

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

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: 001-34643

AYRO, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

98-0204758

(I.R.S. Employer
Identification No.)

**900 E. Old Settlers Boulevard, Suite 100
Round Rock, Texas**

(Address of principal executive offices)

78664

(Zip Code)

(512) 994-4917

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.0001 per share	AYRO	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 12, 2021, the registrant had 35,228,048 shares of common stock outstanding.

AYRO, Inc.
Quarter Ended March 31, 2021

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

AYRO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current assets:		
Cash	\$ 91,491,161	\$ 36,537,097
Accounts receivable, net	1,053,688	765,850
Inventory, net	836,322	1,173,254
Prepaid expenses and other current assets	1,788,605	1,608,762
Total current assets	95,169,776	40,084,963
Property and equipment, net	671,295	611,312
Intangible assets, net	130,844	143,845
Operating lease – right-of-use asset	1,180,025	1,098,819
Deposits and other assets	41,289	22,491
Total assets	\$ 97,193,229	\$ 41,961,430
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 941,597	\$ 767,205
Accrued expenses	1,048,293	665,068
Contract liability	–	24,000
Current portion long-term debt, net	7,706	7,548
Current portion lease obligation – operating lease	215,555	123,139
Total current liabilities	2,213,151	1,586,960
Long-term debt, net	12,073	14,060
Lease obligation - operating lease, net of current portion	991,545	1,002,794
Total liabilities	3,216,769	2,603,814
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, (authorized – 20,000,000 shares)	–	–
Convertible Preferred Stock Series H, (\$0.0001 par value; authorized – 8,500 shares; issued and outstanding – 8 shares as of March 31, 2021 and December 31, 2020)	–	–
Convertible Preferred Stock Series H-3, (\$0.0001 par value; authorized – 8,461 shares; issued and outstanding – 1,234 shares as of March 31, 2021 and December 31, 2020)	–	–
Convertible Preferred Stock Series H-6, (\$0.0001 par value; authorized – 50,000 shares; issued and outstanding – 50 shares as of March 31, 2021 and December 31, 2020)	–	–
Common Stock, (\$0.0001 par value; authorized – 100,000,000 shares; issued and outstanding – 35,213,048 and 27,088,584 shares, respectively)	3,521	2,709
Additional paid-in capital	124,761,589	64,509,724
Accumulated deficit	(30,788,650)	(25,154,817)
Total stockholders' equity	93,976,460	39,357,616
Total liabilities and stockholders' equity	\$ 97,193,229	\$ 41,961,430

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AYRO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended	
	March 31,	
	2021	2020
Revenue	\$ 788,869	\$ 146,816
Cost of goods sold	644,503	113,155
Gross profit	<u>144,366</u>	<u>33,661</u>
Operating expenses:		
Research and development	1,927,561	154,699
Sales and marketing	558,404	319,454
General and administrative	3,301,309	1,249,052
Total operating expenses	<u>5,787,274</u>	<u>1,723,205</u>
Loss from operations	(5,642,908)	(1,689,544)
Other income (expense):		
Other income, net	9,926	16
Interest expense	(851)	(105,625)
Other income (expense), net	<u>9,075</u>	<u>(105,609)</u>
Net loss	<u>\$ (5,633,833)</u>	<u>\$ (1,795,153)</u>
Net loss per share, basic and diluted	<u>\$ (0.18)</u>	<u>\$ (0.45)</u>
Basic and diluted weighted average Common Stock outstanding	<u>32,007,002</u>	<u>3,948,078</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AYRO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three Months Period Ended March 31, 2021										
	Series H Preferred Stock		Series H-3 Preferred Stock		Series H-6 Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	(Deficit)	
Balance, December 31, 2020	8	\$ -	1,234	\$ -	50	\$ -	27,088,584	\$ 2,709	\$ 64,509,724	\$ (25,154,817)	\$ 39,357,616
Stock Based Compensation									1,699,423		1,699,423
Sale of common stock, net of fees							8,035,835	804	58,269,025		58,269,829
Exercise Warrants							13,642	1	99,999		100,000
Exercise Options							74,987	7	183,418		183,425
Net Loss										(5,633,833)	(5,633,833)
March 31, 2021	<u>8</u>	<u>\$ -</u>	<u>1,234</u>	<u>\$ -</u>	<u>50</u>	<u>\$ -</u>	<u>35,213,048</u>	<u>\$ 3,521</u>	<u>\$ 124,761,589</u>	<u>\$ (30,788,650)</u>	<u>\$ 93,976,460</u>

	Three Months Period Ended March 31, 2020						
	AYRO Series Seed Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated	Total
	Shares	Amount	Shares	Amount	Capital	(Deficit)	
Balance, December 31, 2019	7,360,985	\$ 9,025,245	3,948,078	\$ 395	\$ 5,001,947	\$ (13,958,644)	\$ 68,943
Stock Based Compensation					156,459		156,459
Net Loss						(1,795,153)	(1,795,153)
March 31, 2020	<u>7,360,985</u>	<u>\$ 9,025,245</u>	<u>3,948,078</u>	<u>\$ 395</u>	<u>\$ 5,158,406</u>	<u>\$ (15,753,797)</u>	<u>\$ (1,569,751)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AYRO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended	
	March 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net loss	\$	(5,633,833)	\$	(1,795,153)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		124,198		114,275
Stock-based compensation		1,699,423		156,458
Amortization of debt discount		–		63,744
Amortization of right-of-use asset		39,234		19,717
Provision for bad debt expense		29,032		2,694
Change in operating assets and liabilities:				
Accounts receivable		(316,870)		(98,228)
Inventory		313,046		50,328
Prepaid expenses and other current assets		(179,843)		(114,157)
Deposits		(18,798)		–
Accounts payable		174,392		122,024
Accrued expenses		383,225		427,875
Contract liability		(24,000)		71,404
Lease obligations - operating leases		(39,273)		(4,096)
Net cash used in operating activities		<u>(3,450,067)</u>		<u>(983,115)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment		(131,111)		(87,547)
Purchase of intangible assets		(16,183)		(538)
Net cash used in investing activities		<u>(147,294)</u>		<u>(88,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance debt		–		500,000
Repayments of debt		(1,829)		(1,682)
Proceeds from exercise of warrants		100,000		–
Proceeds from exercise of stock options		183,425		–
Proceeds from issuance of Common Stock, net of fees and expenses		58,269,829		–
Net cash provided by financing activities		<u>58,551,425</u>		<u>498,318</u>
Net change in cash		54,954,064		(572,882)
Cash, beginning of period		<u>36,537,097</u>		<u>641,822</u>
Cash, end of period	\$	<u>91,491,161</u>	\$	<u>68,940</u>
Supplemental disclosure of cash and non-cash transactions:				
Cash paid for interest	\$	851	\$	28,436
Supplemental non-cash amounts of lease liabilities arising from obtaining right of use assets	\$	120,440	\$	1,210,680

