandemic to adversely affect our operations if significant portions of our workforce are unable to work effectively due to illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 pandemic. Additionally, our financial position, supply chain, liquidity, cash flow and customer orders would also face pressures for at least the balance of this fiscal year.

Substantially all of our operations and production activities have remained operational during the COVID-19 pandemic. We believe our facilities are considered essential activities exempt from closure directives. However, they are subject to various local and national directives curtailing operations, requiring work from home and social distancing which otherwise could impact the efficiency of our operations. Such directives could change at any time.

We continue to monitor the situation, assess further possible implications to our operations, supply chain, liquidity, cash flow and customer orders, and take actions in an effort to mitigate adverse consequences.

Recognizing the unprecedented nature, scale and uncertainty associated with this global health crisis, the duration and extent of the on-going impact cannot be reasonably estimated at this time.

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

Preferred Dividends

On June 5, 2019, the Company closed agreements for the sale of 1,250,000 units consisting of one share of Series B Preferred Stock (the "Preferred Stock"), with a stated value of $20.00 per share (the "Stated Value") and a common stock purchase warrant to purchase 7.41 shares of the common stock (the "Warrants") for an aggregate purchase price of $25.0 million. The Preferred Stock is not convertible and does not have voting rights. The Preferred Stock ranks senior to the Company's common stock with respect to dividend rights and rights upon liquidation, winding-up or dissolution. The Preferred Stock is entitled to annual dividends at a rate equal to 8.0% per annum on the Stated Value. Accrued dividends are payable quarterly in shares of common stock of the Company based on a fixed share price of $1.62. During the three and six months ended June 30, 2020, the Company issued 308,642 and 617,284 shares of common stock to the holders of the Preferred Stock, respectively.

Warrant Exercise

During the six months ended June 30, 2020, the Company issued 12,651,146 shares of common stock in connection with the exercise of Common Stock Purchase Warrants in consideration of $18.6 million.

Marathon Warrants

Pursuant to the credit agreement entered into between the Company and Marathon Asset Management, LP, on behalf of certain entities it manages (the "Marathon Lenders"), dated December 31, 2018 (the "Marathon Agreement"), until December 31, 2020, the Company must issue additional warrants to the Marathon Lenders when the Company makes certain equity issuances, in amount equal to approximately 10% of the Company's fully diluted equity interests, and on substantially the same terms and conditions of the initial warrants issued to the Marathon Lenders, except that (i) the expiration date shall be five years from the issuance date, (ii) the exercise price shall be equal to 110% of the issuance price per share in the relevant issuance, and (iii) the holder shall be entitled to exercise the warrant on a cashless basis at any time. Accordingly, the Company issued the Marathon Lenders warrants to acquire an aggregate of 409,356 shares of Common Stock exercisable at a price of $20.90 per share (the "Additional Warrants") following the issuance of a senior secured convertible note in the principal amount of $70 million to HT Investments MA LLC. Further, following the issuance of the dividends in connection with the Preferred Stock, the Company issued the Marathon Lenders warrants to acquire 68,586 shares of common stock exercisable at a price of $1.782 per share.

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 of 1933, as amended, and/or Rule 506 of Regulation D promulgated thereunder 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

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL INSTANCE DOCUMENT
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Inline XBRL Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

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

WORKHORSE GROUP INC.

Dated: August 10, 2020

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

Dated: August 10, 2020

By: /s/ Steve Schrader
Name: Steve Schrader
Title: Chief Financial Officer
(Principal Financial Officer)

Dated: August 10, 2020

By: /s/ Gregory T. Ackerson
Name: Gregory T. Ackerson
Title: Corporate Controller
(Principal Accounting Officer)

EXHIBIT 31.1

**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: August 10, 2020

/s/Duane A. Hughes

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

EXHIBIT 31.2

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

I, Steve Schrader, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Workhorse Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant) and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 10, 2020

/s/ Steve Schrader

Steve Schrader, Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly report of Workhorse Group Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 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: August 10, 2020	/s/Duane A. Hughes
	Duane A. Hughes, Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly report of Workhorse Group Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steve Schrader, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2020

/s/ Steve Schrader

Steve Schrader,
Chief Financial Officer
(Principal Financial Officer)