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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2021**

or

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

**For the transition period from __________ to __________**

**Commission file number: 001-37673**

**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 April 30, 2021, was123,260,319.

TABLE OF CONTENTS

**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
(Unaudited)

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 205,074,876 | $ 46,817,825 |
| Restricted cash held in escrow | — | 194,411,242 |
| Investment in LMC | 193,950,792 | — |
| Accounts and lease receivable, less allowance for credit losses of zero at March 31, 2021 and December 31, 2020, respectively | 1,141,799 | 1,132,164 |
| Inventory, net | 30,671,406 | 15,467,012 |
| Prepaid expenses | 36,572,534 | 32,759,216 |
| Total current assets | 467,411,407 | 290,587,459 |
| Property, plant and equipment, net | 12,351,789 | 11,398,166 |
| Investment in LMC | — | 330,556,744 |
| **Total Assets** | $ 479,763,196 | $ 632,542,369 |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,373,149 | $ 4,790,763 |
| Accrued liabilities | 5,922,315 | 5,995,302 |
| Warranty liability | 5,255,043 | 5,400,000 |
| PPP Term Note | — | 1,411,000 |
| Total current liabilities | 17,550,507 | 17,597,065 |
| Other long-term liabilities | 207,040 | 207,040 |
| Deferred tax liability | 4,201,438 | 21,833,930 |
| Convertible notes, at fair value | 182,200,000 | 197,700,000 |
| **Total Liabilities** | 204,158,985 | 237,338,035 |
| Commitments and contingencies | | |
| **Stockholders' Equity:** | | |
| Series A preferred stock, par value $0.001 per share, 75,000,000 shares authorized, zero shares issued and outstanding as of March 31, 2021 and December 31, 2020 | — | — |
| Common stock, par value $0.001 per share, 250,000,000 shares authorized, 123,254,853 shares issued and outstanding as of March 31, 2021 and 121,922,532 shares issued and outstanding as of December 31, 2020 | 123,255 | 121,923 |
| Additional paid-in capital | 505,017,758 | 504,112,442 |
| Accumulated deficit | (229,536,802) | (109,030,031) |
| Total stockholders' equity | 275,604,211 | 395,204,334 |
| **Total Liabilities and Stockholders' Equity** | $ 479,763,196 | $ 632,542,369 |

See accompanying notes to the condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net sales | $ 521,060 | $ 84,300 |
| | | |
| Cost of sales | 6,225,299 | 1,747,975 |
| Gross loss | (5,704,239) | (1,663,675) |
| | | |
| Operating expenses | | |
| Selling, general and administrative | 6,885,830 | 5,565,787 |
| Research and development | 3,863,715 | 1,902,236 |
| Total operating expenses | 10,749,545 | 7,468,023 |
| | | |
| Other (loss) income | (136,605,952) | 864,900 |
| | | |
| Loss from operations | (153,059,736) | (8,266,798) |
| | | |
| Interest income, net | (14,920,473) | (13,023,489) |
| | | |
| (Loss) income before provision (benefit) for income taxes | (138,139,263) | 4,756,691 |
| Provision (benefit) for income taxes | (17,632,492) | — |
| | | |
| Net (loss) income | $ (120,506,771) | $ 4,756,691 |
| | | |
| Net (loss) income per share of common stock - basic | $ (0.98) | $ 0.07 |
| Net (loss) income per share of common stock - diluted | $ (1.04) | $ 0.06 |
| | | |
| Weighted average number of common shares outstanding - basic | 122,633,856 | 68,465,759 |
| Weighted average number of common shares outstanding - diluted | 128,301,184 | 83,768,820 |

See accompanying notes to the condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
| --- | --- | --- |
| | 2021 | 2020 |
| Net (loss) income | $ (120,506,771) | $ 4,756,691 |
| Other comprehensive (loss) income | | |
| Credit risk adjustment in fair value of convertible notes | — | 1,100,000 |
| Comprehensive (loss) income | $ (120,506,771) | $ 5,856,691 |

See accompanying notes to the condensed consolidated financial statements.

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

| | Common Stock | | Series A Preferred Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders' Deficit |
| 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 | 432,112 | 432 | — | — | 242,568 | — | — | 243,000 |
| Common stock issued for preferred stock dividends | 308,642 | 309 | — | — | 499,691 | — | — | 500,000 |
| Conversion of convertible notes | 1,546,889 | 1,547 | — | — | 5,192,005 | — | — | 5,193,552 |
| Common stock issued for interest on convertible notes | 101,193 | 101 | — | — | 264,111 | — | — | 264,212 |
| Stock-based compensation | — | — | — | — | 859,027 | — | — | 859,027 |
| Net income for the three months ended March 31, 2020 | — | — | — | — | — | 4,756,691 | — | 4,756,691 |
| Other comprehensive income | — | — | — | — | — | — | 1,100,000 | 1,100,000 |
| Balance as of March 31, 2020 | 69,493,836 | $ 69,494 | — | $ — | $ 150,883,717 | $ (174,049,839) | $ 1,100,000 | $ (21,996,628) |

