Workhorse Group Inc.
Form 424B5
August 09, 2018
Filed pursuant to Rule 424(b)(5)
Registration Statement No. 333-213100

PRELIMINARY PROSPECTUS SUPPLEMENT
(To prospectus dated December 23, 2016)

9,000,000 Shares of Common Stock

We are offering 9,000,000 shares of our common stock pursuant to this prospectus supplement and accompanying prospectus.

Our common stock is listed on the NASDAQ Capital Market under the symbol “WKHS.” On August 8, 2018, the last reported sales price of our common stock on the NASDAQ Capital Market was $1.25 per share.

Investing in our securities involves a high degree of risk. Before making an investment decision, you should carefully review and consider all of the information set forth in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including the risks and uncertainties described under “Risk Factors” beginning on page S-5 of this prospectus supplement and the risk factors incorporated by reference into this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$1.15	$10,350,000
Underwriting discounts and commissions[1]	$0.0805	$724,500

Proceeds, before expenses, to us	$1.0695	$9,625,500

(1) There will be additional items of value paid in connection with this offering that are viewed by the Financial Regulatory Authority, Inc. as underwriting compensation. See “Underwriting” beginning on page S-18 of this prospectus supplement for a description of the compensation payable to the underwriters.

We have granted the representative of the underwriters, or the representative, a 45-option to purchase up to shares of common stock to cover over-allotments, if any.

The underwriters expect to deliver the shares of common stock against payment therefor on or about August 9, 2018

National Securities Corporation

Sole Book Running Manager

August 9, 2018

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying base prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the "SEC") utilizing a "shelf" registration process. Each time we conduct an offering to sell securities under the accompanying base prospectus we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the price, the amount of securities being offered and the plan of distribution. The shelf registration statement was initially filed with the SEC on August 11, 2016, and was declared effective by the SEC on December 23, 2016. This prospectus supplement describes the specific details regarding this offering and may add, update or change information contained in the accompanying base prospectus. The accompanying base prospectus provides general information about us and our securities, some of which, such as the section entitled "Plan of Distribution," may not apply to this offering. This prospectus supplement and the accompanying base prospectus are an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. We are not making offers to sell or solicitations to buy our common stock in any jurisdiction in which an offer or solicitation is not authorized or in which the person making that offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation.

If information in this prospectus supplement is inconsistent with the accompanying base prospectus or the information incorporated by reference with an earlier date, you should rely on this prospectus supplement. This prospectus supplement, together with the base prospectus, the documents incorporated by reference into this prospectus supplement and the accompanying base prospectus and any free writing prospectus we have authorized for use in connection with this offering include all material information relating to this offering. We have not, and the underwriters have not, authorized anyone to provide you with different or additional information and you must not rely on any unauthorized information or representations. You should assume that the information appearing in this prospectus supplement, the accompanying base prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying base prospectus and any free writing prospectus we have authorized for use in connection with this offering is accurate only as of the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates. **You should carefully read this prospectus supplement, the accompanying base prospectus and the information and documents incorporated herein by reference herein and therein, as well as any free writing prospectus we have authorized for use in connection with this offering, before making an investment decision. See "Incorporation of Certain Documents by Reference" and "Where You Can Find More Information" in this prospectus supplement and in the accompanying base prospectus**.

This prospectus supplement and the accompanying base prospectus contain summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the full text of the actual documents, some of which have been filed or will be filed and incorporated by reference herein. See "Where You Can Find More Information" in this prospectus supplement. We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference into this prospectus supplement or the accompanying base prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a

representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

This prospectus supplement and the accompanying base prospectus contain and incorporate by reference certain market data and industry statistics and forecasts that are based on Company-sponsored studies, independent industry publications and other publicly available information. Although we believe these sources are reliable, estimates as they relate to projections involve numerous assumptions, are subject to risks and uncertainties, and are subject to change based on various factors, including those discussed under "Risk Factors" in this prospectus supplement and the accompanying base prospectus and under similar headings in the documents incorporated by reference herein and therein. Accordingly, investors should not place undue reliance on this information.

Unless otherwise stated or the context requires otherwise, references to "we," "us," the "Company" and "Workhorse Group" refer to Workhorse Group Inc. and unless otherwise differentiated, its wholly-owned subsidiaries, Workhorse Technologies Inc. and Workhorse Motor Works Inc.

PROSPECTUS SUPPLEMENT SUMMARY

This prospectus summary highlights information contained elsewhere in this prospectus supplement, the accompanying base prospectus and the documents incorporated by reference herein and therein. This summary does not contain all of the information that you should consider before deciding to invest in our securities. You should read this entire prospectus supplement and the accompanying base prospectus carefully, including the section entitled "Risk Factors" beginning on page S-5 and our consolidated financial statements and the related notes and the other information incorporated by reference into this prospectus supplement and the accompanying base prospectus, before making an investment decision.