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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AYRO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

AYRO, Inc. (“AYRO” or the “Company”), a Delaware corporation formerly known as DropCar, Inc. (“DropCar”), a corporation headquartered outside Austin, Texas, is the merger successor discussed below of AYRO Operating Company, Inc., which was formed under the laws of the State of Texas on May 17, 2016 as Austin PRT Vehicle, Inc. and subsequently changed its name to Austin EV, Inc. under an Amended and Restated Articles of Formation filed with the State of Texas on March 9, 2017. On July 24, 2019, the Company changed its name to AYRO, Inc. and converted its corporate domicile to Delaware. The Company was founded on the basis of promoting resource sustainability. The Company, and its wholly-owned subsidiaries, are principally engaged in manufacturing and sales of environmentally-conscious, minimal-footprint electric vehicles (“EV’s”). The all-electric vehicles are typically sold both directly and to dealers in the United States.

Merger

On May 28, 2020, pursuant to the previously announced Agreement and Plan of Merger, dated December 19, 2019 (the “Merger Agreement”), by and among AYRO, Inc., a Delaware corporation previously known as DropCar, Inc., ABC Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (“Merger Sub”), and AYRO Operating Company (“AYRO Operating”), a Delaware corporation previously known as AYRO, Inc., Merger Sub was merged with and into AYRO Operating, with AYRO Operating continuing after the merger as the surviving entity and a wholly owned subsidiary of the Company (the “Merger”). At the effective time of the Merger, without any action on the part of any stockholder, each issued and outstanding share of AYRO Operating’s common stock, par value \$0.001 per share (“AYRO Operating Common Stock”), including shares underlying AYRO Operating’s outstanding equity awards and warrants, was converted into the right to receive 1.3634 pre-split and pre-stock dividend shares (the “Exchange Ratio”) of the Company’s common stock, par value \$0.0001 per share (“Company Common Stock”). Immediately following the effective time of the Merger, the Company effected a 1-for-10 reverse stock split of the issued and outstanding Company Common Stock (the “Reverse Stock Split”), and immediately following the Reverse Stock Split, the Company issued a stock dividend of one share of Company Common Stock for each outstanding share of Common Stock to all holders of record immediately following the effective time of the Reverse Stock Split (the “Stock Dividend”). The net result of the Reverse Stock Split and the Stock Dividend was a 1-for-5 reverse stock split. As part of the Merger, the Company received cash of \$3.06 million in consideration for 2,337,663 shares of common stock. Upon completion of the Merger and the transactions contemplated in the Merger Agreement and assuming the exercise in full of all pre-funded warrants issued pursuant thereto, (i) the former AYRO Operating equity holders (including the investors in a bridge financing and private placements that closed prior to closing of the Merger) owned approximately 79% of the outstanding equity of the Company; (ii) former DropCar stockholders owned approximately 18% of the outstanding equity of the Company; and (iii) a financial advisor to DropCar and AYRO owned approximately 3% of the outstanding equity of the Company.

The Merger was treated as a reverse recapitalization effected by a share exchange for financial accounting and reporting purposes because substantially all of DropCar, Inc.’s operations were disposed of as part of the consummation of the Merger and therefore no goodwill or other intangible assets were recorded by the Company as a result of the Merger. AYRO Operating was treated as the accounting acquirer as its stockholders controlled the Company after the Merger, even though DropCar, Inc. was the legal acquirer.

As a result, the assets and liabilities and the historical operations that are reflected in our consolidated financial statements are those of AYRO Operating as if AYRO Operating had always been the reporting company.

On December 19, 2019, DropCar entered into an asset purchase agreement (the “Asset Purchase Agreement”) with DC Partners Acquisition, LLC (“DC Partners”), Spencer Richardson and David Newman, pursuant to which DropCar agreed to sell substantially all of the assets associated with its business of providing vehicle support, fleet logistics and concierge services for both consumers and the automotive industry to an entity controlled by Messrs. Richardson and Newman, the Company’s Chief Executive Officer and Chief Business Development Officer at the time, respectively. The aggregate purchase price for the purchased assets consisted of the cancellation of certain liabilities pursuant to those certain employment agreements by and between DropCar and each of Messrs. Richardson and Newman, plus the assumption of certain liabilities relating to, or arising out of, workers’ compensation claims that occurred prior to the closing date of the Asset Purchase Agreement.

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On May 28, 2020, the parties to the Asset Purchase Agreement entered into Amendment No. 1 to the Asset Purchase Agreement (the “Asset Purchase Agreement Amendment”), which Asset Purchase Agreement Amendment (i) provides for the inclusion of up to \$30,000 in refunds associated with certain insurance premiums as assets being purchased by DC Partners, (ii) amends the covenant associated with the funding of the DropCar business, such that DropCar provided the DropCar business with additional funding of \$175,000 at the closing of the transactions contemplated by the Asset Purchase Agreement and (iii) provides for a current employee of the Company being transferred to DC Partners to provide transition services to the Company for a period of three months after the closing of the transactions contemplated by the Asset Purchase Agreement. The Asset Purchase Agreement closed on May 28, 2020, immediately following the consummation of the Merger.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity and Other Uncertainties

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (“GAAP”), which contemplates continuation of the Company as a going concern. The Company is subject to a number of risks similar to those of earlier stage commercial companies, including dependence on key individuals and products, the difficulties inherent in the development of a commercial market, the potential need to obtain additional capital, competition from larger companies, other technology companies and other technologies. The Company has a limited operating history and the sales and income potential of its business and market are unproven. At March 31, 2021, the Company had cash balances totaling \$91,491,161. The Company incurred net losses of \$5,633,833 and \$1,795,153 and negative cash flows from operations of \$3,450,067 and \$983,115 for the three months ended March 31, 2021 and 2020, respectively. In addition, overall working capital increased by \$54,458,622 during the three months ended March 31, 2021. Management believes that the existing cash at March 31, 2021 will be sufficient to fund operations for at least the next twelve months following the issuance of these unaudited condensed consolidated financial statements.