| | Common Stock | | Series A Preferred Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
| Balance as of December 31, 2020 | 121,922,532 | $ 121,923 | — | $ — | $ 504,112,442 | $ (109,030,031) | $ — | $ 395,204,334 |
| Stock options and warrants exercised, and vesting of restricted shares | 1,332,321 | 1,332 | — | — | 12,888 | — | — | 14,220 |
| Stock-based compensation | — | — | — | — | 892,428 | — | — | 892,428 |
| Net loss for the three months ended March 31, 2021 | — | — | — | — | — | (120,506,771) | — | (120,506,771) |
| Balance as of March 31, 2021 | 123,254,853 | $ 123,255 | — | $ — | $ 505,017,758 | $ (229,536,802) | $ — | $ 275,604,211 |

See accompanying notes to the condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Cash flows from operating activities:** | | |
| Net (loss) income | $ (120,506,771) | $ 4,756,691 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation | 311,144 | 171,761 |
| Tooling expense | — | 353,786 |
| Amortization of discount on mandatorily redeemable Series B preferred stock | — | 377,583 |
| Change in fair value of convertible notes and loss on conversion to common stock | (15,500,000) | (5,136,448) |
| Change in fair value of warrant liability | — | (9,145,000) |
| Change in fair value of investment in LMC | 136,605,952 | (864,900) |
| Dividends for mandatorily redeemable Series B preferred stock paid in common stock | — | 500,000 |
| Interest on convertible notes paid in common stock | — | 264,212 |
| Stock-based compensation | 892,428 | 859,027 |
| Write down of inventory | (361,717) | — |
| Forgiveness of PPP Term Note | (1,411,000) | — |
| Deferred taxes | (17,632,492) | — |
| Effects of changes in operating assets and liabilities: | | |
| Accounts and lease receivable | (9,635) | (35,393) |
| Inventory | (14,842,677) | (832,678) |
| Prepaid expenses | (3,813,318) | 55,165 |
| Accounts payable and accrued liabilities | 1,509,399 | 1,552,484 |
| Warranty liability | (144,957) | (699,094) |
| Net cash used in operating activities | (34,903,644) | (7,822,804) |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (1,264,767) | (463,985) |
| Net cash used in investing activities | (1,264,767) | (463,985) |
| **Cash flows from financing activities:** | | |
| Exercise of warrants and options and restricted share award activity | 14,220 | 243,000 |
| Net cash provided by financing activities | 14,220 | 243,000 |
| Change in cash and cash equivalents | (36,154,191) | (8,043,789) |
| Cash, cash equivalents and restricted cash, beginning of the period | 241,229,067 | 24,868,416 |
| Cash and cash equivalents, end of the period | $ 205,074,876 | $ 16,824,627 |

See accompanying notes to the condensed consolidated financial statements.

## 1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING PRINCIPLES

*Nature of operations and basis of presentation*

Workhorse Group Inc. ("Workhorse", the "Company", "we", "us" or "our") is a technology company focused on providing sustainable and cost-effective solutions to the commercial transportation sector. As an American manufacturer, we create all-electric delivery trucks and drone systems, including the technology that optimizes the way these mechanisms operate. We are last-mile delivery's first purpose-built electric mobility solution and we are currently focused on our core competency of bringing the C-Series electric delivery trucks to market and fulfilling our existing backlog of orders. The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles "GAAP").

The preparation of financial statements in conformity with GAAP 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.

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. Reference should be made to the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020.

*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.

*Reclassifications*

Certain reclassifications were made to the prior year condensed consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or stockholders' equity.

*Impact of COVID-19 Pandemic*

In December 2019, a novel coronavirus disease ("COVID-19") was reported. On January 30, 2020, the World Health Organization ("WHO") declared COVID-19 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 March 31, 2021, our locations and primary suppliers continue to operate. The number of COVID-19 cases amongst our employees decreased significantly during the three months ended March 31, 2021 as compared to the fourth quarter of 2020. During the first quarter of 2021, there has been a trend in many parts of the world of increasing availability and administration of vaccine against COVID-19, as well as an easing of restrictions on social, business, travel and government activities and functions. However, infection rates and regulation continue to fluctuate and there continue to be global impacts resulting from the pandemic, including increases in costs for logistics and supply chains, port congestion, supplier delays and a shortfall of microchip supply. Although the internal outbreak has been addressed, we are continuing to work through supplier constraints caused as a result of the COVID-19 outbreak, as well as the microchip shortage. For further discussion of the possible impact of the COVID-19 pandemic on our business, see "Part I – Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020.