Our Company

We are a technology company focused on providing sustainable and cost-effective solutions to the commercial transportation sector. As an American manufacturer we design and build high performance battery-electric vehicles and aircraft that make movement of people and goods more efficient and less harmful to the environment. As part of our solution, we also develop cloud-based, real-time telematics performance monitoring systems that enable fleet operators to optimize energy and route efficiency. Although we operate as a single unit through our subsidiaries, we approach our development through two divisions, Automotive and Aviation.

Workhorse E-100 battery-electric and E-GEN range-extended delivery vans are currently in production at our Union City, Indiana plant and are in use by our customers on daily routes across the United States. To date, we have built and delivered over 360 electric and range extended medium-duty delivery trucks to our customers. To our knowledge, we are the only American commercial electric vehicle OEM to achieve such a milestone. Our delivery customers include companies such as UPS, FedEx Express, Alpha Baking and Ryder System.

Workhorse, with our partner VT Hackney, is one of five awardees that the United States Postal Service selected to build prototype vehicles for the USPS Next Generation Delivery Vehicle (NGDV) project. The Post Office has stated that the number of vehicles to be replaced in the project is approximately 180,000. In September 2017, Workhorse delivered six vehicles for prototype testing under the NGDV Acquisition Program in compliance with the terms set forth in their USPS prototype contract. These vehicles continue to undergo testing in the field and at testing facilities. The Post Office has stated that they intend to test the prototypes and select a winning bid(s) following the testing process.

On May 30, 2018, we entered into an Amended Exhibit A (the "May 2018 UPS Agreement") to the Vehicle Purchase Agreement dated June 4, 2014 (the "VPA") with United Parcel Service, Inc. ("UPS"), which replaced the original Exhibit

A to the VPA entered in December 2017 (the "Original Exhibit A"). The Original Exhibit A was non-binding and provided that UPS may purchase up to 1,000 N-GEN all electric package delivery vehicles ("N-GEN"). The May 2018 UPS Agreement provides that UPS will purchase 1,000 N-GENs. UPS is initially committed to purchase 50 N-GENs that will be designed and developed with the input from UPS's automotive engineering team and deployed as a test fleet. The timing of the balance of the 950 N-GENs will be on a timeframe solely determined by UPS, which is entitled to reduce or cancel the order in its sole discretion based on the result of the test fleet.

In 2017, Workhorse announced the development of its N-GEN electric cargo van, which leverages the existing ultra-low floor, long-life commercial delivery vehicle platform that was developed for the USPS, as well as our extensive customer experience gained from working with our E-GEN and E-100 customers. The N-GEN incorporates lightweight materials, all-wheel drive, best in class turning radius, 360 º cameras, collision avoidance systems and an optional roof mounted HorseFly delivery drone.

In May 2017, we unveiled a working prototype of our W-15 range-extended electric pickup truck to address the specific needs of commercial fleet work truck operators, including utilities, municipalities, construction, airports and service businesses. We believe that the W-15 has the potential to transform the pickup truck market for fleet operators in the United States, estimated at 250,000 new vehicle purchases per year. The performance specifications of the Workhorse W-15 pickup include a true all-wheel drivetrain and two electric engines that generate up to 460 horsepower and provide a top acceleration time from 0 to 60 MPH of 5.6 seconds. The W-15 also has a fuel-economy rating of 75 MPGe and a range of 80 miles in all-electric operation. A gasoline-powered range extender also comes standard on the truck to extend the driving range to 300 miles on a single tank of gas by continuously charging the batteries during operation.

Last mile delivery is considered the most expensive, inefficient, and pollution generating segment of transport, in addition to being the largest growing segment of the trucking market, according to Datex Corp. and NTEA (2018). Driven by the growth in e-commerce, this is expected to double to 26 billion parcels over the next 10 years. McKinsey & Company estimates that 80% of all home deliveries will transition to driver assisted and autonomous models, driven by driver labor shortages, urban congestion, and consumer demand. As part of continued efforts to advance our last mile delivery platform technologies, in the fourth quarter of 2017, Workhorse initiated a pilot of its Delivery As A Service offering, which provides turn-key electric last mile delivery for conventional brick and mortar and e-commerce businesses. Through our DAAS program, Workhorse electric vehicles, drivers and dispatchers as well as potentially drones provide an asset-light opportunity for businesses to offer zero-emission last mile delivery services to their customers. Workhorse's DAAS is currently operating in one major metropolitan market, with plans to expand to additional cities in conjunction with our pilot customers, in 2018.

Our HorseFly™ Delivery Drone is a custom-designed, purpose-built drone that is fully integrated with our electric trucks. We have a patent pending on this architecture and we believe we are the only company in the world with a working drone/truck system. The HorseFly delivery drone and truck system is designed to work within the FAA Rule 107 that permits the use of commercial drones in U.S. airspace under certain conditions.

To date, we have conducted two demonstration deliveries with large multi-national corporations, including UPS. UPS conducted a successful real-world test with us in February 2017 and it received worldwide news coverage. The knowledge we have gained in building electric delivery trucks for last-mile delivery has led us to believe that a drone/truck delivery system can have significant cost savings in the growing last mile delivery market.

