Workhorse Group Inc.
Form 10-Q
November 14, 2016

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 September 30, 2016

or

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

For the transition period from __________ to __________

Commission file number: 000-53704

WORKHORSE GROUP INC.

(Exact name of registrant as specified in its charter)

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

100 Commerce Drive, Loveland, Ohio 45140

(Address of principal executive offices) (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	**26,529,357**

(Class)	(Outstanding at November 14, 2016)

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Forward-Looking Statements

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

All references in this Form 10-K that refer to the "Company", "WORKHORSE GROUP", "Workhorse", "we," "us" or "our" a WORKHORSE GROUP INC. and unless otherwise differentiated, its wholly-owned subsidiaries, Workhorse Technologies Inc. and Workhorse Motor Works Inc.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Workhorse Group, Inc.
Consolidated Balance Sheets
September 30, 2016 and December 31, 2015

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 3,049,253	$ 7,677,163
Accounts receivable	536,600	-
Inventory	3,568,972	78,917
Prepaid expenses and deposits	144,183	3,149,289
	7,299,008	10,905,369
Property, plant and equipment, net	3,598,138	3,736,359
	$ 10,897,146	$ 14,641,728
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 3,232,126	$ 1,606,695
Accounts payable, related parties	55,904	399,542
Notes payable	-	13,534,426
Shareholder advances	1,420,773	111,700
Current portion of long-term debt	50,000	2,772,500
	4,758,803	18,424,863
Long-term debt	-	-
Stockholders' equity (deficit):		
Series A preferred stock, par value of $.001 per share 75,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2016 and December 31, 2015	-	-
	26,369	18,205

Common stock, par value of $.001 per share 50,000,000 shares authorized, 26,369,003 shares issued and outstanding at September 30, 2016 and 18,204,923 shares issued and outstanding at December 31, 2015		
Additional paid-in capital	55,599,550	33,557,615
Stock based compensation	6,608,470	6,158,390
Accumulated deficit	(56,096,046)	(43,517,345)
	6,138,343	(3,783,135)
	$ 10,897,146	$ 14,641,728

See accompanying notes to the consolidated financial statements.

Workhorse Group, Inc.
Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales	$1,906,000	$72,000	$3,376,600	$139,980
Cost of Sales	4,173,364	-	6,932,416	-
Gross loss	(2,267,364)	72,000	(3,555,816)	139,980
Operating Expenses				
Selling, general and administrative	1,968,260	1,789,435	4,755,642	2,758,245
Research and development	1,024,470	1,745,981	4,224,208	2,618,215
Total operating expenses	2,992,730	3,535,416	8,979,850	5,376,461
Interest expense, net	2,765	329,692	43,035	437,919
Net loss	$(5,262,859)	$(3,793,108)	$(12,578,701)	$(5,674,400)
Basic and diluted loss per share	$(0.25)	$(0.24)	$(0.61)	$(0.36)
Weighted average number of common shares outstanding	20,665,480	15,817,267	20,665,480	15,817,267

See accompanying notes to the consolidated financial statements.

Workhorse Group, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net loss	$(12,578,701)	$(5,674,400)
Adjustments to reconcile net loss from operations to cash used by operations:		
Depreciation	286,316	281,774
Stock based compensation	853,609	279,335
Legal, consulting and investment services	-	168,873
Interest expense paid in kind	-	247,500
Write down of inventory	78,917	193,778
Effects of changes in operating assets and liabilities:		
Accounts receivable	(536,600)	-
Inventory	(3,568,972)	-
Prepaid expenses and deposits	733,469	(12,364)
Accounts payable	1,737,918	406,262
Accounts payable, related parties	(343,638)	(65,797)
Net cash used by operations	(13,337,682)	(4,175,038)
Cash flows from investing activities:		
Capital expenditures	(148,095)	(32,529)
Net cash used by investing activities	(148,095)	(32,529)
Cash flows from financing activities:		
Proceeds from notes payable	-	1,172,000
Payments on long-term debt	(2,722,500)	(5,045)
Shareholder advances, net of repayments	1,309,073	1,712,200
Issuance of common and preferred stock	-	1,027,032
Exercise of warrants and options	10,271,294	-
Net cash provided by financing activities	8,857,867	3,906,187
Change in cash and cash equivalents	(4,627,910)	(301,380)
Cash at the beginning of the period	7,677,163	442,257
Cash at the end of the period	3,049,253	140,877

