

Workhorse Group Inc.  
Form 10-Q  
August 14, 2015

**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, 2015**

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)

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**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) (Zip Code)

**513-360-4704**

Registrant's telephone number, including area code)

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

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

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

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

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

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

**Common Stock, \$0.001 par value per share 170,463,794**  
(Class) (Outstanding at August 14, 2015)



**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	4
	Consolidated Balance Sheets	4
	Consolidated Statements of Operations	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	23
Item 4.	Controls and Procedures	23

**PART II OTHER INFORMATION**

Item 1.	Legal Proceedings	24
Item 1A.	Risk Factors	24
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Mine Safety Disclosures	35
Item 5.	Other Information	35
	<u>Amendments to Articles of Inc. or Bylaws; Change in Fiscal Year, Financial S</u>	
Item 6.	Exhibits	35
	SIGNATURES	38

## 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”, “AMP Holding”, “AMP”, “we,” “us” or “o are to Workhorse Group Inc. and unless otherwise differentiated, its wholly-owned subsidiaries, AMP Electric Vehicles, Inc. and AMP Trucks Inc.

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

## Consolidated Balance Sheets

June 30, 2015 and December 31, 2014

	(Unaudited) June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 160,931	\$ 442,257
Inventory	272,583	392,750
Prepaid expenses and deposits	109,471	74,623
	542,985	909,630
Property, plant and equipment, net	3,890,087	4,042,359
	\$4,433,072	\$4,951,989
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 1,807,188	\$ 1,603,555
Accounts payable, related parties	410,971	384,776
Notes payable	460,000	1,243,000
Shareholder advances	700,500	–
Current portion of long-term debt	2,763,375	35,904
	\$6,142,034	\$3,267,235
Long-term debt	10,000	2,494,141
Stockholders' equity (deficit):		
Series A preferred stock, par value of \$.001 per share 75,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2015 and December 31, 2014	–	–
Common stock, par value of \$.001 per share 500,000,000 shares authorized, 168,394,828 shares issued and outstanding at June 30, 2015 and 149,944,982 shares	168,387	149,937

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issued and outstanding at December 31, 2014

Additional paid-in capital	30,127,359	27,128,582
Stock based compensation	6,016,435	6,002,586
Accumulated deficit	(38,031,143)	(34,090,492)
	(1,718,962 )	(809,387 )
	\$4,433,072	\$4,951,989

See accompanying notes to financial statements.

**Workhorse Group, Inc.**

## Consolidated Statements of Operations

For the Three and Six Months Ended June 30, 2015 and 2014

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Sales	\$67,980	\$177,459	\$67,980	\$177,459
Operating Expenses				
Selling, general and administrative	968,811	1,178,970	2,037,058	1,724,500
Research and development	872,234	899,662	1,719,368	1,469,017
Total operating expenses	1,841,045	2,078,632	3,756,426	3,193,517
Interest expense, net	108,227	64,759	252,205	156,977
Net loss during the development stage	\$(1,881,292 )	\$(1,965,932 )	\$(3,940,651 )	\$(3,173,035 )
Basic and diluted loss per share	\$(0.01 )	\$(0.01 )	\$(0.02 )	\$(0.02 )
Weighted average number of common shares outstanding	158,947,997	146,897,008	158,947,997	146,897,008

See accompanying notes to financial statements.