SureFly is our entry into the emerging vertical take-off and landing (VTOL) market. It is designed to be a two-person, 400-pound payload aircraft with on a hybrid internal combustion/electric power generation system. Our approach in the design is to build the safest and simplest to fly rotary wing aircraft in the world. We believe it is a practical answer to personal flight, and has additional applications in the commercial transportation segments, including air taxi services, agriculture and others.

The FAA to date has granted six separate Experimental Airworthiness Certifications, registered as N834LW, for the aircraft. These certifications come after an extensive design review and inspection of the aircraft with each renewed certificate. In June 2018, we filed an application and received approval to begin the process to receive Type Certification for the SureFly.

On July 6, 2018, we, as borrower, entered into a Loan Agreement with a fund managed by Arosa Capital Management LP (“Arosa”), as lender, providing for a term loan (the “Arosa Loan”) in the principal amount of $6,100,000 (the “Loan Agreement”). The maturity date of the Arosa Loan is July 6, 2019 (the “Maturity Date”). The interest rate for the Arosa Loan is 8% per annum payable in quarterly installments commencing October 6, 2018. We may prepay all, but not less than all, the Arosa Loan at any time upon three days written notice. The Loan Agreement also requires we make certain representations and warranties and other agreements that are customary in loan agreements of this type, as well as a covenant to raise $10,000,000 in equity prior to September 30, 2018 and to consummate a sale of Surefly, Inc., the Company’s indirect wholly-owned subsidiary resulting in cash proceeds of no less than $20,000,000, prior to January 6, 2019. The Loan Agreement also contains customary events of default, including non-payment of principal or interest, violations of covenants, bankruptcy and material judgments. We, together with our subsidiaries, and Arosa also entered into a Guarantee and Collateral Agreement and Intellectual Property Security Agreement providing that our obligations to Arosa are secured by substantially all of our assets. In addition, we are required to appoint to the Board of Directors a person designated in writing by Arosa for a period of no less than 12 months. We used the proceeds from the Arosa Loan to satisfy the Senior Secured Loans initially issued December 27, 2017 in the amount of $5,750,000 and a loan in the amount of $350,000 payable to the former owner of our facility based in Loveland, Ohio. In accordance with the Loan Agreement, we issued Arosa a warrant to purchase 5,000,358 shares of common stock of the Company at an exercise price of $2.00 per share exercisable in cash only for a period of five years. While the Arosa Loan remains outstanding, we are required to issue additional warrants to Purchase Common Stock to Arosa

equal to 10% of any additional issuance excluding issuances under an approved stock plan. The additional warrants to Purchase Common Stock will have an exercise price equal to the lesser of $2.00 or a 5% premium to the price utilized in such financing. Pursuant to the warrant, Arosa may not exercise such warrant if such exercise would result in Arosa beneficially owning in excess of 9.99% of the Company's then issued and outstanding common stock. On August 2, 2018, after conducting additional due diligence on the Company's available collateral base, Arosa agreed to enter into the First Amendment to the Loan Agreement with our company pursuant to which an additional $1,700,000 was loaned to us for working capital and general corporate purposes. In addition, various covenants were added or amended including, but not limited to, requiring the Company to satisfy its mortgage on its Loveland, Ohio facility, which as of the date of this prospectus supplement is in the aggregate amount of $1.85 million, including all accrued but unpaid interest thereon, no later than October 1, 2018.

In the event we propose to raise any capital while the Arosa Loan remains outstanding by the issuance of new equity securities or the board approves an agreement to effectuate the foregoing (a "ROFR Financing"), then prior to the consummation of such ROFR Financing, Arosa has the right, but not the obligation, to participate in such ROFR Financing on terms no less favorable that those offered to investors in such ROFR Financing (the "ROFR"). Arosa has agreed to waive its ROFR in connection with this offering.

On June 7, 2018, we 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 our company (collectively, the "Related Parties"). To evidence the loans, we issued the Related Parties promissory notes (the "Related Parties Notes") in the aggregate principal amount of $550,000. The Related Parties Notes are unsecured obligations of our company and are not convertible into equity securities of our company. Principal and interest under the Related Parties Notes are due and payable December 6, 2018, however, in the event that we raise in excess of $10,000,000 in equity financing, then we will use part of its proceeds to pay off the Related Parties Notes. The Related Parties Notes contain terms and events of default customary for similar transactions.

On July 5, 2018, we received a short-term loan in the aggregate principal amount of $500,000 from accredited investors (collectively, the “Loan Parties”), which included Mr. Samuels, a director of our company. To evidence the loans, we issued the Loan Parties promissory notes (the “Loan Parties Notes”) in the aggregate principal amount of $500,000. The Loan Parties Notes are unsecured obligations of our company and are not convertible into equity securities of our company. Principal and interest under the Loan Parties Notes is due and payable January 5, 2019, however, in the event that we raise in excess of $10,000,000 in equity or debt financing (including this offering), we will use a portion of the proceeds to pay off the Loan Parties Notes. Interest accrues on the Loan Parties Notes at the rate of 12.0% per annum. The Loan Parties Notes contain terms and events of default customary for similar transactions.