## 2. INVENTORY, NET

Inventory, net consists of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Raw materials | $ 28,252,565 | $ 16,759,232 |
| Work in process | 4,495,320 | 422,176 |
| Finished goods | 277,053 | 277,419 |
| | 33,024,938 | 17,458,827 |
| Less: inventory reserve | (2,353,532) | (1,991,815) |
| Inventory, net | $ 30,671,406 | $ 15,467,012 |

## 3. INVESTMENT IN LMC

The Company's investment in LMC is measured at fair value, which was approximately $194.0 million and $330.6 million as of March 31, 2021 and December 31, 2020, respectively. The decrease in fair value of our investment for the period was recorded as a charge to earnings. See Note 12 for additional disclosures relating to our investment.

The following table presents a reconciliation of our investment in LMC:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Investment in LMC, at fair value | $ 193,950,792 | $ 330,556,744 |
| Less: current portion | (193,950,792) | — |
| Investment in LMC, net of current portion | $ — | $ 330,556,744 |

As of December 31, 2020, the Company reported the fair value of its investment in the non-current assets section of its Consolidated Balance Sheets due to the Company's intention to hold this investment for purposes of continued affiliation and business advantage. In connection with the LMC Merger, the Company agreed, subject to certain exceptions, to not sell any of its LMC shares for a period of six months. In April 2021, the six month holding period ended and the Company has the ability to monetize a portion or all of its investment. Therefore, the Company reported the fair value of its investment in the current assets section of its Condensed Consolidated Balance Sheets as of March 31, 2021.

## 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 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 credit losses is based on an analysis of customer accounts, which considers history of past write-offs, collections, and current and future credit conditions.

As the majority of our contracts have a single performance obligation which 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 March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Automotive | $ 495,000 | $ — |
| Aviation | 22,400 | 60,783 |
| Other | 3,660 | 23,517 |
| Total revenues | $ 521,060 | $ 84,300 |

*Automotive* - consists of sales of any of our truck platforms. We recognize revenue when control transfers upon shipment to the customer.

*Aviation* - consists of sales of our drone systems. We recognize revenue when control transfers upon shipment to the customer.

*Other* - consists of non-warranty after-sales vehicle services.

## 5. CONVERTIBLE NOTES AND PPP TERM NOTE

*4.0% Senior Secured Convertible Notes Due 2024 ("2024 Notes")*

The contractual principal balance of the 2024 Notes was $200.0 million as of March 31, 2021 and December 31, 2020, and the fair value of the 2024 Notes was approximately $182.2 million and $197.7 million as of March 31, 2021 and December 31, 2020, respectively. The $15.5 million decrease in the fair value of the 2024 Notes was primarily due to the decline in our stock price and was recorded in Interest Income. No portion of the change in fair value for the period was related to change in credit risk.

Proceeds from the 2024 Notes were required to be held in escrow until the Company completed certain requirements related to the collateral. In January 2021, such requirements were met and the proceeds were released from escrow.

The 2024 Notes are due October 14, 2024 and are convertible at a rate of $5.29 per share, subject to change for anti-dilution adjustments and adjustments for certain corporate events. No portion of the principal balance was converted during the three months ended March 31, 2021.

Interest is payable quarterly beginning January 15, 2021 at a rate of 4.0% per annum. Interest expense for the three months ended March 31, 2021 related to the 2024 Notes was $2.0 million.

There are no required redemptions of the 2024 Notes and they will generally not be redeemable at the option of the Company prior to the third anniversary of their issue date. Accordingly, the Company has classified the full balance of the 2024 Notes as long-term on the Condensed Consolidated Balance Sheets.

The 2024 Notes include certain covenants, including limitations on liens, additional indebtedness, investments, dividends and other restricted payments, and customary events of default. The Company is also required to have a minimum sales backlog of at least $25.0 million as of the period ending March 31, 2022, $50.0 million as of the period ending June 30, 2022, $75.0 million as of the period ending September 30, 2022 and $100.0 million as of the period ending December 31, 2022.

*PPP Term Note*

On April 14, 2020, the Company entered into a Paycheck Protection Program Term Note ("PPP Term Note") with PNC Bank, N.A. under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Company received total proceeds of approximately $ 1.4 million from the PPP Term Note, which was due on April 13, 2022. In accordance with the requirements of the CARES Act, the Company used the proceeds primarily for payroll costs. Interest accrued on the PPP Term Note at the rate of 1.0% per annum. The Company elected to account for the PPP Term Note as debt and accrued interest over the term of the note. The Company did not make any repayments on any amount due on the PPP Term Note.

On January 15, 2021, the outstanding principal and interest accrued on the PPP Term Note were fully forgiven. The Company recognized an approximate $1.4 million gain on the forgiveness of the PPP Term Note, which was recorded in Interest Income for the three months ended March 31, 2021.

## 6. MANDATORILY REDEEMABLE SERIES B PREFERRED STOCK

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 Company's common stock (the "Warrants") for an aggregate purchase price of $25.0 million. The Preferred Stock was not convertible and did not hold voting rights.