**Workhorse Group, Inc.**

## Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2015 and 2014

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss during the development stage	\$(3,940,651)	\$(3,173,035)
Adjustments to reconcile net loss from operations to cash used by operations:		
Depreciation	187,802	202,986
Stock based compensation	165,922	751,114
Interest expense on convertible debentures	23,777	13,269
Amortized discount on convertible debentures	—	—
Legal, consulting and investment services	168,873	554,784
Interest expense paid in kind	247,500	225,000
Inventory reserve	120,167	—
Effects of changes in operating assets and liabilities:		
Prepaid expenses and deposits	(34,848 )	(4,269 )
Accounts payable	214,105	(142,901 )
Accounts payable, related parties	26,195	(144,079 )
Customer deposits	—	(177,500 )
Net cash used by operations	(2,821,158)	(1,894,631)
Cash flows from investing activities:		
Capital expenditures	(35,530 )	—
Net cash used by investing activities	(35,530 )	—
Cash flows from financing activities:		
Proceeds from notes payable	460,000	—
Payments on long-term debt	(4,170 )	(320,212 )
Conversion of note payable	392,000	—
Shareholder advances, net of repayments	700,500	(1,928,300)
Issuance of common and preferred stock	1,027,031	5,942,300
Net cash provided by financing activities	2,575,361	3,693,788

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Change in cash and cash equivalents	(281,327 )	1,799,157
Cash at the beginning of the period	442,257	7,019
Cash at the end of the period	160,931	1,806,176

Issuance of common stock for the six months ended June 30, 2015 includes the conversion of shareholders' advances and interests of \$1.6 million

See accompanying notes to financial statements.

6

**Workhorse Group Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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

*Nature of operations and principles of consolidation*

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

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

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

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

Since the acquisition, the Company has devoted the majority of its resources to the development of an all-electric drive system capable of moving heavy large vehicles ranging from full size SUV's up to and including Medium Duty Commercial trucks. Additionally, in February 2013, AMP Holding Inc. formed a new wholly owned subsidiary, AMP Trucks Inc., an Indiana corporation. On March 13, 2013 AMP Trucks Inc. closed on the acquisition of an asset purchase of Workhorse Custom Chassis, LLC. The assets included in this transaction included: the Workhorse brand, access to the dealer network of 440 dealers nationwide, intellectual property, and all physical assets which included the approximately 250,000 sq. ft. of facilities on 48 acres of land in Union City, Indiana. This acquisition allows the Company to position itself as a medium duty OEM capable of producing new chassis with electric, propane, compressed natural gas, and hybrid configurations, as well as gasoline drive systems. Revenues since the inception of the Company, February 20, 2007, through the date of these financial statements have not been significant and consist of customer vehicle conversions and sales of experimental vehicles.

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

*Basis of presentation*

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

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

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

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

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

*Financial instruments*

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

*Inventory*

Inventory is stated at the lower of cost or market.

*Property and depreciation*

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

Buildings: 15 - 30 years

Leasehold improvements: 7 years

Software: 3 - 6 years

Equipment: 5 years

Vehicles and prototypes: 3 - 5 years

*Capital stock*

On April 22, 2010, the directors of the Company approved a forward stock split of the common stock of the Company on a 14:1 basis. On May 12, 2010, the stockholders of the Company voted to approve the amendment of the certificate of incorporation resulting in a decrease of the number of shares of Common stock. The Company filed a 14c definitive information statement with the Securities and Exchange Commission and mailed the same to its shareholders. Management filed the certificate of amendment decreasing the authorized shares of common stock with the State of Nevada on September 8, 2010.

The capital stock of the Company is as follows:

**Preferred Stock** - The Company has authorized 75,000,000 shares of preferred stock with a par value of \$.001 per share. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors. The Series A Stock is convertible, at any time at the option of the holder, into common shares of the Company based on a conversion price of \$0.336 per share. The holders of the Series A Stock are not entitled to convert the Series A Stock and receive shares of common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. The Series A Stock has voting rights on an as converted basis, does not pay dividends, and does not provide any liquidation rights.

**Common Stock** - On January 5, 2015, our Board of Directors and stockholders approved an amendment to the Articles of Incorporation to increase the number of authorized shares of common stock from 250,000,000 to 500,000,000 with a par value of \$0.001. The additional shares of common stock authorized by the Amendment, have the same rights and privileges as the shares of common stock previously authorized.