We are a Nevada corporation. Our executive offices are located at 100 Commerce Drive, Loveland, Ohio 45140, and our telephone number is 513-360-4704. Our website is *www.workhorse.com*. Information contained in, or accessible through, our website does not constitute part of this prospectus supplement and inclusions of our website address in this prospectus supplement are inactive textual references only.

The Offering

The following is a brief summary of some of the terms of the offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus supplement and the accompanying base prospectus.

Common stock offered by us	9,000,000 shares of our common stock
Offering price	$1.15 per share of common stock.
Common stock to be outstanding after this offering	54,982,134 shares.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $9,555,500, after deducting the underwriting discount and the estimated offering expenses payable by us. We expect to use the net proceeds from this offering for working capital, general corporate purposes and repayment of debt, including the payment of (i) $644,000 to Cowen and Company, LLC for previous work performed, (ii) outstanding promissory notes in the amount of $1,050,000 of which $750,000 is held by officers and/or directors of our company, (iii) outstanding account payables, and (iv) a mortgage in the amount of $1.85 million. See “Use of Proceeds” on page S-17.
Risk factors	Investing in our securities involves a high degree of risk. See “Risk Factors” beginning on page S-5 and the other information included or incorporated by reference in this prospectus supplement and

the accompanying base prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

NASDAQ Capital Market symbol of our common stock "WKHS"

The number of shares of our common stock expected to be outstanding after this offering is based on 45,982,134 shares of common stock outstanding as of August 6, 2018, and excludes the following:

4,121,621 shares of common stock issuable upon exercise of options outstanding as of August 6, 2018, which have a weighted average exercise price of $4.17 per share;

7,618,665 shares of common stock issuable upon exercise of warrants outstanding as of August 6, 2018, which have a weighted average exercise price of $3.13 per share.

In addition, in accordance with the Loan Agreement entered with Arosa, we issued Arosa a warrant to purchase 5,000,358 shares of common stock of the Company at an exercise price of $2.00 per share exercisable in cash only for a period of five years. While the Arosa Loan remains outstanding, we are required to issue additional warrants to purchase common stock to Arosa equal to 10% of any additional issuance excluding issuances, under an approved stock plan. The additional warrants to purchase common stock will have an exercise price equal to the lesser of $2.00 or a 5% premium to the price utilized in issuance. Pursuant to the warrant, Arosa may not exercise such warrant if such exercise would result in Arosa beneficially owning in excess of 9.99% of our common stock outstanding immediately after giving effect to such exercise. Since July 6, 2018, we have issued and sold 978,915 shares of common stock at an average price of $1.52 requiring us to issue Arosa an additional warrant to acquire 108,768 shares of common stock at an exercise price of $1.596. As a result of this offering, we will issue to Arosa an additional warrant to purchase 1,000,000 shares of common stock (1,150,000 shares of common stock if the underwriters exercise the over-allotment option in full) at an exercise price of $1.21 as a result of this offering.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise by the underwriters of the option to purchase additional shares of common stock.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before purchasing our common stock, you should read and consider carefully the following risk factors as well as all other information contained and incorporated by reference in this prospectus supplement and the accompanying base prospectus, including our consolidated financial statements and the related notes. Each of these risk factors, either alone or taken together, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock. There may be additional risks that we do not presently know of or that we currently believe are immaterial, which could also impair our business and financial position. If any of the events described below were to occur, our financial condition, our ability to access capital resources, our results of operations and/or our future growth prospects could be materially and adversely affected and the market price of our common stock could decline. As a result, you could lose some or all of any investment you may make in our common stock.

Risks Relating to Our Business

We have incurred substantial net losses since our inception and anticipate that we will continue to incur substantial net losses for the foreseeable future. We may never achieve or sustain profitability.

We have incurred net losses amounting to $118.5 million for the period from inception (February 20, 2007) through June 30, 2018. We have had net losses in each quarter since our inception. We expect that we will continue to incur net losses for the foreseeable future. We may incur significant losses in the future for several reasons, including the other risks described in this prospectus, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events. Accordingly, we may not be able to achieve or maintain profitability. Our management is developing plans to alleviate the negative trends and conditions described above but there is no guarantee that such plans will be successfully implemented. There is no assurance that even if we successfully implement our business plan, that we will be able to curtail our losses. If we incur additional significant operating losses, our stock price may decline significantly.

We have yet to achieve positive cash flow and, given our projected funding needs, our ability to generate positive cash flow is uncertain.

