



CORPORATE PARTICIPANTS

Stephen Burns
Chief Executive Officer

Julio Rodriguez
Chief Financial Officer

Duane Hughes
President

MANAGEMENT DISCUSSION SECTION

Duane A. Hughes
President

Thank you Melissa and good morning everyone. Thank you for joining our third quarter 2016 update conference call. I'm Duane Hughes, President of Workhorse Group. Joining me this afternoon are Steve Burns, our Chief Executive Officer and our Chief Financial Officer, Julio Rodriguez.

As you may have seen, we released our 10-Q earlier this morning and we will give you an update as we continue. For those of you who have not, it is available on our website at workhorse.com.

I want to call your attention to our Safe Harbor provision for forward-looking statements that is posted on our website and is part of our third quarter update. The Safe Harbor provision identifies risk factors that may cause actual results to differ materially from the content of our forward-looking statements. Our 2015, Form 10-K and other periodic filings on file with the SEC provide further detail about the risk factors related to our business.

The format for today's call will be as follows: First, Steve Burns will lead us off with a brief discussion and update of our key strategic priorities. Next, Julio Rodriguez will take us through the financial performance for the third quarter. Lastly, there will be a question-and-answer period.

With that, I would now like to turn the call over to Steve Burns.

Stephen S. Burns
Chief Executive Officer & Director

Thank you Duane and good morning, everyone. We had an exciting and productive quarter and we are happy to share the details with you. Additionally, we have announced some significant milestones since the quarter ended and we will present these to you as well.

We are a technology company operating under two major divisions, our commercial truck division and our aerospace division. We are focused on industrial fleets involved in the last mile delivery, as well as, utilities and municipalities. We are an American original equipment manufacturer (OEM) and we have nearly 100 employees and contractors. We produce medium-duty, battery-electric trucks and fully integrated unmanned aerial delivery aircraft. We also develop cloud-based, real-time telematic performance monitoring systems that provides fleet operators with ultimate energy and route efficiency.

The commercial truck division of Workhorse is dedicated to engineering and manufacturing battery-electric, range-extended vehicles for fleet customers, where every product we make is designed to save our customers money while simultaneously reducing emissions that go into our air. Our main



manufacturing plant is in Union City, Indiana and our headquarters and Battery Pack plant are in Cincinnati, Ohio. Within our truck division, we have two groups. Our medium-duty group and our light-duty group. Let's talk about the medium duty group first.

Medium-Duty:

Our premier medium-duty truck product is our range-extended (E-GEN) electric step van with a BMW gasoline range extender. Our E-GEN trucks currently in production are up to 19,500 lbs. and are demonstrating the equivalent of more than 30 mpg in the field with actual customers. This is compared to the 5.5 mpg that a comparable gasoline truck would achieve on similar routes. We have direct supplier agreements with BMW and with Panasonic Corporation. We purchase high quality lithium-ion 18650 cells directly from Panasonic and integrate them into our battery packs. For our range extender, we purchase the engine-generator genset that is used in the BMW i3 range extended electric passenger vehicle, directly from BMW.

Our largest customer is UPS and we are currently delivering vehicles to 26 of their locations across eight states.



In addition to UPS, we are the chassis supplier to FedEx Express for a Department of Energy medium-duty fuel cell project.



We are also the provider of E-GEN step vans to the Alpha Baking Company in Chicago and just a few days ago we are excited to announce Cintas who has begun testing our E-GEN in their fleet.



To appreciate our progress, I think it is important to note that we delivered **3** medium-duty trucks in the 1st quarter of this year, 18 trucks the 2nd quarter, **36** trucks in the third quarter and we are expecting to deliver another **60** trucks in the 4th quarter.

We are continuing to drive-down costs as we gain experience through increased production, as well as, improve our buying power as we increase orders with our suppliers. We are also engineering out quite a bit of costs in our vehicle from lessons learned as we get ever more road miles on our trucks. Our early goals were to first get the technology working in the field and then work to reduce production and vehicle costs. We are moving along the cost curve as we had hoped and expect to be break even in our medium-duty segment in early 2018. We feel that this low threshold to get to break even is quite an achievement for new OEM.