#### *Revenue recognition / customer deposits*

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

#### *Income taxes*

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

As no taxable income has occurred from the date of this merger to June 30, 2015 cumulative deferred tax assets of approximately \$9.8 million are fully reserved, and no provision or liability for federal or state income taxes has been included in the financial statements. Carryover amount are:

Approximate net operating loss (\$ millions)	Carryover to be used against taxable income generated through year
3.6	2030
6.7	2031
3.9	2032
4.7	2033
6.1	2034
3.7	2035

### *Uncertain tax positions*

The Company adopted the provisions of Accounting for Uncertainty in Income Taxes. Those provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Company's income tax returns. The Company's income tax filings are subject to audit by various taxing authorities. The years of filings open to these authorities and available for audit are 2012 - 2014. The Company's policy with regard to interest and penalties is to recognize interest through interest expense and penalties through other expense. No interest or penalties with regard to income tax filings were incurred in any period, including 2015 or 2014, or since the period of inception, February 20, 2007. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.



*Research and development costs*

The Company expenses research and development costs as they are incurred. Research and Development costs were approximately \$1.7 million and \$1.5 million for the six months period ended June 30, 2015 and 2014 respectively, consisting primarily of personnel costs for our teams in engineering and research, prototyping expense, and contract and professional services. Union City plant expenses prior to the start of production are also included in research and development expenses.

*Basic and diluted loss per share*

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

*Stock based compensation*

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

*Related party transactions*

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

*Subsequent events*

The Company evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through August 14, 2015, the date on which the consolidated financial statements were available to be issued.

**2. PROPERTY, PLANT AND EQUIPMENT**

As of June 30, 2015 and December 31, 2014, our property, plant and equipment, net, consisted of the following:

	June 30, 2015	December 31, 2014
Land	300,000	300,000
Buildings	3,800,000	3,800,000
Leasehold Improvements	19,225	19,225
Construction in progress	18,026	23,104
Software	27,721	27,721
Equipment	710,791	670,183
Vehicles and prototypes	164,959	164,959
	5,040,722	5,005,192
Less accumulated depreciation	(1,150,635)	(962,833 )
	3,890,087	4,042,359

**3. LONG-TERM DEBT**

Long-term debt consists of the following:

	June 30, 2015	December 31, 2014
Secured debenture payable to Workhorse Custom Chassis, LLC, due March 2016 plus interest at 10%. The debenture is secured by the real estate and related assets of the plant located in Union City, Indiana with a net book value of \$3,805,015 at June 30, 2015	2,722,500	2,475,000
Note payable, Bank due in monthly installments of \$635 including interest at 5.04% with the final payment due August 2015. The note is secured by equipment with a net book value of \$1,121 at June 30, 2015	2,780	4,711
Note payable, vendor due in monthly installments of \$439 including interest at 8.00% with the final payment due December 2014. The was paid on December 31, 2014	-	334
Note payable to the City of Loveland, due in annual installments of \$10,241 including interest with the final payment due October 2016. Interest rate amended to 8.00%. The note is unsecured and contains restrictions on the use of proceeds.	50,000	50,000
	2,775,280	2,530,045
Less current portion	2,765,280	35,904
Long term debt	10,000	2,494,141

Aggregate maturities of long-term debt are as follows:

2015	2,765,280
2016	10,000
	2,775,280

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



#### **4. SUBSCRIPTION AGREEMENTS**

The Company entered into Subscription Agreements with five accredited investors (the "December 2014 Investors") between November 24, 2014 and December 29, 2014 providing for the sale by the Company to the December 2014 Investors of 14% Unsecured Convertible Promissory Notes in the aggregate amount of \$1,242,900 (the "December 2014 Notes"). In addition to the December 2014 Notes, the December 2014 Investors also received common stock purchase warrants (the "December 2014 Warrants") to acquire 4,439,287 shares of common stock of the Company. The December 2014 Warrants are exercisable for five years at an exercise price of \$0.14. The initial closing of \$200,000 was on November 24, 2014, the second closing of \$700,000 was on December 8, 2014 and the third closing of \$343,000 was on December 30, 2014.

In March 2015 the note and accrued interests were converted to equity.