We have had negative cash flow from operating activities of $7.6 million and $19.7 million for the six months ended June 30, 2018 and 2017. We anticipate that we will continue to have negative cash flow from operating and investing activities for the foreseeable future as we expect to incur increased research and development, sales and marketing, and general and administrative expenses and make significant capital expenditures in our efforts to increase sales and

commence operations at our Union City facility. Our business also will at times require significant amounts of working capital to support our growth, particularly as we acquire inventory to support our anticipated increase in production. An inability to generate positive cash flow for the foreseeable future may adversely affect our ability to raise needed capital for our business on reasonable terms, diminish supplier or customer willingness to enter into transactions with us, and have other adverse effects that would decrease our long-term viability. There can be no assurance we will achieve positive cash flow in the foreseeable future.

We need access to additional financing in 2018 and beyond, which may not be available to us on acceptable terms or at all. Our auditor's report for the fiscal years ended December 31, 2017 and 2016 includes a going concern opinion due to our lack of sales, negative working capital and stockholders' deficit. If we cannot access additional financing when we need it and on acceptable terms, our business may fail.

Our business plan to design, produce, sell and service commercial electric vehicles through our Union City facility will require substantial continued capital investment. Our research and development activities will also require substantial continued investment. For the year ended December 31, 2017, our independent registered public accounting firm issued a report on our 2017 financial statements that contained an explanatory paragraph stating that the lack of sales, negative working capital and stockholders' deficit, raise substantial doubt about our ability to continue as a going concern. For example, our existing capital resources, including the expected proceeds from this offering, will be insufficient to fund our operations beyond the end of November 2018. Moreover, following the offering, we will have approximately $5.9 million of outstanding indebtedness. Our cash flow from operations is not expected to be sufficient to satisfy our debt obligations. In the event, we do not consummate a sale of Surefly, Inc. in which we receive sufficient proceeds, we may not be able to repay our outstanding indebtedness. Accordingly, we will need additional financing. We will also need additional financing beyond 2018. If we are not able to obtain additional financing and/or substantially increase revenue from sales, we will default on our debt obligations and be unable to continue as a going concern. As a result, we may have to liquidate our assets and may receive less than the value at which those assets are carried on our consolidated financial statements, and investors will likely lose a substantial part or all of their investment. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all, particularly given that we do not now have a committed credit facility with any government or financial institution. Further, if there remains doubt about our ability to continue as a going concern, investors or other financing sources may be unwilling to provide additional funding on acceptable terms or at all. If we cannot obtain additional financing when we need it and on terms acceptable to us, we will not be able to continue as a going concern.

The development of our business in the near future is contingent upon the receipt and fulfillment of orders from UPS and other key customers for the purchase of E-GENs and N-GENs and if we are unable to perform under these orders, our business may fail.

On June 4, 2014, the Company entered into a Vehicle Purchase Agreement with United Parcel Service Inc. (“UPS”) which outlined the relationship by which the Company would sell vehicles to UPS. To date, we have received six separate orders totaling up to 1,405 vehicles from UPS. The most recent order is from Q1 2018, which was amended in May 2018. The May 2018 UPS Agreement provides that UPS will purchase 1,000 N-GENs. UPS is initially committed to purchase 50 N-GENs that will be designed and developed with the input from UPS’s automotive engineering team and deployed as a test fleet. This order is expected to account for substantially all of our revenues over the next six months and, if UPS purchases additional vehicles, UPS would account for a greater percentage of our revenues and we will become more dependent upon them. The timing of the balance of the 950 N-GENs will be on a timeframe solely determined by UPS, which is entitled to reduce or cancel the order in its sole discretion based on the result of the test fleet. Upon completion of this offering, we will need to raise additional capital in order to satisfy our obligations under the May 2018 UPS Agreement. There is no guarantee that we will be able to perform under these orders and if we and the vehicles do not perform, that UPS will purchase additional vehicles from our company. Also, there is no assurance that UPS will not terminate its agreement with our company pursuant to the termination provisions therein. Further, we will need significant financing to fulfill any future orders and we are not able to raise the required capital to purchase required parts and pay certain vendors, we may not be able to comply with UPS’s deadlines. Accordingly, despite the receipt of the orders from UPS, there is no assurance, due our financial constraints and status as a development stage company, that we will be able to deliver such vehicles or that it will receive additional orders whether from UPS or other potential customers.

If we are unable to perform under our orders with UPS, the Company business will be significantly negatively impacted.

Our limited operating history makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of our future performance.

Our revenue increased from $6.4 million in 2016 to $10.8 million in 2017. However, our revenue for the six months ended June 30, 2018 decreased to $730 thousand from $1.8 million for the comparable period in 2017. As evidenced by the fluctuations in our revenue, a significant portion of our activities are still focused on research and development. We have a limited operating history and have generated limited, but improving, revenue. As we begin to fully implement our manufacturing capabilities, it is difficult, if not impossible, to forecast our future results based upon our historical data. Because of the uncertainties related to our lack of historical operations, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in revenues or expenses. If we make poor budgetary decisions as a result of unreliable historical data, we could be less profitable or incur losses, which may result in a decline in our stock price.

Our obligations to Arosa, which holds a secured loan, are secured by a security interest in substantially all of our assets, so if we default on those obligations, Arosa could foreclose on, liquidate and/or take possession of our assets. If that were to happen, we could be forced to curtail, or even to cease, our operations.