On September 28, 2020, the Company redeemed its Series B Preferred Stock in full for cash. Dividends on all shares of Series B Preferred Stock were paid in full as of the redemption date and have ceased to accumulate.

The Preferred Stock ranked senior to the Company's common stock with respect to dividend rights and rights upon liquidation, winding-up or dissolution. The Preferred Stock was entitled to annual dividends at a rate equal to 8.0% per annum on the Stated Value. The Warrants had exercise price of $1.62 per share and expired seven years from the date of issuance. Accrued dividends were payable quarterly in shares of common stock of the Company based on a fixed share price of $1.62. During the three months ended March 31, 2020, the Company issued 0.3 million shares of common stock to the holders of the Preferred Stock.

As the Preferred Stock was mandatorily redeemable, it was classified as a liability on the Condensed Consolidated Balance Sheets. All dividends payable on the Preferred Stock were classified as Interest Expense.

The Preferred Stock and Warrants were considered freestanding financial instruments and were accounted for separately. The Warrants were 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 was amortized to Interest Expense using the effective interest method. Amortization of the discount for the three months ended March 31, 2020 was approximately $0.4 million.

## 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 8.0 million shares for issuance of stock-based awards. As of March 31, 2021 and March 31, 2020, there were approximately 6.3 million and 8.0 million shares available for issuance of future stock awards, respectively, which includes shares available under the 2019 and 2017 incentive plans.

*Stock-based compensation expense*

The following table summarizes stock-based compensation expense:

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Stock options | $ 70,412 | $ 80,430 |
| Restricted stock | 822,016 | 778,597 |
| Total stock-based compensation | $ 892,428 | $ 859,027 |

*Stock options*

The following table summarizes option activity:

| | 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, 2020 | 2,351,240 | $ 2.00 | | 5.5 |
| Granted | — | — | — | |
| Exercised | (743,535) | 3.15 | | |
| Forfeited | — | — | | |
| Expired | (29,000) | 4.99 | | |
| Balance, March 31, 2021 | 1,578,705 | $ 1.41 | | 5.8 |
| | | | | |
| Number of options exercisable at March 31, 2021 | 1,264,205 | $ 1.44 | | 6.5 |

As of March 31, 2021, unrecognized compensation expense was $0.2 million for unvested options which is expected to be recognized over the next 1.9 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, 2020 | 1,377,889 | $ 2.70 |
| Granted | 230,373 | 15.28 |
| Vested | (299,039) | 2.73 |
| Forfeited | — | — |
| Balance, March 31, 2021 | 1,309,223 | $ 4.94 |

As of March 31, 2021, unrecognized compensation expense was $5.6 million for unvested restricted stock awards which is expected to be recognized over the next 2.3 years.

## 8. INCOME TAXES

The Company has not generated taxable income since inception and the fair value of our investment in LMC has substantially decreased during the first quarter of 2021, resulting in a reduction to the corresponding deferred tax liability. Accordingly, the cumulative deferred tax assets are fully reserved as of March 31, 2021, as there is not sufficient evidence to conclude that it is more likely than not that deferred tax assets are realizable. The Company reduced the deferred tax liability to $4.2 million, resulting in a deferred tax benefit of approximately $17.6 million for the three months ended March 31, 2021. No current liability for federal or state income taxes has been included in these Condensed Consolidated Financial Statements.

## 9. EARNINGS PER SHARE

Basic (loss) income per share of common stock is calculated by dividing net (loss) income by the weighted-average shares outstanding for the period. Potentially dilutive shares, which are based on the weighted-average shares of common stock underlying outstanding stock-based awards and warrants using the treasury stock method, and convertible notes using the if-converted method, are included when calculating the diluted net (loss) income per share of common stock when their effect is dilutive.

The following table presents the reconciliation of net (loss) income used in computing diluted net (loss) income per share of common stock:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net (loss) income | $ (120,506,771) | $ 4,756,691 |
| Interest on convertible notes | 2,000,000 | — |
| Change in fair value of convertible notes | (15,500,000) | — |
| Adjusted net (loss) income | $ (134,006,771) | $ 4,756,691 |

The following table presents the reconciliation of basic to diluted weighted average shares used in computing net (loss) income per share of common stock:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Weighted average shares outstanding, basic | 122,633,856 | 68,465,759 |
| Stock-based awards and warrants | — | 15,303,061 |
| Convertible notes | 5,667,328 | — |
| Weighted average shares outstanding, diluted | 128,301,184 | 83,768,820 |

The following table presents the potentially dilutive shares that were excluded from the computation of diluted net (loss) income per share of common stock, because their effect was anti-dilutive:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Stock-based awards and warrants | 3,929,451 | 5,066,931 |
| Convertible notes | — | 14,137,319 |

Excluded from the table above are the warrant shares related to the High Trail Convertible Note, which represented approximately13.3 million warrants calculated using the if-converted method for the three months ended March 31, 2020. The warrants were issuable at the option of the Company following the full or partial redemption of the High Trail Convertible Note. No warrants were issued in connection with the High Trail Convertible Note and it was fully converted during the year ended December 31, 2020.