In June 2015, the Company issued Promissory Notes with a maturity of two years and an original issue discount of approximately 10%. The Notes may be prepaid at any time on or before 90 days from the date of issue. After the initial 90 day period the Note bears interest charge of 12% applied to the principal sum. Amounts outstanding on these notes were \$460,000 as of June 30, 2015.

#### **5. SHAREHOLDER AND RELATED PARTY ADVANCES**

As of June 30, 2015, the Company had deposits for approximately \$600,000 that were not yet issued as common stock.

The Company issued a promissory note to an accredited investor in consideration of \$100,000. The interest on the unpaid principal balance is a rate of ten percent (10%) per annum and the principal and interest on the outstanding balance is to be paid by September 1, 2015. In the event that the Company raises in excess of \$2,000,000 in equity financing, then the Company is required to use part of its proceeds to pay off this note.

#### **6. LEASE OBLIGATIONS**

On October 1, 2011 the Company began leasing operating facilities under an agreement expiring on September 30, 2018. Future minimum monthly lease payments under the agreement are currently \$12,598 and increase 3% in October of each year. Prepaid expenses and deposits include a security deposit equal to \$12,275. Aggregate maturities of lease obligations are as follows:

2015	79,024
2016	161,588
2017	166,435
2018	127,614
	534,661

Total rent expense under these operating type leases for the six months ended June 30, 2015 and 2014 was \$78,000 and \$76,000, respectively.

## **7. STOCK BASED COMPENSATION**

### *Options to directors, officers and employees*

The Company maintains, as adopted by the board of directors, the 2014 Stock Incentive Plan, the 2014 Stock Compensation Plan, 2013 Incentive Stock Plan, the 2012 Incentive Stock Plan, the 2011 Incentive Stock Plan and the 2010 Stock Incentive Plan (the plans) providing for the issuance of up to 11,000,000 options to employees, officers, directors or consultants of the Company. Incentive stock options granted under the plans may only be granted with an exercise price of not less than fair market value of the Company's common stock on the date of grant (110% of fair market value for incentive stock options granted to principal stockholders). Non-qualified stock options granted under the plans may only be granted with an exercise price of not less than 85% of the fair market value of the Company's common stock on the date of grant. Awards under the plans may be either vested or unvested options. The unvested options vest ratably over two years for options with a five or three year term and after one year for options with a two year term.

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

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

	Outstanding Stock Options				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Exercise Term in Months
Balance, December 31, 2013	4,485,000	7,994,748	\$ 0.45	\$ 0.23	36
Additional stock reserved	5,000,000	-	\$ -	\$ -	-
Granted	(8,675,926)	8,675,926	\$ 0.05	\$ 0.08	58
Exercised	-	-	\$ -	\$ -	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance, December 31, 2014	809,074	16,670,674	\$ 0.23	\$ 0.15	41
Additional stock reserved	7,500,000	-	\$ -	\$ -	-
Granted	(2,350,000)	2,350,000	\$ 0.15	\$ 0.07	45
Exercised	-	(1,250,697)	\$ 0.01	\$ 0.09	45
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance, June 30, 2015	5,959,074	17,769,977	\$ 0.34	\$ 0.15	41

The Company recorded \$85,088 and \$68,238 compensation expense for stock options to directors, officers and employees for the six months ended June 30, 2015 and 2014 respectively. As of June 30, 2015, unrecognized compensation expense of \$1,007,215 is related to non-vested options granted to directors, officers and employees which is anticipated to be recognized over the next 35 months, commensurate with the vesting schedules.