Light-Duty



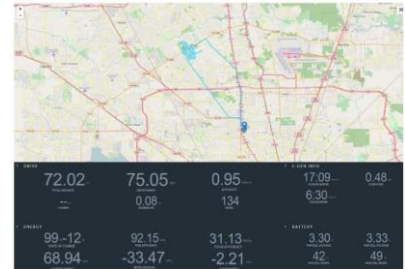
The real world success of our chassis and electric drive trains in the medium-duty segment propelled us to begin developing light-duty electric trucks for commercial fleets. By leveraging the engineering, regulatory and vendor relationships from our medium-duty work, we feel we can be the first OEM to market with an electric, range-extended pickup truck geared specifically toward fleets. We announced last week our W-15 pickup truck. The W-15 is a work truck, designed to be a full size pickup truck that can operate on all electric power for up to 80 miles and then unlimited range with our

gasoline range-extended. As you may have read in the Wall Street Journal, Duke Energy has signed a letter of interest to purchase 500 W-15s when we enter production, which we are projecting for late 2018. Other fleets have also expressed similar interest.

Millions of pickup trucks are sold in the U.S. each year and to our knowledge the W-15 is presently the only plugin electric, range-extended pickup truck that is being developed from the ground up. Because most of our target fleets drive 80 miles or less on most days, coupled with our reduced maintenance, low-emission, and value added telematics package, we believe we can sell the W-15 at a price point that makes the W-15 an economically attractive vehicle. The W-15 will offer first-in-class safety features including an expanded crumple zone and a low center of gravity.

Our Post Office prototype award for their Next Generation Delivery Vehicle, with our partner VT Hackney, also falls under our Light-Duty vehicle segment. We are well focused on our engineering efforts to complete our prototype builds for delivery to the postal service on time. Naturally, we are very excited about this opportunity.

As I mentioned during our medium-duty discussion, all our vehicles are equipped with our Workhorse in-house developed telematics system. Workhorse Telematics is a cloud based proof-of-performance management system. The system provides customers access to real-time data enabling them to measure the performance of each vehicle while maximizing energy and route efficiency. Workhorse vehicles are parameter-based systems. Parameters can be set for route-specific requirements and sent over-the-air to the vehicles. This allows each vehicle to be configured for the route it has been assigned providing better management of the battery-provided power.



Also like other OEM's, we are developing features such as autonomous drive and collision avoidance for both our medium and light duty segments, as well as our Aerospace vehicles.

AeroSpace

Our aerospace division leverages the battery and motor technologies that we have developed for ground vehicles and reshapes them for use in battery-electric vertical takeoff and landing aircraft. Many of our fleet truck customers are in the business of delivering goods and moving people, and we feel that sophisticated manned and unmanned, electric and range extended aircraft will have a place in the delivery ecosphere.

In a historic move, on August 29, 2106 the FAA approved Rule 107 which permits commercial use of drones in the United States. We plan on leading the way for drone delivery with our truck launched HorseFly delivery drone that is designed to operate within the line-of-sight of the truck operator and therefore, we believe it will comply with the current FAA regulations for commercial drone use. While we are not implying that the HorseFly system is suitable for all deliveries, there are a number of situations



where the HorseFly's strengths and economies can be utilized to dramatically reduce costs and emissions commonly associated with last mile delivery.

We continue to work closely with the University of Cincinnati's aeronautical engineering department on both our unmanned and manned aircraft to ensure that we are building revolutionary new machines that are both safe and effective.



Before I finish up, I'd like to talk about the facility we just purchased that will serve as our battery factory. We now own our 42,000 sq. ft. facility in Cincinnati that will serve as our engineering headquarters as well as our battery pack factory. In all of our endeavors...Step Vans, Pick-Up trucks, Post Office trucks and our aircraft...the common element is a cost effective battery pack that will provide consistent power in all weather conditions for many years. To achieve this vision, we have nearly 8 years of development in our pack design and are now focusing on automating the pack assembly

process to further decrease our costs and maintain the high-quality pack that is required to make vehicle electrification a reality.

Let me now turn it over to Julio, our CFO, to take you through the financials results.