## 10. RECENT ACCOUNTING DEVELOPMENTS

*Accounting Standards Recently Adopted*

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The ASU removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation, and calculating income taxes in interim periods. The ASU also adds guidance to simplify accounting for income taxes, such as recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. The Company adopted the ASU as of January 1, 2021. The adoption of this guidance did not have a material impact on the Company's financial condition and operations.

*Accounting Standards Not Yet Adopted*

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The ASU simplifies the accounting for certain convertible instruments, amends the guidance on derivative scope exceptions for contracts in an entity's own equity and requires the use of the if-converted method for calculating diluted earnings per share. The ASU removes separation models for convertible debt with a cash conversion feature. Such convertible instruments will be accounted for as a single liability measured at amortized cost. The ASU is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted after December 15, 2020, which can either be on a modified retrospective or full retrospective basis. Adoption of the ASU is not expected to have a material impact on the Company's financial condition and operations.

## 11. OTHER TRANSACTION

On October 31, 2019, the Company and ST Engineering Hackney, Inc. ("Hackney") entered into an Asset Purchase Agreement to purchase certain assets and assume certain liabilities of Hackney. Upon execution of the agreement, the Company deposited $1.0 million in cash and shares of its common stock having a value of $6.6 million into an escrow account. The number of shares held in escrow was subject to adjustment if the value of the shares is less than $5.3 million or greater than $7.9 million on certain dates.

The purchase price for the acquired assets was $7.0 million, $1.0 million of which was released from the escrow account in January 2020 upon satisfaction of certain conditions and accounted for as customer acquisition costs. The remaining $6.0 million was payable in cash within 45 days if additional conditions were met or in shares of common stock held in escrow in the event the payment was not made within 105 days of when the payment was due. The additional conditions were not met and, as a result, the remaining $6.0 million is not due.

## 12. 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. Assets and liabilities measured at fair value and fair value measurement level were as follows:

| | March 31, 2021 | | | | December 31, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | | | |
| Investment in LMC | $ 193,950,792 | $ 193,950,792 | $ — | $ — | $ 330,556,744 | $ 330,556,744 | $ — | $ — |
| Total assets at fair value | $ 193,950,792 | $ 193,950,792 | $ — | $ — | $ 330,556,744 | $ 330,556,744 | $ — | $ — |
| | | | | | | | | |
| Liabilities | | | | | | | | |
| Convertible notes | $ 182,200,000 | $ — | $ — | $ 182,200,000 | $ 197,700,000 | $ — | $ — | $ 197,700,000 |
| Total liabilities at fair value | $ 182,200,000 | $ — | $ — | $ 182,200,000 | $ 197,700,000 | $ — | $ — | $ 197,700,000 |

*Investment in LMC*

The Company's investment in LMC is measured at fair value using Level 1 inputs because it is valued using a quoted price in an active market. The Company recognizes changes in fair value of the investment in Other Income (Loss) on the Condensed Consolidated Statements of Operations.

*Convertible Notes*

The Company's convertible notes are 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 include 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 Company recognizes changes in fair value of the convertible notes related to changes in credit risk, if any, in Other Comprehensive Income (Loss) and the remaining change in fair value in Interest (Income) Expense.

**13. COMMITMENTS AND CONTINGENCIES**

The Company is party to various negotiations and legal proceedings arising in the normal course of business. The Company provides reserves for these matters when a loss is probable and reasonably estimable. The Company does not disclose a range of potential loss because the likelihood of such a loss is remote. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, cash flows or liquidity.

**14. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for potential recognition and disclosures through the date the Condensed Consolidated Financial Statements were filed.

## 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 create all-electric delivery trucks and drone systems, including the technology that optimizes the way these mechanisms operate. We are last-mile delivery's first purpose-built electric mobility solution and we are currently focused on our core competency of bringing the C-Series electric delivery trucks to market and fulfilling our existing backlog of orders.

Workhorse electric delivery trucks are in use by our customers on daily routes across the United States. Our delivery customers include companies such as Alpha Baking, FedEx Express, Fluid Market, Inc., Pride Group Enterprises, Pritchard, Ryder, UPS and W.B. Mason. Data from our in-house developed telematics system demonstrates our first generation vehicles on the road achieve as much as 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 the performance of our vehicles will reduce long-term vehicle maintenance expense by approximately 60% as compared to fossil-fueled trucks. Over a 20-year vehicle life, we estimate our C-Series delivery trucks will save over $170,000 in fuel and maintenance savings. We expect fleet operators will be able to achieve a three-year or better total cost of ownership break-even without government incentives.