#### *Options to consultants*

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





The following table summarizes option activity for consultants:

	Outstanding Stock Options				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Exercise Term in Months
Balance, December 31, 2013	971,000	1,415,000	\$ 0.41	\$ 0.20	34
Additional stock reserved	2,000,000	-	\$ -	\$ -	-
Granted	(2,967,727)	2,967,727	\$ 0.01	\$ 0.10	54
Exercised	-	-	\$ -	\$ -	-
Forfeited	200,000	(200,000 )	\$ -	\$ -	-
Expired	190,000	(190,000 )	\$ 0.50	\$ 0.17	-
Balance, December 31, 2014	393,273	3,992,727	\$ 0.13	\$ 0.13	50
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	(25,000 )	25,000	\$ 0.15	\$ 0.10	57
Exercised	-	(225,241 )	\$ 0.09	\$ 0.10	57
Forfeited	-	-	\$ -	\$ -	-
Expired	-	-	\$ -	\$ -	-
Balance, June 30, 2015	368,273	3,792,486	\$ 0.60	\$ 0.27	57

The Company recorded \$47,890 and \$13,474 compensation expense for stock options to consultants for the six months ended June 30, 2015 and 2014 respectively. As of June 30, 2015, unrecognized compensation expense of \$185,979 is related to non-vested options granted to consultants which is anticipated to be recognized over the next 36 months, commensurate with the vesting schedules.

#### ***Warrants to placement agent and consultants***

Through December 2011, the Company compensated the placement agent for assisting in the sale of the Company's securities by paying the placement agent commissions and issuing the placement agent common stock purchase warrants to purchase shares of the Company's common stock. The warrants have a five year term and various exercise prices.

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



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

	Outstanding Warrants				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Exercise Term in Months
Balance, December 31, 2013	4,339,590	3,130,894	\$ 0.46	\$ 0.21	24
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	(1,598,607)	1,598,607	\$ 0.17	\$ 0.06	34
Exercised	-	-	\$ -	\$ -	-
Forfeited	-	-	\$ -	\$ -	-
Expired	-	(628,013 )	\$ 0.39	\$ 0.18	-
Balance, December 31, 2014	2,740,983	4,101,488	\$ 0.36	\$ 0.15	14
Additional stock reserved	-	-	\$ -	\$ -	-
Granted	(281,571 )	281,571	\$ 0.14	\$ 0.12	30
Exercised	-	(281,571 )	\$ 0.14	\$ 0.12	30
Forfeited	-	-	\$ -	\$ -	-
Expired	956,804	(956,804 )	\$ -	\$ -	-
Balance, June 30, 2015	3,416,216	3,144,684	\$ 1.78	\$ 0.09	30

The Company recorded \$32,944 and \$0 compensation expense for stock warrants to the placement agent and consultants for the six months ended June 30, 2015 and 2014 respectively. There is no unrecognized compensation expense for the placement agent warrants because they are fully vested at date of grant.

### *Warrants to directors and officers*

In December 2010 and May 2011, the Company issued to certain directors' and officers' common stock purchase warrants to acquire shares of common stock at an exercise price of \$2.00 per share for a period of five years. In November 2011, under the terms of a Promissory Note issued to a director and officer, common stock purchase warrants were issued to acquire 100,000 shares of common stock at an exercise price of \$0.50 per share for a period of one year. In May 2012, a director and officer received 100,000 2012 Warrants to acquire common stock of the Company at an exercise price of \$0.50 for a period of three years. In June 2012, a director and officer converted secured and unsecured loans provided to the Company from September 2011 to June 2012 in the aggregate amount of \$389,250 into 2012 Notes and 2012 Warrants. In November 2012, the Company entered into a Note and Warrant Amendment and Conversion Agreement whereby the holders and 2012 Investors converted all principal and interest under the 2012 Notes into shares of common stock. Further, the exercise price of the 2012 Warrants was reduced to \$0.25 per share. The \$7,388 cost of the reduction in the exercise price is included in stock based compensation

expense for the year ended December 31, 2012.