All amounts due under the loan payable to Arosa are secured by our assets. As a result, if we default on our obligations under the secured loan, Arosa could foreclose on its security interest and liquidate or take possession of some or all of these assets, which would harm our business, financial condition and results of operations and could require us to curtail, or even to cease our operations.

We are subject to certain covenants set forth in the Arosa Loan Agreement. Upon an event of default, including a breach of a covenant, we may not be able to make such accelerated payments under the Loan Agreement.

Under the Arosa Loan Agreement, so long as the loan remains outstanding, we are subject to various negative covenants, including but not limited to, restrictions on incurring additional indebtedness or additional encumbrances, mergers and acquisitions or dispositions of property as well as certain affirmative covenants, including a covenant to raise $10,000,000 in equity prior to September 30, 2018, to consummate a sale of Surefly, Inc., our indirect wholly-owned subsidiary resulting in cash proceeds of no less than $20,000,000 by January 6, 2019 and requiring that we satisfy the mortgage on our Loveland, Ohio facility no later than October 1, 2018. In the event we propose to raise any capital, Arosa has the right, but not the obligation, to participate in such ROFR Financing on terms no less favorable that those offered to investors in such ROFR Financing (the “ROFR”). Arosa has agreed to waive its ROFR in connection with the securities being offered pursuant to this prospectus supplement. In addition, under the loan agreement, an event of default occurs upon any of the following: (i) non-payment of principal or interest, (ii) violations of covenants, (iii) bankruptcy and (iv) material judgments. Upon an event of default, the outstanding principal amount of the loan plus any other amounts owed to Arosa will become immediately due and payable and Arosa could foreclose on our assets. A default would also likely significantly diminish the market price of our common stock.

We offer no financing on our vehicles. As such, our business is dependent on cash sales, which may adversely affect our growth prospects.

While most of our current customers are well-established companies with significant purchasing power, many of our potential smaller and medium-sized customers may need to rely on credit or leasing arrangements to gain access to our vehicles. Unlike some of our competitors who provide credit or leasing services for the purchase of their vehicles, we do not provide, and currently do not have commercial arrangements with a third party that provides, such financial services. We believe the current limited availability of credit or leasing solutions for our vehicles could adversely affect our revenues and market share in the commercial electric vehicle market.

Worsening economic conditions may result in decreased demand for our products which could harm our operating results.

Uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets, historically have created a difficult environment for companies in our industry. Many factors, including factors that are beyond our control, may have a detrimental impact on our operating performance. These factors include general economic conditions, unemployment levels, energy costs and interest rates, as well as events such as natural disasters, acts of war, terrorism and catastrophes. These conditions may result in a decline in the demand for our products by potential customers or result in the delay of our development of new products and/or enhancements to our existing products for our existing customers. There can be no assurance that economic conditions will remain favorable for our business or that demand for our products will remain at current levels. Reduced demand for our products would negatively impact our growth and revenue.

Our business, prospects, financial condition and operating results will be adversely affected if we cannot reduce and adequately control the costs and expenses associated with operating our business, including our material and production costs.

We incur significant costs and expenses related to procuring the materials, components and services required to develop and produce our electric vehicles. We have secured supply agreements for our critical components including our batteries. However, these are dependent on volume to ensure that they are available at a competitive price. Thus, our current cost projections are higher than the projected revenue stream that such vehicles will produce, excluding vehicles purchased under voucher programs, such the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) offered in California. As a result, we currently lose money on each medium-duty vehicle sold without an associated voucher. We continually work on cost-down initiatives to reduce our cost structure so that we may effectively compete. If we do not reduce our costs and expenses, our net losses will continue which will negatively impact our business and stock price.

Increases in costs, disruption of supply or shortage of lithium-ion cells could harm our business.

Over the last couple of years, there has been a worldwide fear of a lithium shortage which has nearly tripled the metal's price and correspondingly increasing the price of lithium-ion cells. We may continue to experience increases in the cost or a sustained interruption in the supply or shortage of lithium-ion cells. Any such increase, supply interruption or shortage could materially and negatively impact our business, prospects, financial condition and operating results. The prices for these lithium-ion cells can fluctuate depending on market conditions and global demand for these materials and could adversely affect our business and operating results. We are exposed to multiple risks relating to lithium-ion cells including:

- the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells we may require going forward;
- disruption in the supply of cells due to quality issues or recalls by battery cell manufacturers;
- an increase in the cost of raw materials used in the cells; and
- fluctuations in the value of the Japanese yen against the U.S. dollar in the event our purchasers of lithium-ion cells are denominated in Japanese yen.