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 is available in 650 and 1,000 cubic feet configurations. 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.

*Horsefly™*

Our HorseFly Unmanned Aerial System ("UAS") is a custom-designed, purpose-built, all-electric drone system that is incorporated into our trucks and safely and efficiently delivers packages. HorseFly is designed with a maximum gross weight of 30 lbs., a 10 lb. payload and a maximum air speed of 50 mph. Our first aircraft can deliver a meaningful payload up to 10 miles, automatically lowering packages safely from 50 feet above the delivery point via our proprietary winch system. It is designed and built to be rugged and consisting of redundant systems to further meet the FAA's required rules and regulations. Workhorse was granted a patent on our UAS, and though initially designed as a complimentary system delivering packages from our electric trucks, the latest iteration of our UAS supports package delivery point-to-point, enabling deliveries to and from almost anywhere, allowing it to serve a broader customer base. As part of the divestiture of SureFly, the Company formed a 50/50 joint venture to which we contributed our HorseFly technology.

*Impact of COVID-19 Pandemic*

In December 2019, a novel coronavirus disease ("COVID-19") was reported. On January 30, 2020, the World Health Organization ("WHO") declared COVID-19 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 March 31, 2021, our locations and primary suppliers continue to operate. The number of COVID-19 cases amongst our employees decreased significantly during the three months ended March 31, 2021 as compared to the fourth quarter of 2020. During the first quarter of 2021, there has been a trend in many parts of the world of increasing availability and administration of vaccine against COVID-19, as well as an easing of restrictions on social, business, travel and government activities and functions. However, infection rates and regulation continue to fluctuate and there continue to be global impacts resulting from the pandemic, including increases in costs for logistics and supply chains, port congestion, supplier delays and a shortfall of microchip supply. Although the internal outbreak has been addressed, we are continuing to work through supplier constraints caused as a result of the COVID-19 outbreak, as well as the microchip shortage. For further discussion of the possible impact of the COVID-19 pandemic on our business, see “Part I – Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Results of Operations**

Our condensed consolidated statements of operations data is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net sales | $ 521,060 | $ 84,300 |
| Cost of sales | 6,225,299 | 1,747,975 |
| Gross loss | (5,704,239) | (1,663,675) |
| Operating expenses | | |
| Selling, general and administrative | 6,885,830 | 5,565,787 |
| Research and development | 3,863,715 | 1,902,236 |
| Total operating expenses | 10,749,545 | 7,468,023 |
| Other (loss) income | (136,605,952) | 864,900 |
| Loss from operations | (153,059,736) | (8,266,798) |
| Interest income, net | (14,920,473) | (13,023,489) |
| (Loss) income before provision (benefit) for income taxes | (138,139,263) | 4,756,691 |
| Provision (benefit) for income taxes | (17,632,492) | — |
| Net (loss) income | $ (120,506,771) | $ 4,756,691 |

***Net Sales***

Net sales for the three months ended March 31, 2021 and 2020 were $0.5 million and $0.1 million, respectively. The increase in net sales was primarily due to an increase in volume related to our initial production of the C-Series electric delivery truck.

***Cost of Sales***

Cost of sales for the three months ended March 31, 2021 and 2020 were $6.2 million and $1.7 million, respectively. The increase in cost of sales was primarily due to an increase in volume related to our initial production of the C-Series electric delivery truck and higher compensation-related costs.

***Selling, General and Administrative Expenses***

Selling, general and administrative (“SG&A”) expenses during the three months ended March 31, 2021 and 2020 were $6.9 million and $5.6 million, respectively. The increase in SG&A was primarily due to higher compensation-related costs of approximately $0.9 million, higher legal and consulting costs of approximately $0.9 million, and higher marketing costs of approximately $0.3 million, offset by a decrease in selling expenses of $1.0 million related to the Hackney customer acquisition payment in the prior year quarter.

***Research and Development Expenses***

Research and development ("R&D") expenses during the three months ended March 31, 2021 and 2020 were $3.9 million and $1.9 million, respectively. The increase in R&D expenses is primarily due higher compensation-related costs, the finalization of the design of the C-Series electric delivery truck and continued development of the HorseFly delivery drone.

***Other (Loss) Income***

Other (loss) during the three months ended March 31, 2021 increased to $(136.6) million from other income of $0.9 million during the three months ended March 31, 2020. The loss in the current period was related to the decrease in fair value of the Company's investment in Lordstown Motor Corp.

