

Workhorse Group Inc.
Form 10-Q
November 07, 2018

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, 2018

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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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	56,270,934
(Class)	(Outstanding at November 7, 2018)

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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 resources, 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. and unless otherwise differentiated, its wholly-owned subsidiaries, Workhorse Technologies Inc., Workhorse Motor Works Inc. and Workhorse Properties Inc.

PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Workhorse Group, Inc.****Condensed Consolidated Balance Sheets**

	(Unaudited)	
	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$2,994,368	\$4,069,477
Accounts receivable, less allowance for doubtful accounts of \$52,800 and \$0 at September 30, 2018 and December 31, 2017, respectively	1,708	1,013,423
Lease receivable	41,375	45,300
Inventory	4,938,353	4,621,942
Prepaid expenses and deposits	536,411	946,134
	8,512,215	10,696,276
Property, plant and equipment, net of accumulated depreciation of \$2,311,024 and \$2,095,571 at September 30, 2018 and December 31, 2017, respectively	5,442,000	5,596,013
Lease receivable	211,013	212,004
	\$14,165,228	\$16,504,293
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$2,912,747	\$4,311,135
Accrued liabilities	2,060,811	1,718,397
Common stock warrant liability	2,013,128	-
Accounts payable, related parties	45,764	54,914
Customer deposits	364,000	54,405
Current portion of long-term debt	-	381,497
	7,396,450	6,520,348
Arosa Loan	7,800,000	-
Unamortized discount and issuance costs	(3,022,084)	-
Net Arosa Loan	4,777,916	-

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Senior Secured Notes	-	5,750,000
Less: unamortized discount and debt issuance costs	-	987,500
Net Senior Secured Notes	-	4,762,500
Total current liabilities	12,174,366	11,282,848
Long-term debt	-	1,709,881
Stockholders' equity (deficit):		
Series A preferred stock, par value of \$.001 per share 75,000,000 shares authorized, no shares issued and outstanding at September 30, 2018 and December 31, 2017	-	-
Common stock, par value of \$.001 per share 100,000,000 shares authorized, 56,270,934 shares issued and outstanding at September 30, 2018 and 41,529,181 shares issued and outstanding at December 31, 2017	56,271	41,529
Additional paid-in capital	125,802,427	107,760,036
Accumulated deficit	(123,867,836)	(104,290,001)
	1,990,862	3,511,564
	\$ 14,165,228	\$ 16,504,293

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net sales	\$ 10,997	\$ 3,066,000	\$ 741,910	\$ 4,888,037
Cost of sales	1,476,822	7,558,082	4,847,097	12,866,095
Gross loss	(1,465,825)	(4,492,082)	(4,105,187)	(7,978,058)
Operating Expenses				
Selling, general and administrative	3,363,103	2,808,696	8,766,452	7,309,868
Research and development	1,449,497	5,084,419	5,681,840	14,139,074
Total operating expenses	4,812,600	7,893,115	14,448,292	21,448,942
Interest expense, net	734,542	26,891	1,786,591	84,394
Change in fair value of common stock warrant liability	(1,527,414)	-	(1,527,414)	-
Net loss	(5,485,553)	(12,412,088)	(18,812,656)	(29,511,394)
Deemed dividend - September 2017 Warrants	-	-	765,179	-
Net loss attributable to common stockholders	\$(5,485,553)	\$(12,412,088)	\$(19,577,835)	\$(29,511,394)
Net loss attributable to common stockholders per share - basic and diluted	\$(0.12)	\$(0.35)	\$(0.42)	\$(0.82)
Weighted average number of common shares outstanding	46,192,471	35,930,125	46,192,471	35,930,125

See accompanying notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(18,812,656)	\$(29,511,394)
Adjustments to reconcile net loss from operations to cash used by operations:		
Depreciation	251,886	415,163
Amortized discount and debt issuance costs on Senior Secured Notes	987,500	-
Amortization of Arosa Loan issuance cost	588,505	-
Change in fair value of common stock warrant liability	(1,527,414)	-
Loss on sale of assets	28,645	-
Stock-based compensation	803,226	1,076,120
Effects of changes in operating assets and liabilities:		
Accounts receivable and lease receivable	1,016,631	403,700
Inventory	(316,411)	(5,003,498)
Prepaid expenses and deposits	409,723	(1,646,187)
Accounts payable and accrued liabilities	(1,055,974)	5,910,998
Accounts payable, related parties	(9,150)	72,242
Customer deposits	309,595	-
Net cash used by operations	(17,325,894)	(28,282,856)
Cash flows from investing activities:		
Capital expenditures	(131,318)	(85,576)
Proceeds from sale of fixed assets	4,800	-
Proceeds from lease receivable	-	134,493
Net cash provided by investing activities	(126,518)	48,917
Cash flows from financing activities:		
Payments on notes payable	(5,750,000)	-
Proceeds from long-term debt	7,800,000	-
Payments on long-term debt	(2,091,378)	(69,348)
Arosa Loan issuance costs	(70,047)	-
Shareholder advances, net of repayments	-	7,000
Issuance of common stock	16,398,662	37,032,831
Exercise of warrants and options	90,066	633,863
Net cash provided by financing activities	16,377,303	37,604,346
Change in cash and cash equivalents	(1,075,109)	9,370,407
Cash at the beginning of the period	4,069,477	469,570

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Cash at the end of the period	\$2,994,368	\$9,839,977
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Supplemental disclosure of non-cash activities:

During the nine months ended September 30, 2018, the Company issued warrants to purchase common stock to Arosa in association with the Arosa Loan, which were valued at \$3,540,542. The company recorded a provision for the warrant liability in accrued liabilities with the offset recorded as a debt discount against the Arosa Loan.