Our business is dependent on the continued supply of battery cells for the battery packs used in our vehicles. While we believe several sources of the battery cells are available for such battery cells, we have fully qualified only Panasonic for the supply of the cells used in such battery packs and have very limited flexibility in changing cell suppliers. Any disruption in the supply of battery cells could disrupt production of our vehicles until such time as a different supplier is fully qualified. Furthermore, fluctuations or shortages in petroleum, tariff or trade issues and other economic or tax conditions may cause us to experience significant increases in freight charges. Substantial increases in the prices for the battery cells or prices charged to us, would increase our operating costs, and could reduce our margins if we cannot recoup the increased costs through increased vehicle prices. Any attempts to increase vehicle prices in response to increased costs in our battery cells could result in cancellations of vehicle orders and therefore materially and adversely affect our brand, image, business, prospects and operating results.

The demand for commercial electric vehicles depends, in part, on the continuation of current trends resulting from dependence on fossil fuels. Extended periods of low diesel or other petroleum-based fuel prices could adversely affect demand for our vehicles, which would adversely affect our business, prospects, financial condition and operating results.

We believe that much of the present and projected demand for commercial electric vehicles results from concerns about volatility in the cost of petroleum-based fuel, the dependency of the United States on oil from unstable or hostile countries, government regulations and economic incentives promoting fuel efficiency and alternative forms of energy, as well as the belief that climate change results in part from the burning of fossil fuels. If the cost of petroleum-based fuel decreased significantly, the outlook for the long-term supply of oil to the United States improved, the government eliminated or modified its regulations or economic incentives related to fuel efficiency and alternative forms of energy, or if there is a change in the perception that the burning of fossil fuels negatively impacts the environment, the demand for commercial electric vehicles could be reduced, and our business and revenue may be harmed.

Diesel and other petroleum-based fuel prices have been extremely volatile, and we believe this continuing volatility will persist. Lower diesel or other petroleum-based fuel prices over extended periods of time may lower the perception in government and the private sector that cheaper, more readily available energy alternatives should be developed and produced. If diesel or other petroleum-based fuel prices remain at deflated levels for extended periods of time, the demand for commercial electric vehicles may decrease, which would have an adverse effect on our business, prospects, financial condition and operating results.

Our future growth is dependent upon the willingness of operators of commercial vehicle fleets to adopt electric vehicles and on our ability to produce, sell and service vehicles that meet their needs. This often depends upon the cost for an operator adopting electric vehicle technology as compared to the cost of traditional internal combustion technology. When the price of oil is low, as it recently has been, it is difficult to convince commercial fleet operations to change to more expensive electric vehicles.

Our growth is dependent upon the adoption of electric vehicles by operators of commercial vehicle fleets and on our ability to produce, sell and service vehicles that meet their needs. The entry of commercial electric vehicles into the medium-duty commercial vehicle market is a relatively new development, particularly in the United States, and is characterized by rapidly changing technologies and evolving government regulation, industry standards and customer views of the merits of using electric vehicles in their businesses. This process has been slow as without including the impact of government or other subsidies and incentives, the purchase prices for our commercial electric vehicles currently is higher than the purchase prices for diesel-fueled vehicles. Our growth has also been negatively impacted by the relatively low price of oil over the last few years.

If the market for commercial electric vehicles does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be adversely affected.

As part of our sales efforts, we must educate fleet managers as to the economical savings we believe they will benefit from during the life of the vehicle. As such, we believe that operators of commercial vehicle fleets should consider a number of factors when deciding whether to purchase our commercial electric vehicles (or commercial electric vehicles generally) or vehicles powered by internal combustion engines, particularly diesel-fueled or natural gas-fueled vehicles. We believe these factors include:

- the difference in the initial purchase prices of commercial electric vehicles and vehicles with comparable GVWs powered by internal combustion engines, both including and excluding the impact of government and other subsidies and incentives designed to promote the purchase of electric vehicles;
- the total cost of ownership of the vehicle over its expected life, which includes the initial purchase price and ongoing operating and maintenance costs;
- the availability and terms of financing options for purchases of vehicles and, for commercial electric vehicles, financing options for battery systems;
- the availability of tax and other governmental incentives to purchase and operate electric vehicles and future regulations requiring increased use of nonpolluting vehicles;
- government regulations and economic incentives promoting fuel efficiency and alternate forms of energy;
- fuel prices, including volatility in the cost of diesel;
- the cost and availability of other alternatives to diesel fueled vehicles, such as vehicles powered by natural gas;

- corporate sustainability initiatives;
- commercial electric vehicle quality, performance and safety (particularly with respect to lithium-ion battery packs);
- the quality and availability of service for the vehicle, including the availability of replacement parts;
- the limited range over which commercial electric vehicles may be driven on a single battery charge;
- access to charging stations and related infrastructure costs, and standardization of electric vehicle charging systems;
- electric grid capacity and reliability; and
- macroeconomic factors.

If, in weighing these factors, operators of commercial vehicle fleets determine that there is not a compelling business justification for purchasing commercial electric vehicles, particularly those that we produce and sell, then the market for commercial electric vehicles may not develop as we expect or may develop more slowly than we expect, which would adversely affect our business, prospects, financial condition and operating results.

If our customers are unable to efficiently and effectively integrate our electric vehicles into their existing commercial fleets our sales may suffer and our business, prospects, financial condition and operating results may be adversely affected.