Since early 2020, when the World Health Organization established the transmissible and pathogenic coronavirus a global pandemic, there have been business slowdowns and decreased demand for AYRO products. The outbreak of such a communicable disease has resulted in a widespread health crisis which has adversely affected general commercial activity and the economies and financial markets of many countries, including the United States. As the outbreak of the disease has continued through 2020 and into 2021, the measures taken by the governments of countries affected has adversely affected the Company’s business, financial condition, and results of operations. The pandemic had an adverse impact on AYRO’s sales and the demand for AYRO products in 2020 and in the first quarter of 2021, resulting in sales that were less than expected in the first quarter of 2021. AYRO expects the pandemic to continue to have an adverse impact on sales and demand for products throughout 2021.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP and in conformity with the instructions on Form 10-Q and Rule 8-03 of Regulation S-X and the related rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, AYRO Operating and DropCar Operating Company, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of such statements. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2020, which are included in the Company’s Annual Report on Form 10-K, filed with the SEC on March 31, 2021, as amended on April 30, 2021.

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Use of Estimates

The preparation of the accompanying unaudited condensed consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accompanying unaudited condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

The Company’s most significant estimates include allowance for doubtful accounts, valuation of inventory reserve, valuation of deferred tax asset allowance, and the measurement of stock-based compensation expenses. Actual results could differ from these estimates.

Reclassification

Certain reclassifications have been made to the prior period financial statements to conform to the current period financial statement presentation. These reclassifications had no effect on net earnings or cash flows as previously reported.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, the core principle of which is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services.

To achieve this core principle, five basic criteria must be met before revenue can be recognized: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to performance obligations in the contract; and (5) recognize revenue when or as the Company satisfies a performance obligation.

Nature of goods and services

The following is a description of the Company’s products and services from which the Company generates revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each:

Product revenue

Product revenue from customer contracts is recognized on the sale of each electric vehicle as vehicles are shipped to customers. The majority of the Company's vehicle sales orders generally have only one performance obligation: sale of complete vehicles. Ownership and risk of loss transfers to the customer based on FOB shipping point and freight charges are the responsibility of the customer. Revenue is typically recognized at the point control transfers or in accordance with payment terms customary to the business. The Company provides product warranties to assure that the product assembly complies with agreed upon specifications. The Company's product warranty is identical to the product warranties provided by the Company's suppliers, therefore minimizing the warranty liability to the standard labor rates associated with the defective part replacement. Customers do not have the option to purchase a warranty separately; as such, warranty is not accounted for as a separate performance obligation. The Company's policy is to exclude taxes collected from a customer from the transaction price of automotive contracts.

Shipping revenue

Amounts billed to customers related to shipping and handling are classified as shipping revenue. The Company has elected to recognize the cost for freight and shipping when control over vehicles has transferred to the customer as an operating expense. The Company has reported shipping expenses of \$50,626 and \$14,150 for the three months ended March 31, 2021 and 2020, respectively.

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Subscription revenue

Subscription revenue from revenue sharing with Destination Fleet Operators ("DFO") and other vehicle rental agreements is recorded in the month the vehicles in the Company's fleet is rented. The Company established its rental fleet in late March 2019 which is recorded in the property and equipment section of the accompanying unaudited condensed consolidated balance sheets. For the rental fleet, the Company retains title and ownership to the vehicles and places them in DFO's in resort communities that typically rent golf cars for use in those communities. In August 2020, the Company phased-out the production of its 311 line which were the vehicles used in the rental offering as it is working to develop a new line of vehicles. The change in production did not represent a strategic shift that will have a major effect on the Company's operations or financial results.

Services and other revenue

Services and other revenue consist of non-warranty after-sales vehicle services. Revenue is typically recognized at a point in time when services and replacement parts are provided.

Warrants and Preferred Shares

The accounting treatment of warrants and preferred share series issued is determined pursuant to the guidance provided by ASC 470, *Debt*, ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*, as applicable. Each feature of a freestanding financial instruments including, without limitation, any rights relating to subsequent dilutive issuances, dividend issuances, equity sales, rights offerings, forced conversions, optional redemptions, automatic monthly conversions, dividends and exercise are assessed with determinations made regarding the proper classification in the Company's financial statements.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation-Stock Compensation* ("ASC 718"). The Company recognizes all employee share-based compensation as an expense in the financial statements on a straight-line basis over the requisite service period, based on the terms of the awards. Equity-classified awards principally related to stock options, restricted stock awards ("RSAs") and equity-based compensation, are measured at the grant date fair value of the award. The Company determines grant date fair value of stock option awards using the Black-Scholes option-pricing model. The fair value of RSAs is determined using the closing price of the Company's common stock on the grant date. For service based vesting grants, expense is recognized ratably over the requisite service period based on the number of options or shares. Stock-based compensation is reversed for forfeitures in the period of forfeiture.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Unit ("ASU") 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07"). ASU 2018-07 expands the guidance in ASC 718 to include share-based payments for goods and services to non-employees and generally aligns it with the guidance for share-based payments to employees. In accordance with ASU 2018-07, these stock options and warrants issued as compensation for services provided to the Company are accounted for based upon the fair value of the underlying equity instrument. The attribution of the fair value of the equity instrument is charged directly to compensation expense over the period during which services are rendered.

Basic and Diluted Loss Per Share

Basic and diluted net loss per share is determined by dividing net loss by the weighted average ordinary shares outstanding during the period. For all periods presented with a net loss, the shares underlying the ordinary share options and warrants have been excluded from the calculation because their effect would be anti-dilutive. Therefore, the weighted-average shares outstanding used to calculate both basic and diluted loss per share are the same for periods with a net loss. "Penny warrants" were included in the calculation of outstanding shares for purposes of basic earnings per share.