The following table summarizes warrant activity for directors and officers:

	Shares Available for Grant	Outstanding Warrants		Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Exercise Term in Months
		Number of Shares	Weighted Average Exercise Price per Share		
Balance, December 31, 2013	3,489,250	3,389,250	\$ 1.78	\$ 0.09	22
Additional stock reserved	-	-	-	-	-
Granted	-	-	0.17	-	-
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Expired	-	-	-	-	-
Balance, December 31, 2014	3,489,250	3,389,250	\$ 1.78	\$ 0.09	9
Additional stock reserved	-	-	-	-	-
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Expired	489,250	(489,250 )	-	-	-
Balance, June 30, 2015	3,978,500	2,900,000	\$ 1.78	\$ 0.09	9

The Company recorded \$0, \$0 compensation expense for stock warrants to directors and officers for the six months ended June 30, 2015 and 2014 respectively. There is no unrecognized compensation expense for these warrants because they are fully vested at date of grant.

## **8. RECENT PRONOUNCEMENTS**

In June 2014, The FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. We do not expect the adoption of these provisions to have a significant impact on the Company's consolidated financial statements.

In May 2014, The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We do not expect the adoption of these provisions to have a significant impact on the Company's consolidated financial statements.

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

### **Overview and Quarter Highlights**

We design, develop, manufacture, and sell high-performance, medium-duty trucks with advanced powertrain components, under the proven Workhorse chassis brand. We believe that our vehicles, engineering expertise, innovation, and operational structure differentiate us from traditional truck manufacturers.

The Company responded on March 6, 2015 to a Request for Information and Prequalification (RFI) from the United States Postal Service (USPS) for its Next Generation Delivery Vehicle (NGDV) Acquisition Program. The USPS anticipates making a single award in 2017 to a supplier for up to 180,000 NGDVs to replace its current fleet of mail delivery vehicles. Delivery of the NGDVs to the USPS is expected to begin no later than January 2018. The USPS has evaluated the submitted RFIs and has announced that Workhorse was selected to be on the short list of OEMs, who will submit detailed specifications and build several prototypes for testing. There is no guarantee that the Company will be awarded as the supplier. The Company is expected to submit its specifications in early October 2015. The Company expects that it is competing against larger, better financed competitors.

We recently entered into a purchase agreement with UPS to supply 18 all-electric Workhorse E-100 Walk-in Vans to be deployed in the Houston-Galveston, Texas area. The U.S. Department of Energy (DOE) selected this project to improve local air quality in the Houston-Galveston area, which is currently designated as a National Ambient Air Quality Non-Attainment Area.

Workhorse also received orders for two E-Gen vehicles from UPS for testing. The vehicles were delivered and currently being used on the road as local delivery vehicles.

We recently entered into a purchase agreement with a major transportation company to supply 125 E-Gen electric delivery truck chassis. The bodies for these vehicles will be supplied by Morgan Olsen. This order is unique in that it is the first significant order from a major package delivery company without any government incentives.

We have applied for a Certificate of Airworthiness (COA) from the FAA together with the University of Cincinnati and expect to be testing outdoors at the Wilmington Airpark, Wilmington, OH before the end of the 3rd Quarter. This COA will allow us to complete our research and development on the automated delivery system utilizing Workhorse's Unmanned Aerial Vehicle, the Horsefly.



We have also applied for a section 333 exemption docket # FAA-3025-3055 to do actual UAV unmanned aerial vehicle (drone) deliveries from a delivery truck on an actual route.

The Workhorse E-100 truck is purpose-built to transform the package delivery vehicle market. Built on our new, narrow track W88 chassis, the trucks come with a 100 kWh Lithium battery pack featuring Panasonic 18650 cells that provide power to a 2200 nm (268 bhp) permanent magnet motor, powerful enough to eliminate the need for a transmission.

The Workhorse E-100 is designed and built to meet transportation companies' daily duty cycle, while delivering a zero-emission driving experience and eliminating the consumption of more than 65,000 gallons of diesel fuel over the vehicle's projected life. In addition, our proprietary onboard telematics capture thousands of data points to measure vehicle performance and efficiency. This data allows us to improve the efficiency and driver experience over the lifetime of the vehicle.

We recently announced that we filed a provisional patent for a new system that extends the range of electric vehicles, while reducing the overall cost of the typical battery-electric power train. The new system, E-GEN Drive(TM), is designed