Our sales strategy involves a comprehensive plan for the pilot and roll-out of our electric vehicles, as well as the ongoing replacement of existing commercial vehicles with our electric vehicles, that is tailored to the individual needs of our customers. If we are unable to develop and execute fleet integration strategies or fleet management support services that meet our customers' unique circumstances with minimal disruption to their businesses, our customers may not realize the economic benefits they expect from our electric vehicles. If this were to occur, our customers may not order additional vehicles from us, which could adversely affect our business, prospects, financial condition and operating results.

We currently do not have long-term supply contracts with guaranteed pricing which exposes us to fluctuations in component, materials and equipment prices. Substantial increases in these prices would increase our operating costs and could adversely affect our business, prospects, financial condition and operating results.

Because we currently do not have long-term supply contracts with guaranteed pricing, we are subject to fluctuations in the prices of the raw materials, parts and components and equipment we use in the production of our vehicles. Substantial increases in the prices for such raw materials, components and equipment would increase our operating costs and could reduce our margins if we cannot recoup the increased costs through increased vehicle prices. Any attempts to increase the announced or expected prices of our vehicles in response to increased costs could be viewed negatively by our customers and could adversely affect our business, prospects, financial condition and operating results.

The failure of certain key suppliers to provide us with components could have a severe and negative impact upon our business.

We have secured supply agreements for our critical components including our batteries. However, the agreements are dependent on volume to ensure that they are available at a competitive price. Further, we rely on a small group of suppliers to provide us with components for our products. If these suppliers become unwilling or unable to provide components or if we are unable to meet certain volume requirements in our existing supply agreements, there are a limited number of alternative suppliers who could provide them and the price for them could be substantially higher. Changes in business conditions, wars, governmental changes, and other factors beyond our control or which we do not presently anticipate could negatively affect our ability to receive components from our suppliers. Further, it could be difficult to find replacement components if our current suppliers fail to provide the parts needed for these products. A failure by our major suppliers to provide these components could severely restrict our ability to manufacture our products and prevent us from fulfilling customer orders in a timely fashion.

If we are unable to scale our operations at our Union City facility in an expedited manner from our limited low volume production to high volume production, our business, prospects, financial condition and operating results could be adversely affected.

We are currently assembling our orders at our Union City facility which is acceptable for our existing orders. To satisfy increased demand, we will need to quickly scale operations in our Union City facility as well as scale our supply chain including access to batteries. Such a substantial and rapid increase in operations will be extremely difficult, will strain our management capabilities and require additional finance personnel and other resources which we currently do not possess. Our business, prospects, financial condition and operating results could be adversely affected if we experience disruptions in our supply chain, if we cannot obtain materials of sufficient quality at reasonable prices or if we are unable to scale our Union City facility.

Failure to successfully integrate the Workhorse® brand, logo, intellectual property, patents and assembly plant in Union City, Indiana into our operations could adversely affect our business and results of operations.

As part of our strategy to become an OEM, in March 2013, we acquired Workhorse and the Workhorse Assets including the Workhorse® brand, logo, intellectual property, patents and assembly plant in Union City, Indiana. Maintaining and enhancing our brand awareness may require us to spend increasing amounts of money on, and devote greater resources, to advertising, marketing and other brand-building efforts, and these investments may not be successful. Even if successful, they may not be cost effective. In addition, the Workhorse acquisition may expose us to operational challenges and risks, including the diversion of management's attention from our existing business, the failure to retain key Workhorse dealers and our ability to commence operations at the plant in Union City, Indiana. Our ability to sustain our growth and maintain our competitive position may be affected by our ability to successfully integrate the Workhorse Assets.

We depend upon key personnel and need additional personnel. The loss of key personnel or the inability to attract additional personnel may adversely affect our business and results of operations.

Our success depends on the continuing services of Stephen Burns, CEO, and top management. Our success depends on the continuing services of Stephen Burns, CEO, and top management. Although Mr. Burns and the Company entered into an Executive Retention Agreement and the Company entered Executive Retention Agreements with Duane Hughes as President and Chief Operating Officer, Paul Gaitan as Chief Financial Officer and Julio Rodriguez as Chief Information Officer, we cannot assure you that we will be able to retain their services. The loss of any of these individuals could have a material and adverse effect on our business operations. Additionally, the success of our operations will largely depend upon our ability to successfully attract and maintain competent and qualified key management personnel. As with any company with limited resources, there can be no guarantee that we will be able to attract such individuals or that the presence of such individuals will necessarily translate into profitability for our company. Our inability to attract and retain key personnel may materially and adversely affect our business operations. Any failure by our management to effectively anticipate, implement, and manage the changes required to sustain our growth would have a material adverse effect on our business, financial condition, and results of operations.

We face intense competition. Some of our competitors have substantially greater financial or other resources, longer operating histories and greater name recognition than we do and could use their greater resources and/or name recognition to gain market share at our expense or could make it very difficult for us to establish market share.