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On May 28, 2020, pursuant to the previously announced Merger Agreement, dated December 19, 2019, the Company issued prefunded common stock warrants to purchase 1,193,391 shares of the Company's common stock to certain investors ("Penny Warrants"). All penny warrants were fully exercised by the year ended December 31, 2020.

The following potentially dilutive securities have been excluded from the computation of diluted weighted average shares outstanding as they would be anti-dilutive:

	Three Months Ended March 31,	
	2021	2020
Options to purchase common stock	1,845,282	998,814
Restricted Stock Unvested	1,244,503	—
Series H-1, H-3, H-4, H-5, I, J, pre-merger AYRO Merger common stock purchase warrants and post-merger AYRO warrants issued	7,361,083	461,647
Series H, H-3, H-6, and pre-merger AYRO Seed Preferred Stock	2,475	2,007,193
Totals	10,453,343	3,467,654

NOTE 3. REVENUES

Disaggregation of Revenue

Revenue by type was as follows:

Revenue type	Three Months Ended March 31,	
	2021	2020
Product revenue	\$ 710,199	\$ 129,626
Shipping revenue	41,983	15,405
Subscription revenue	-	1,785
Service income	36,687	-
	<u>\$ 788,869</u>	<u>\$ 146,816</u>

Contract Liabilities

The Company recognizes a contract liability when a consideration is received, or if the Company has the unconditional right to receive consideration, in advance of satisfying the performance obligation. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration, or an amount of consideration is due from the customer.

The table below details the activity in the Company's contract liabilities as of March 31, 2021 and December 31, 2020. The balance at the end of each period is reported as contract liability in the Company's unaudited condensed consolidated balance sheet.

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	March 31, 2021	December 31, 2020
Balance, beginning of period	\$ 24,000	\$ -
Additions	-	183,319
Transfer to revenue	(24,000)	(159,319)
Balance, end of period	<u>\$ -</u>	<u>\$ 24,000</u>

Warranty Reserve

The Company records a reserve for warranty repairs upon the initial delivery of vehicles to its dealer network. The Company provides a product warranty on each vehicle including powertrain, battery pack and electronics package. Such warranty matches the product warranty provided by its supply chain for warranty parts for all unaltered vehicles and is not considered a separate performance obligation. The supply chain warranty does not cover warranty-based labor needed to replace a part under warranty. Warranty reserves include management's best estimate of the projected cost of labor to repair/replace all items under warranty. The Company reserves a percentage of all dealer-based sales to cover an industry-standard warranty fund to support dealer labor warranty repairs.

Such percentage is recorded as a component of cost of revenues in the statement of operations. As of March 31, 2021 and December 31, 2020, warranty reserves were recorded within accrued expenses of \$54,254 and \$43,278, respectively.

NOTE 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of amounts due from invoiced customers and product deliveries and were as follows:

	March 31, 2021	December 31, 2020
Trade receivables	\$ 1,156,549	\$ 839,679
Less: Allowance for doubtful accounts	(102,861)	(73,829)
	<u>\$ 1,053,688</u>	<u>\$ 765,850</u>

NOTE 5. INVENTORY, NET

Inventory consisted of the following:

	March 31, 2021	December 31, 2020
Raw materials	\$ 367,289	\$ 634,085
Work-in-progress	9,939	-
Finished goods	459,094	539,169
	<u>\$ 836,322</u>	<u>\$ 1,173,254</u>

For the three months ended March 31, 2021 and 2020, depreciation recorded for fleet inventory was \$23,886 and \$0, respectively. Management has determined that no reserve for inventory obsolescence was required as of March 31, 2021 and December 31, 2020.

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NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	March 31, 2021	December 31, 2020
Prepaid final assembly services	\$ 506,213	\$ 520,000
Prepayments for inventory	1,093,572	976,512
Prepaid other	188,820	112,250
	<u>\$ 1,788,605</u>	<u>\$ 1,608,762</u>

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	March 31, 2021	December 31, 2020
Computer and equipment	\$ 829,486	\$ 815,704
Furniture and fixtures	128,596	127,401
Lease improvements	236,738	221,802
Prototypes	300,376	300,376
Computer software	163,275	62,077
	<u>1,658,471</u>	<u>1,527,360</u>
Less: Accumulated depreciation	<u>(987,176)</u>	<u>(916,048)</u>
	<u>\$ 671,295</u>	<u>\$ 611,312</u>

Depreciation expense for the three months ended March 31, 2021 and 2020 was \$71,128 and \$86,058, respectively.

NOTE 8. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	March 31, 2021			
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Weighted- Average Amortization Period
Supply chain development	\$ 395,248	\$ (316,640)	\$ 78,608	0.80 yrs.
Patents and trademarks	86,618	(34,382)	52,236	2.41 yrs.
	<u>\$ 481,866</u>	<u>\$ (351,022)</u>	<u>\$ 130,844</u>	
	December 31, 2020			
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Weighted- Average Amortization Period
Supply chain development	\$ 395,248	\$ (291,937)	\$ 103,311	1.05 yrs.
Patents	70,435	(29,901)	40,534	2.45 yrs.
	<u>\$ 465,683</u>	<u>\$ (321,838)</u>	<u>\$ 143,845</u>	

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Amortization expense for the three months ended March 31, 2021 and 2020 was \$29,184 and \$28,217, respectively. The definite lived intangible assets have no residual value at the end of their useful lives.

NOTE 9. STOCKHOLDERS' EQUITY

Common Stock

In April 2020, the Company issued 553,330 shares of common stock in connection with the issuance of the 2020 \$600,000 Bridge Note.

On June 17, 2020, the Company entered into a Securities Purchase Agreement with certain existing investors, pursuant to which the Company sold, in a registered public offering by the Company directly to the investors an aggregate of 2,200,000 shares of common stock, par value \$0.0001 per share, at an offering price of \$2.50 per share for gross proceeds of \$5,500,000 before offering expenses of \$435,000.