Supplemental disclosure of non-cash activities:

Notes payable of $13,534,426 and Accounts Payable of $112,487, net of $2,271,637 in prepaid expenses related to the 2015 PPM offering, were converted to equity during the nine months ended September 30, 2016.

Certain options and warrants were exercised utilizing an allowed cashless method. These cashless exercises resulted in an increase to common stock of $83, an increase to additional paid in capital of $378,446 and a decrease to stock based compensation in equity of $375,529 during the nine months ended September 30, 2016.

See accompanying notes to the consolidated financial statements.

Workhorse Group Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

Nature of operations and principles of consolidation

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

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

On December 28, 2009, the Company entered into and closed a Share Exchange Agreement with the Shareholders of Advanced Mechanical Products, Inc. (n/k/a 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, the Company formed a new wholly owned subsidiary, Workhorse Motor Works Inc. (f/k/a AMP Trucks Inc.), an Indiana corporation. On March 13, 2013, Workhorse Motor Works Inc. closed on the acquisition of an asset purchase of assets from Workhorse Custom Chassis, LLC. The assets included in this transaction included: The Workhorse brand, access to the dealer network of 440 dealers nationwide, intellectual property, and all physical assets which included the approximately 250,000 sq. ft. of facilities on 48 acres of land in Union City, Indiana. This acquisition allows the Company to position itself as a medium duty OEM capable of producing new chassis with electric, propane, compressed natural gas, and hybrid configurations, as well as gasoline drive systems.

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

Basis of presentation

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

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

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

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.

Accounts receivable

Accounts receivable consist of collectible amounts for products and services rendered. The Company carries its accounts receivable at invoice amount less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. The Company generally does not require collateral for accounts receivable.

Inventory

Inventory is stated at the lower of cost or market under the average method, and consist of parts and work in process.

Property, plant and equipment, net

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

Buildings: 15 - 30 years

Leasehold improvements: 7 years

Software: 3 - 6 years

Equipment: 5 years

Vehicles and prototypes: 3 - 5 years

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. Management filed the certificate of amendment decreasing the authorized shares of common stock with the State of Nevada on September 8, 2010. On February 11, 2015, the Company filed a certificate of amendment to its articles of incorporation to increase the authorized shares of common stock to 50,000,000.

On December 9, 2015, the Company filed a Certificate of Amendment to its Certificate of Incorporation to implement a one-for-ten reverse split of the Corporation's issued and outstanding common stock (the "Reverse Stock Split"), as authorized by the stockholders of the Company. The Reverse Stock Split became effective at the open of trading on December 11, 2015 (the "Effective Date"). As of the Effective Date, every ten shares of issued and outstanding common stock were combined into one newly issued share of common stock. No fractional shares were issued in connection with the Reverse Stock Split. Total cash payments made by the Company to stockholders in lieu of fractional shares was not material.

All references in the financial statements and MD&A to number of common shares, price per share and weighted average shares of common stock have been adjusted to reflect the Reverse Stock Split on a retroactive basis for all prior periods presented, unless otherwise noted, including reclassifying an amount equal to the reduction in par value of common stock to additional paid in capital.

The capital stock of the Company is as follows:

Preferred Stock - The Company has authorized 75,000,000 shares of preferred stock with a par value of $.001 per share. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors. There are no shares of preferred stock outstanding.

Common Stock - The Company has authorized 50,000,000 shares of common stock with a par value of $0.001 per share.

Revenue recognition / customer deposits

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

Income taxes

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

As no taxable income has occurred from the date of this merger to September 30, 2016 cumulative deferred tax assets of approximately $15.5 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	