***Interest Income, Net***

Interest income, net is comprised of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Change in fair value of convertible notes and loss on conversion to common stock | $ (15,500,000) | $ (5,136,448) |
| Gain on forgiveness of PPP Term Note | (1,411,000) | — |
| Contractual interest expense | 2,000,000 | 922,838 |
| Change in fair value of warrant liability | — | (9,145,000) |
| Amortization of discount and debt issuance costs | — | 377,584 |
| Other | (9,473) | (42,463) |
| Total interest income, net | $ (14,920,473) | $ (13,023,489) |

Interest income, net for the three months ended March 31, 2021 and 2020 was $(14.9) million and $(13.0) million, respectively. The increase in interest income was primarily driven by a $(10.4 million) increase in fair value adjustments of our convertible notes, offset by a $9.1 million decrease due to changes in the fair value of warrants and higher contractual interest expense.

**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 March 31, 2021, we had approximately $205.1 million in cash and cash equivalents, as compared to approximately $241.2 million in cash and cash equivalents and restricted cash held in escrow as of December 31, 2020, resulting in a decrease of $(36.2) million. The decrease is primarily attributable to cash used in operations related to our initial production of the C-Series electric delivery truck, including inventory build, employee-related costs and contract labor.

Should we choose to monetize our position in LMC, we believe our existing capital resources will be sufficient to support our projected funding requirements for several years, after which time additional funding will be required. However, if the opportunity arises, we may elect to raise additional financing in 2021.

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 dilution. Any debt financing we can 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 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 months ended March 31, 2021, 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***

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net cash used in operating activities | $ (34,903,644) | $ (7,822,804) |
| Net cash used in investing activities | $ (1,264,767) | $ (463,985) |
| Net cash provided by financing activities | $ 14,220 | $ 243,000 |

***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 three months ended March 31, 2021 and 2020, net cash used in operating activities was $34.9 million and $7.8 million, respectively. The increase in net cash used in operations was primarily attributable to spend related to our initial production of the C-Series electric delivery truck, including inventory build, employee-related costs and contract labor.

**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 and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2020, 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, 2020, 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, 2020.

## 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, 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) that occurred during the three months ended March 31, 2021 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 three months ended March 31, 2021 are discussed below.

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) (the "Federal Court"), 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. On September 30, 2020, the Federal Court entered an Order granting the Company's Motion to Dismiss due to the lack of jurisdiction over the Company in the State of Georgia and as a result of the Plaintiff's failure to establish that the Company committed a tortious act or omission, solicits business or owns, uses or possesses real property in the State of Georgia. Further, the Court granted the Plaintiff's Motion for Leave to add unaffiliated entities Navistar, Inc. and Workhorse Custom Chassis, LLC, to the lawsuit and denied the Plaintiff's Motion for Leave to add the Company's wholly-owned subsidiary, Workhorse Motor Works Inc. On October 1, 2020, the Plaintiff filed a Motion for Discovery to take Jurisdictional Discovery. We timely filed a brief in response to the Motion for Discovery and are awaiting a ruling from the Court.

On March 8, 2021, Sam Farrar, individually and on behalf of other similarly situated purchasers of the Company's securities, filed a putative class action complaint against the Company, Duane Hughes and Steve Schrader in the United States District Court for the Central District of California (Case 2:21-cv-02207) claiming violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. On March 11, 2021, John Kinney, individually and on behalf of other similarly situated purchasers of the Company's securities, filed a substantively identical putative class action complaint against the Company, Duane Hughes and Steve Schrader in the United States District Court for the Central District of California (Case 2:21-cv-02207-JFW-GJS) also claiming violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In each case, which we expect will be consolidated, plaintiffs allege that the defendants violated the securities laws by intentionally or recklessly making material misrepresentations and/or omissions regarding the prospect of the United States Postal Service awarding the contract to an electric vehicle manufacturer given that electrifying the USPS's entire fleet allegedly would be impractical and expensive. Plaintiffs seek certification of a class and monetary damages in an indeterminate amount. The Court has not yet appointed a lead plaintiff pursuant to the Private Securities Litigation Reform Act of 1995 or set a deadline for the filing of a consolidated amended complaint. The Company believes these actions are without merit and vigorously intends to pursue all legal avenues to defend itself fully.

On April 16, 2021, Romario St. Clair, derivatively on behalf of the Company, filed a stockholder derivative complaint in the Eighth Judicial District Court of the State of Nevada in and for Clark County (Case No. A-21-833050-B) for breach of fiduciary duty and unjust enrichment against Duane Hughes, Steve Schrader, Stephen Fleming, Robert Willison, Anthony Furey, H. Benjamin Samuels, Raymond J. Chess, Harry DeMott, Gerald B. Budde, Pamela S. Mader, Michael L. Clark and Jacqueline A. Dedo. In this action, plaintiff alleges that the defendants breached their fiduciary duties by allowing or causing the Company to violate the federal securities laws as alleged in the Farrar and Kinney actions discussed above and by selling Company stock and receiving other compensation while allegedly in possession of material non-public information about the prospect of the United States Postal Service awarding the contract to an electric vehicle manufacturer given that electrifying the USPS's entire fleet allegedly would be impractical and expensive. Plaintiff seeks damages and disgorgement in an indeterminate amount. Although this claim purports to seek recovery on behalf of the Company, the Company will incur certain expenses due to indemnification and advancement obligations with respect to the defendants. The Company understands that defendants believe this action is without merit and vigorously intends to pursue all legal avenues to defend themselves fully.