On July 6, 2020, the Company entered into a Securities Purchase Agreement with certain existing investors, pursuant to which the Company sold, in a registered public offering by the Company directly to the investors an aggregate of 3,157,895 shares of common stock, par value \$0.0001 per share, at an offering price of \$4.75 per share for gross proceeds of \$15,000,000 before offering expenses of \$1,249,200.

On July 21, 2020, the Company entered into a Securities Purchase Agreement with certain existing investors, pursuant to which the Company sold, in a registered public offering by the Company directly to the investors an aggregate of 1,850,000 shares of common stock, par value \$0.0001 per share, at an offering price of \$5.00 per share for gross proceeds of \$9,250,000 before offering expenses of \$740,000. Each purchaser also had the right to purchase, on or before October 19, 2020, additional shares of common stock (the "Additional Shares") equal to the full amount of 75% of the common stock it purchased at the initial closing, or an aggregate of 1,387,500 shares, at price of \$5.00 per share. On October 16, 2020, the Company entered into an addendum to the Agreement (the "Addendum"), which extended the deadline for each purchaser to exercise the right to purchase the Additional Shares by one year, to October 19, 2021. As of December 31, 2020, investors had elected to purchase 420,000 of the Additional Shares of common stock of AYRO, par value \$0.0001 per share, at an offering price of \$5.00 per share, for gross proceeds of approximately \$2,100,000 before offering expenses of \$168,000.

On November 22, 2020, the Company entered into a Securities Purchase Agreement with certain institutional and accredited investors, pursuant to which such stockholders agreed to purchase an aggregate of 1,650,164 shares of AYRO common stock, par value \$0.0001 per share, at an offering price of \$6.06 per share, for gross proceeds of approximately \$10,000,000 before the deduction of fees and offering expenses of \$847,619.

During the year ended December 31, 2020, the Company issued 5,074,645 shares of common stock from the exercise of 5,092,806 warrants and received net cash proceeds of \$3,926,818.

During the year ended December 31, 2020, the Company issued 1,030,585 shares of common stock from the conversion of the 2019 \$1,000,000 Convertible Bridge.

During the year ended December 31, 2020, the Company issued 2,337,663 shares of common stock from the closing of the Merger in consideration for \$3,060,740 of cash and equity of Merger Sub.

During the year ended December 31, 2020, the Company issued 1,573,218 shares of common stock, par value \$0.0001 per share, for proceeds of \$2,000,000 net of offering fees and expenses of \$609,010, pursuant to Stock Purchase Agreements entered into on December 19, 2019 as a component of the Merger Agreement and contingent upon closing of the Merger.

During the year ended December 31, 2020, the Company issued 1,037,496 shares of common stock to advisors in connection with the Merger.

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In December 2020, based on its contract, the Company agreed to issue 15,000 shares of common stock to COR Prominence LLC, the Company's investor relations firm. The shares were immediately vested and were issued in April 2021. An expense of \$42,300 was recorded for the year ended December 31, 2020.

During the year ended December 31, 2020, the Company issued 2,007,193 shares of the common stock from the conversion of 7,360,985 shares of AYRO Seed Preferred Stock.

During the year ended December 31, 2020, the Company issued 6,817 shares of common stock from the exercise of stock options and received cash proceeds of \$16,669.

During the year ended December 31, 2020, the Company issued 795 shares of common stock from the conversion of 955 shares of H-3 Preferred Stock.

During July 2020, the Company issued 225,590 shares of common stock from the conversion of 7,833 shares of Series H-6 Preferred Stock.

On January 25, 2021, AYRO entered into a Securities Purchase Agreement with certain institutional and accredited investors, pursuant to which AYRO agreed to issue and sell in a registered direct offering (the "January 2021 Offering") an aggregate of 3,333,334 shares of common stock of AYRO, par value \$0.0001 per share, at an offering price of \$6.00 per share, for gross proceeds of \$20,000,004 before the deduction of fees and offering expenses of \$1,648,608.

On February 11, 2021, AYRO entered into a Securities Purchase Agreement with certain institutional and accredited investors, pursuant to which AYRO agreed to issue and sell in a registered direct offering (the "February 2021 Offering") an aggregate of 4,400,001 shares of common stock of AYRO, par value \$0.0001 per share, at an offering price of \$9.50 per share, for gross proceeds of \$41,800,008 before the deduction of fees and offering expenses of \$3,394,054. Each purchaser was also granted an option to purchase, on or before February 16, 2022, additional shares of common stock equal to the full amount of 75% of the common stock it purchased at the initial closing, or an aggregate of 3,300,001 shares, at an exercise price of \$11.50 per share.

On March 17, 2021, in connection with that certain Agreement and Plan of Merger dated December 19, 2019, whereby certain former stockholders of AYRO Operating entered into lock-up agreements (collectively, the "May Lock-Up Agreements") pursuant to which they agreed to certain restrictions on the transfer or sale of shares of the Company's common stock for the one-year period following the Merger, AYRO modified the May Lock-Up Agreements to allow each stockholder party to a May Lock-Up Agreement to (i) sell up to 5% of such stockholder's holdings in the Company's common stock on any trading day (with such 5% limitation to be measured as of the date of each sale) and (ii) allow for unlimited sales of the Company's common stock for any sales made at \$10.00 per share or greater.

Pursuant to the Securities Purchase Agreement dated July 21, 2020, during the three months ended March 31, 2021, investors purchased 302,500 of the Additional Shares of common stock of AYRO, par value \$0.0001 per share, at an offering price of \$5.00 per share, for gross proceeds of \$1,512,500.

During February 2021, the Company issued 74,987 shares of common stock from the exercise of stock options and received cash proceeds of \$183,425.

During February 2021, the Company issued 13,642 shares of common stock from the exercise of warrants and received cash proceeds of \$100,000.

Restricted Stock

During the year ended December 31, 2020, the Company issued 1,087,618 shares of restricted common stock valued based on the stock price at the date of issuance with a weighted average price of \$5.27 per share, pursuant to the AYRO, Inc. 2020 Long-Term Incentive Plan, See Note 10. Of which 15,115 shares were vested during the year ended December 31, 2020 and no additional shares vested during the three months ended March 31, 2021. The Company recognized stock based compensation expense during the three months ended March 31, 2021 of \$1,246,539.