During the nine months ended September 30, 2018, the Company converted accounts payable of \$298,350 to common stock of \$114 and additional paid-in-capital of \$298,236.

During the nine months ended September 30, 2017, the Company converted Shareholder advances of \$229,772 and accrued interests of \$26,727 to common stock of \$172 and additional paid-in capital of \$256,327.

See accompanying notes to condensed consolidated financial statements.

Workhorse Group Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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

Nature of operations and principles of consolidation

Workhorse Group Inc. and its predecessor companies (“Workhorse”, the “Company”, “we”, “us” or “our”) is a technology company focused on providing sustainable and cost-effective solutions to the commercial transportation sector. As an American manufacturer, we design and build high performance battery-electric vehicles and aircraft that make movement of people and goods more efficient and less harmful to the environment. As part of the Company’s solution, it also develops cloud-based, real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. Although the Company operates as a single unit through its subsidiaries, it approaches its development through two divisions, Automotive and Aviation. The Company’s core products, under development and/or in manufacture, are the medium duty step van, the light duty pickup, the delivery drone and the manned multicopter (“SureFly”™).

The Company’s wholly owned subsidiaries include Workhorse Technologies Inc., Workhorse Motor Works Inc. and Workhorse Properties Inc.

Basis of presentation

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has limited revenues and a history of negative working capital and stockholders’ deficits. 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 or from the sale of a product line/business. Obtaining such working capital is not assured.

In the opinion of Management, the Unaudited Condensed Consolidated Financial Statements include all adjustments that are necessary for the fair presentation of Workhorse's respective financial conditions, results of operations and cash flows for the interim periods presented. Such adjustments are of a normal, recurring nature. Intercompany balances and transactions are eliminated in consolidation. The results of operations and cash flows for the interim periods presented may not necessarily be indicative of full-year results. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Workhorse contained in its Annual Report on Form 10-K for the year ended December 31, 2017, as amended.

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

2. INVENTORY

As of September 30, 2018, and December 31, 2017, our inventory consisted of the following:

	2018	2017
Raw Materials	\$4,108,636	\$3,205,618
Work in Process	829,717	1,416,324
Finished Goods	-	-
	\$4,938,353	\$4,621,942

3. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2018	December 31, 2017
Arosa Loan, due July 6, 2019, interest only quarterly payments, interest rate 8.0% (discount is based on warrant valuation and imputed interest of approximately 58%)	\$ 7,800,000	\$ -
Arosa Loan unamortized discount and issuance costs	(3,022,084)	
Net Arosa Loan	4,777,916	
Senior Secured Notes, due July 6, 2018 (discount is based on imputed interest rate of 26%)	-	5,750,000
Less: unamortized discount and debt issuance costs on Senior Secured Notes	-	(987,500)
Net Senior Secured Notes	-	4,762,500
Secured mortgage payable, due November 2026, to Bank for 100 Commerce Drive Building, interest rate 6.5%, due in monthly installments of \$11,951, inclusive of principal and interest	-	1,741,378
Note payable, former building owner interest payment only due in monthly installments of \$1,604 interest at 5.5%. A balloon payment of \$350,000 plus unpaid interest due August 2018.	-	350,000
	4,777,916	6,853,878
Less current portion	4,777,916	5,143,997
Long-term debt	\$ -	\$ 1,709,881

On December 26, 2017, as part of its initial efforts to spin-off Surefly Inc., the Company entered into a Securities Purchase Agreement with several existing institutional investors the (“Spin-Off Investors”) pursuant to which the Company issued original issue discount Senior Secured Notes in the aggregate principal amount of \$5,750,000 in consideration of gross proceeds of \$5,000,000 paid by the Spin-Off Investors. The loan was convertible into Surefly Inc. equity upon achieving the spin-off. On June 28, 2018, the Company entered into an amendment agreement with

the Spin-Off Investors. The amendment agreement provided that the Senior Secured Notes were amended to provide a maturity date of July 6, 2018. Upon the closing of the Loan Agreement with Arosa, the Company paid off the Senior Secured Notes.

Amortization expense recorded as interest related to the debt issuance costs and unamortized discounts for the Senior Secured Notes was \$987,500 for the nine months ended September 30, 2018.

On June 7, 2018, the Company received a short-term loan in the aggregate principal amount of \$550,000 from Stephen S. Burns, H. Benjamin Samuels, Gerald Budde and Ray Chess, each an executive officer and/or director of the Company (collectively, the "Related Parties"). The Company used the net proceeds from th