Julio Rodriguez

Chief Financial Officer

Good morning everyone and thank you Steve:

The third quarter marked the continuation of commercial manufacturing for Workhorse, as we registered \$1.9 million in sales from the delivery of battery-electric Workhorse vehicles, for a year to date total of \$3.4 million. The vehicles delivered in the nine months ended September 30, 2016 were a combination of both the range-extended Workhorse E-GEN and the Workhorse E-100 all-electric platforms. Pretty much all revenue we showed in 2015 was from the sale of prototype units.

The production and delivery of these units signals the start of the revenue phase for our company, signaling the beginning of the wide adoption of this innovative technology that we believe will transform the industry. We will continue to ramp up production and execute delivery of customer orders on a fast pace.

Cost of Sales for the three and nine months ended September 30, 2016 were \$4.2 and \$6.9 million respectively. Gross margin for the quarter was negative \$2.2 million and \$3.6 million year to date. As manufacturing volume increases, we expect to benefit from volume pricing from suppliers. We are also in the process of reducing costs and achieving manufacturing efficiencies through advanced engineering to reach profitability faster than anticipated.

Selling General & Administrative expenses during the three months ended September 30, 2016 were \$1.9 million, an increase from \$1.8 million for the three months ended September 30, 2015. The increase in our SG&A expenses consisted primarily in employee salaries and benefits, consulting and investor relations, due to the increased activity in the period.

SG&A expenses during the nine months ended September 30, 2016 were \$4.8 million, an increase from \$2.8 million for the nine months ended September 30, 2015. The increase in our SG&A expenses consisted primarily in employee salaries and benefits, investor relations, and travel due to increased activity in the period.

Research and development expenses consist primarily of personnel costs for our teams in engineering, research, prototyping expense, and contract and professional services. Union City plant expenses prior to the start of production are also included in research and development expenses.

R&D expenses during the three months ended September 30, 2016 were \$1.0 million a decrease from \$1.7 million for the three months ended September 30, 2015. The R&D expenses consisted primarily in employee salaries and benefits, consulting and materials. We had a decrease in R&D expenses in the second quarter of this year due to repurposing the engineering staff to production, but R&D expenses are increasing back due to the USPS Next Generation Delivery Vehicles (NGDVs) project that Steve mentioned on his remarks.

R&D expenses during the nine months ended September 30, 2016 were \$4.2 million an increase from \$2.6 million for the nine months ended September 30, 2015. The increase in our R&D expenses consisted primarily in employee salaries and benefits due to increased activity in new projects as mentioned above.

Interest expenses during the nine months ended September 30, 2016 were \$43 thousand a decrease from \$438 thousand for the nine months ended September 30, 2015. The decrease in the period was due to early payment of the Navistar note which was due March 1, 2016.



With regard to cash flows from operating activities, during the nine months ended September 30, 2016 and 2015, we used \$13.3 and \$4.2 million respectively. The decrease in operating cash flows in 2016 was mainly due to an increase in operating losses, inventory purchases and increases in accounts receivable offset by an increase in accounts payable. The decrease in operating cash flows in 2015 was mainly due to operating losses offset by an increase in accounts payable.

Regarding cash flows from investing activities, during the nine months ended September 30, 2016 and 2015, we used \$148 thousand and \$33 thousand respectively. The amounts in both years were spent in new equipment and software used mainly for R&D and manufacturing activities.

During the nine months ended September 30, 2016 and 2015, net cash provided by financing activities was \$8.9 million and \$3.9 million respectively. Cash flows sources for 2016 came primarily from \$10.2 million cash proceeds from the exercise of investor warrants and \$1.3 million of shareholders' advances offset by \$2.7 million used to pay the balance of the Navistar International loan. In 2015 we had \$1.0 million of cash proceeds from issuance of common stock \$1.2 million from notes payable and \$1.7 million from shareholders' advances.

Management is currently seeking additional capital through private placements or public offerings of its common stock. The Company may seek additional capital through public or private debt or equity financings in order to fund our operations. In addition to these funding possibilities, there are also several government programs available to makers of high efficiency vehicles.

I now will turn the call back to Steve for final remarks and the question and answer portion of the call.

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Stephen S. Burns
Chief Executive Officer & Director

Thanks Julio. As you can likely tell, we've had a busy quarter and we'd like to thank our employees, investors, board members and everyone participating on this call. I'll now open it up Questions.

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