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Preferred Stock

Upon closing of the Merger, the Company assumed the Series H, H-3 and H-6 preferred stock of DropCar, Inc., which respective conversion prices have been adjusted to reflect the May 2020 one-for-five reverse split.

Series H Convertible Preferred Stock

Under the terms of the Series H Certificate of Designation, each share of the Company's Series H Convertible Preferred Stock (the "Series H Preferred Stock") has a stated value of \$154 and is convertible into shares of the Company's Common Stock, equal to the stated value divided by the conversion price of \$184.80 per share (subject to adjustment in the event of stock splits or dividends). The Company is prohibited from effecting the conversion of the Series H Preferred Stock to the extent that, as a result of such conversion, the holder would beneficially own more than 9.99%, in the aggregate, of the issued and outstanding shares of the Company's common stock calculated immediately after giving effect to the issuance of shares of common stock upon such conversion. In the event of liquidation, the holders of the Series H Preferred Stock are entitled, pari passu with the holders of common stock, to receive a payment in the amount the holder would receive if such holder converted the Series H Preferred Stock into common stock immediately prior to the date of such payment.

As of March 31, 2021, such payment would be calculated as follows:

Number of Series H Preferred Stock outstanding as of March 31, 2021	8
Multiplied by the stated value	\$ 154.00
Equals the gross stated value	\$ 1,232
Divided by the conversion price	\$ 184.80
Equals the convertible shares of Company Common Stock	7
Multiplied by the fair market value of Company Common Stock as of March 31, 2021	\$ 6.48
Equals the payment	\$ 45

Series H-3 Convertible Preferred Stock

Pursuant to the Series H-3 Certificate of Designation (as defined below), the holders of the Company's Series H-3 Convertible Preferred Stock (the "Series H-3 Preferred Stock") are entitled to elect up to two members of a seven-member Board, subject to certain step downs; pursuant to the Series H-3 securities purchase agreement, the Company agreed to effectuate the appointment of the designees specified by the Series H-3 investors as directors of the Company.

Under the terms of the Series H-3 Certificate of Designation, each share of the Series H-3 Preferred Stock has a stated value of \$138 and is convertible into shares of common stock, equal to the stated value divided by the conversion price of \$165.60 per share (subject to adjustment in the event of stock splits and dividends). The Company is

prohibited from effecting the conversion of the Series H-3 Preferred Stock to the extent that, as a result of such conversion, the holder or any of its affiliates would beneficially own more than 9.99%, in the aggregate, of the issued and outstanding shares of common stock calculated immediately after giving effect to the issuance of shares of common stock upon the conversion of the Series H-3 Preferred Stock.

In the event of liquidation, the holders of the Series H-3 Preferred Stock are entitled, pari passu with the holders of common stock, to receive a payment in the amount the holder would receive if such holder converted the Series H-3 Preferred Stock into common stock immediately prior to the date of such payment.

As of March 31, 2021, such payment would be calculated as follows:

Number of Series H-3 Preferred Stock outstanding as of March 31, 2021	1,234
Multiplied by the stated value	\$ 138
Equals the gross stated value	\$ 170,292
Divided by the conversion price	\$ 165.60
Equals the convertible shares of Company Common Stock	1,028
Multiplied by the fair market value of Company Common Stock as of March 31, 2021	\$ 6.48
Equals the payment	\$ 6,661

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Series H-6 Convertible Preferred Stock

On February 5, 2020, the Company filed the Certificate of Designations, Preferences and Rights of the Series H-6 Preferred Stock (the “Series H-6 Certificate of Designation”) with the Secretary of State of the State of Delaware, establishing and designating the rights, powers and preferences of the Series H-6 Preferred Stock. The Company designated up to 50,000 shares of Series H-6 Preferred Stock and each share has a stated value of \$72.00 (the “H-6 Stated Value”). Each share of Series H-6 Preferred Stock is convertible at any time at the option of the holder thereof, into a number of shares of common stock of the Company determined by dividing the H-6 Stated Value by the initial conversion price of \$3.60 per share, which was then further reduced to \$2.50 under the anti-dilution adjustment provision, subject to a 9.99% blocker provision. The Series H-6 Preferred Stock has the same dividend rights as the common stock, except as provided for in the Series H-6 Certificate of Designation or as otherwise required by law. The Series H-6 Preferred Stock also has the same voting rights as the common stock, except that in no event shall a holder of Series H-6 Preferred Stock be permitted to exercise a greater number of votes than such holder would have been entitled to cast if the Series H-6 Preferred Stock had immediately been converted into shares of common stock at a conversion price equal to \$3.60. In addition, a holder (together with its affiliates) may not be permitted to vote Series H-6 Preferred Stock held by such holder to the extent that such holder would beneficially own more than 9.99% of our common stock. In the event of any liquidation or dissolution, the Series H-6 Preferred Stock ranks senior to the common stock in the distribution of assets, to the extent legally available for distribution.

The holders of Series H-6 Preferred Stock are entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable conversion price of the Series H-6 Preferred Stock. If any such dilutive issuance occurs prior to the conversion of the Series H-6 Preferred Stock, the conversion price will be adjusted downward to a price that cannot be less than 20% of the exercise price of \$3.60.

In the event of liquidation, the holders of the Series H-6 Preferred Stock are entitled, pari passu with the holders of common stock, to receive a payment in the amount the holder would receive if such holder converted the Series H-6 Preferred Stock into common stock immediately prior to the date of such payment.

As of March 31, 2021, such payment would be calculated as follows:

Number of Series H-6 Preferred Stock outstanding as of March 31, 2021	50
Multiplied by the stated value	\$ 72.00
Equals the gross stated value	\$ 3,600
Divided by the conversion price	\$ 2.50
Equals the convertible shares of Company Common Stock	1,440
Multiplied by the fair market value of Company Common Stock as of March 31, 2021	\$ 6.48
Equals the payment	\$ 9,331

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Warrants

AYRO Seed Warrants

Prior to the Merger, the Company issued 461,647 warrants (the “AYRO Seed Warrants”) with an exercise price \$7.33. The AYRO Seed Warrants terminate five years from the grant date. During February 2021, AYRO Seed Warrants were exercised for proceeds of \$100,000 and the Company issued 13,642 shares of its Common Stock. As of March 31, 2021, there were 448,005 AYRO Seed Warrants outstanding. The Company recorded warrant expense of \$0 and \$22,056 related to the AYRO Seed Warrants for the three months ended March 31, 2021 and 2020, respectively.