### 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, 2020. There have been no material changes in the current period regarding our risk factors.

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

*Stock Incentives*

On February 25, 2021, Raymond Chess, was granted 5,618 shares of restricted common stock for his services as Chairman of the Board for the year ending December 31, 2021. Gerald Budde, Michael Clark, Jacqueline Dedo, Harry DeMott, Pamela Mader, and Benjamin Samuels were granted 3,966 shares of restricted common stock each for their services as directors of the Company for the year ending December 31, 2021. The stock grants were issued under the Company's 2019 Stock Incentive Plan, vest on August 25, 2021 and were registered on a Form S-8 Registration Statement.

On February 25, 2021, Duane Hughes was granted 59,484 shares of restricted common stock, Steve Schrader, Stephen Fleming, and Anthony Furey were granted 31,395 shares of restricted common stock each, and Robert Willison and Gregory Ackerson were granted 19,828 shares of restricted common stock each. The stock grants were issued under the Company's 2019 Stock Incentive Plan, vest over three years and were registered on a Form S-8 Registration Statement.

*Warrant Exercise*

During the first quarter ended March 31, 2021, the Company issued 114,153 shares of common stock in connection with the exercise of Common Stock Purchase Warrants in consideration of approximately $0.2 million.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

On April 20, 2021, the Company announced the appointment of John Graber as President - Aerospace. The Company entered into an employment agreement (the “Graber Employment Agreement”) with Mr. Graber effective April 20, 2021. Pursuant to the Graber Employment Agreement, Mr. Graber will receive a base salary of $300,000 per year. Mr. Graber will be eligible to receive a target performance bonus commencing the calendar year ending December 31, 2021 equal to 50% of his base salary with the potential to increase to 75% of his base salary assuming pre-determined performance goals are met as determined by the Compensation Committee as well as a signing bonus of $100,000. The Company granted Mr. Graber 36,675 shares of restricted common stock under the Company’s 2019 Stock Incentive Plan. The restricted stock will vest over three years commencing in October 2021. In the event Mr. Graber is terminated without cause or resigns for good reason (as such terms are defined in the Graber Employment Agreement), he will be entitled to severance payments in an amount equal to 16 months of his base salary plus a prorated portion of his target performance bonus. In addition, any outstanding equity awards will immediately accelerate and vest. The Company will also continue to pay the employer portion of the COBRA premium cost for up to 15 months.

On April 22, 2021, the Company announced the appointment of Ryan Gaul as President – Commercial Trucks and will be responsible for the Company’s commercial vehicles division, including the Company’s manufacturing location in Union City. The Company entered into an employment agreement (the “Gaul Employment Agreement”) with Mr. Gaul effective April 22, 2021. Pursuant to the Gaul Employment Agreement, Mr. Gaul will receive a base salary of $300,000 per year. Mr. Gaul will be eligible to receive a target performance bonus commencing the calendar year ending December 31, 2021 equal to 50% of his base salary with the potential to increase to 75% of his base salary assuming pre-determined performance goals are met as determined by the Compensation Committee as well as a signing bonus of $25,000. The Company granted Mr. Gaul 36,116 shares of restricted common stock under the Company’s 2019 Stock Incentive Plan. The restricted stock will vest over three years commencing in October 2021. In the event Mr. Gaul is terminated without cause or resigns for good reason (as such terms are defined in the Gaul Employment Agreement), he will be entitled to severance payments in an amount equal to 16 months of his base salary plus a prorated portion of his target performance bonus. In addition, any outstanding equity awards will immediately accelerate and vest. The Company will also continue to pay the employer portion of the COBRA premium cost for up to 15 months.

**ITEM 6. EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 10.1 | Employment Agreement between John Graber and Workhorse Group Inc. dated April 20, 2021 (1) |
| 10.2 | Employment Agreement between Ryan Gaul and Workhorse Group Inc. dated April 22, 2021 (2) |
| 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.

(1) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on April 21, 2021.

(2) Incorporated by reference to the Form 8-K Current Report filed with the Securities and Exchange Commission on April 26, 2021.

## 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: May 10, 2021

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

Dated: May 10, 2021

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

Dated: May 10, 2021

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: May 10, 2021

/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: May 10, 2021

/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 March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Duane A. Hughes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

| | |
|---|---|
| Date: May 10, 2021 | /s/Duane A. Hughes |
| | Duane A. Hughes,<br>Chief Executive Officer<br>(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 March 31, 2021 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: May 10, 2021 | /s/ Steve Schrader |
| | Steve Schrader,<br>Chief Financial Officer<br>(Principal Financial Officer) |