Series I, J, H, H-1, H-3, H-4 and H-5 warrants transferred to AYRO common stock pursuant to the Merger.

Series I Warrants

As a result of the Merger, 14,636 Series I Warrants transferred to AYRO and have an exercise price of \$69.00 per share. If at any time (i) the volume weighted average price (“VWAP”) of the Common Stock exceeds \$138.00 for not less than the mandatory exercise measuring period; (ii) the daily average number of shares of Common Stock traded during the mandatory exercise measuring period equals or exceeds 25,000; and (iii) no equity conditions failure has occurred as of such date, then the Company shall have the right to require the holder to exercise all or any portion of the Series I Warrants still unexercised for a cash exercise. As of March 31, 2021, there were 14,636 outstanding.

Series H-3 Warrants

As a result of the Merger, 2,800 Series H-3 Warrants transferred to AYRO and have an exercise price of \$165.60 per share, subject to adjustments (the “Series H-3 Warrants”). Subject to certain ownership limitations, the Series H-3 Warrants are immediately exercisable from the issuance date and will be exercisable for a period of five (5) years from the issuance date. As of March 31, 2021, there were 2,800 Series H-3 Warrants outstanding.

Exercise of Series H-4 Warrants and Issuance of Series J Warrants

Series H-4 Warrants

As a result of the Merger, 37,453 Series H-4 Warrants transferred to AYRO and have an exercise price of \$15.60. The Series H-4 Warrants contain an anti-dilution price protection, and the warrants cannot be less than \$15.60 per share. As of March 31, 2021, there were 37,453 Series H-4 Warrants outstanding.

As a result of the Merger, 52,023 Series J Warrants transferred to AYRO. The terms of the Series J Warrants are substantially identical to the terms of the Series H-4 Warrants except that (i) the exercise price is equal to \$30.00 per share, (ii) the Series J Warrants may be exercised at all times beginning on the 6-month anniversary of the issuance date on a cash basis and also on a cashless basis, (iii) the Series J Warrants do not contain any provisions for anti-dilution adjustment and (iv) the Company has the right to require the Holders to exercise all or any portion of the Series J Warrants still unexercised for a cash exercise if the volume-weighted average price (VWAP) (as defined in the Series J Warrant) for the Company's common stock equals or exceeds \$45.00 for not less than ten consecutive trading days.

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If at any time (i) the VWAP of the Common Stock exceeds \$9.00 for not less than the mandatory exercise measuring period; (ii) the daily average number of shares of Common Stock traded during the mandatory exercise measuring period equals or exceeds 25,000; and (iii) no equity conditions failure has occurred as of such date, then the Company shall have the right to require the holder to exercise all or any portion of the Series J Warrants still unexercised for a cash exercise. As of March 31, 2021, there were 52,023 Series J Warrants outstanding.

Series H-5 Warrants

As a result of the Merger, 296,389 Series H-5 Warrants were transferred to AYRO and have an exercise price of \$2.50 per share. Subject to certain ownership limitations, the H-5 Warrants will be exercisable beginning six months from the issuance date and will be exercisable for a period of five years from the initial issuance date.

The H-5 Warrants are entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable exercise price (subject to a floor of \$0.792 per share). An anti-dilution adjustment was triggered resulting in an adjusted exercise price per share from \$3.96 to \$2.50, resulting in an issuance of an additional 173,091 warrants that are exercisable at \$2.50 per share. As of March 31, 2021, there were 348,476 Series H-5 Warrants outstanding.

The Company considers the change in exercise price due to the anti-dilution trigger related to the Series H-5 Warrants to be of an equity nature, as the issuance allowed the warrant holders to exercise warrants in exchange for common stock, which represents an equity for equity exchange. Therefore, the change in the fair value before and after the effect of the anti-dilution triggering event and the fair value of the Series H-5 warrants will be treated as a deemed dividend in the amount of \$432,727. Cash received upon exercise in excess of par value is accounted for through additional paid in capital. The Company valued the deemed dividend as the difference between: (a) the modified fair value of the Series H-5 Warrants in the amount of \$967,143 and (b) the fair value of the original award prior to the modification of \$534,416.

The warrants were valued using the Black-Scholes option pricing model on the date of the modification and issuance using the following assumptions: (a) fair value of common stock of \$2.77 per share, (b) expected volatility of 89.96%, (c) dividend yield of 0%, (d) risk-free interest rate of 0.24%, and (e) expected life of 5 years. The Series H-5 Warrants were exercisable beginning June 6, 2020.

The Series I, H-1, H-3, H-4, J and H-5 Warrants expire through the years 2021-2024.

Other AYRO Warrants

On June 19, 2020, the Company agreed to issue finder warrants (the "June Finder Warrants") to purchase 27,273 shares of the Company's common stock at an exercise price of \$2.75 per share to a finder or its designees, and the Company agreed to issue warrants to Palladium (the "June Placement Agent Warrants") to purchase 126,000 shares of the Company's common stock at an exercise price of \$2.875 per share. The June Finder Warrants and June Placement Agent Warrants terminate after a period of 5 years on June 19, 2020. As of December 31, 2020, 126,000 of the June Placement Agent Warrants had been exercised. As of March 31, 2021, the 27,273 June Finder Warrants were outstanding.

On July 8, 2020, the Company agreed to issue finder warrants (the "July 8 Finder Warrants") to purchase 71,770 shares of the Company's common stock at an exercise price of \$5.225 per share to a finder or its designees, and the Company agreed to issue warrants to Palladium (the "July 8 Placement Agent Warrants") to purchase 147,368 shares of the Company's common stock at an exercise price of \$5.4625 per share.

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The July 8 Finder Warrants and July 8 Placement Agent Warrants terminate after a period of 5 years on July 8, 2020. As of March 31, 2021, there were 71,770 July 8 Finder Warrants and 147,368 July 8 Placement Agent Warrants were outstanding.

On July 22, 2020, the Company agreed to issue warrants to Palladium (the "July 22 Placement Agent Warrants") to purchase 129,500 shares of the Company's common stock at an exercise price of \$5.750 per share. The July 22 Placement Agent Warrants terminate after a period of 5 years on July 22, 2020. As of March 31, 2021, there were 129,500 July 22 Placement Agent Warrants outstanding.

On September 25, 2020, the Company issued a warrant (the "September Warrant") to purchase 31,348 shares of the Company's common stock at an exercise price of \$3.19 per share to a vendor for facilitating a manufacturing agreement. The September Warrant is immediately exercisable and expires on September 25, 2025. The September Warrant was classified as equity and the estimated fair value of \$2.13 per share was computed as of September 25, 2020 using the Black-Scholes model. The Company recorded \$66,845 as stock-based compensation expense during the fourth quarter in 2020 for the total fair value of the September Warrant. As of March 31, 2021, there were 31,348 September Warrants outstanding.

The following assumptions were used to determine the fair value of the September Warrants:

	As of September 25, 2020	-%
Dividend		-
Risk Free Rate		0.30%
Exercise Price	\$	2.90
Strike Price	\$	3.19
Term		5.00
Volatility		102%

On November 22, 2020, the Company entered into a Securities Purchase Agreement with new and current stockholders of the Company, pursuant to which such stockholders agreed to purchase shares of AYRO's Common Stock, Series A Warrants and Series B Warrants to purchase AYRO's Common Stock for an aggregate purchase price of \$9,999,997. Each purchaser additionally purchased and received Series A Warrants and Series B Warrants equal to 75% and 50% of the purchased shares, for a total of 1,237,624 Series A Warrants and 825,084 Series B Warrants. The Series A Warrants are immediately exercisable, in whole or in part at a strike price of \$8.09 and terminate six months from the date of issuance on May 24, 2021. The Series B Warrants are immediately exercisable, in whole or in part, at a strike price of \$8.90, and terminate five years from the date issuance on November 24, 2025. As of March 31, 2021, there were 1,237,624 Series A Warrants and 825,084 Series B Warrants outstanding.

On November 22, 2020, the Company agreed to issue finder warrants (the “November Finder Warrants”) to purchase 56,256 shares of the Company’s common stock at an exercise price of \$6.6660 per share to a finder or its designees, and the Company agreed to issue warrants to Palladium (the “November Placement Agent Warrants”) to purchase 57,756 shares of the Company’s common stock at an exercise price of \$6.9690 per share.

The November Finder Warrants and November Placement Agent Warrants terminate after a period of 5 years on November 22, 2025. As of March 31, 2021, there were 56,256 November Finder Warrants and 57,756 November Placement Agent Warrants were outstanding.

On January 25, 2021, AYRO entered into a Securities Purchase Agreement with certain institutional and accredited investors, pursuant to which AYRO agreed to issue and sell in a registered direct offering (the “January 2021 Offering”) an aggregate of 3,333,334 shares of common stock of AYRO, par value \$0.0001 per share, at an offering price of \$6.00 per share, for gross proceeds of approximately \$20.0 million before the deduction of fees and offering expenses.

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Each purchaser was also granted a warrant to purchase, between July 26, 2021 and July 26, 2023, additional shares of common stock equal to the full amount of the common stock it purchased at the initial closing, or an aggregate of 3,333,334 shares at an exercise price of \$6.93 per share.

On January 25, 2021, the Company agreed to issue warrants to Palladium, the placement agent for the January 2021 offering to purchase 233,334 shares of the Company’s common stock at an exercise price of \$6.93 per share. The warrants are exercisable six months following issuance and terminate on July 23, 2023.

On February 11, 2021, the Company agreed to issue warrants to Spartan Capital Securities, LLC and its affiliates (the “February Finder Warrants”) to purchase 15,574 shares of the Company’s common stock at an exercise price of \$10.925 per share and to purchase 35,885 shares of the Company’s common stock at an exercise price of \$10.45 per share to a finder or its designees. In addition, the Company agreed to issue warrants to Palladium (the “February Placement Agent Warrants”) to purchase 255,584 shares of the Company’s common stock at an exercise price of \$10.925 per share. The February Finder Warrants and February Placement Agent Warrants terminate after a period of 5 years on February 26, 2026. As of March 31, 2021, there were 51,459 February Finder Warrants and 255,584 February Placement Agent Warrants were outstanding.

A summary of the Company’s warrants to purchase common stock activity is as follows:

	Shares Underlying Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at December 31, 2020	3,501,014	\$ 8.03	2.87
Granted	3,873,711	\$ 7.24	
Exercised	(13,642)	\$ 7.33	
Outstanding at March 31, 2021	7,361,083	\$ 7.62	2.57

NOTE 10. STOCK-BASED COMPENSATION

AYRO 2020 Long Term Incentive Plan

On May 28, 2020, the Company’s shareholders approved the AYRO, Inc. 2020 Long Term Incentive Plan for future grants of incentive stock options, nonqualified stock, stock appreciation rights, restricted stock, restricted stock units, performance and other awards. The Company has reserved a total of 4,089,650 shares of its common stock pursuant to the AYRO, Inc. 2020 Long-Term Incentive Plan, including shares of restricted stock that have been issued. The Company has 1,879,537 stock options, restricted stock and warrants remaining under this plan as of March 31, 2021.

AYRO 2017 Long Term Incentive Plan

Prior to the Merger, the Company granted stock options and warrants pursuant to the 2017 Long Term Incentive Plan effective January 1, 2017. As of March 31, 2021, the 2017 Long Term Incentive Plan remains active, but no additional awards may be granted.

DropCar Amended and Restated 2014 Equity Incentive Plan

The DropCar Amended and Restated 2014 Equity Incentive Plan was amended in 2018 to increase the number of shares of Company common stock available for issuance. Pursuant to the 2014 Equity Incentive Plan (the “2014 Plan”), 141,326 shares of common stock were reserved for issuance and there are options to purchase 61,440 shares outstanding as of March 31, 2021. As of March 31, 2021, there were zero shares available for grant under the 2014 Plan.

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Stock-based compensation, including restricted stock awards, stock options and warrants is included in the unaudited condensed consolidated statement of operations as follows:

	Three Months Ended March 31,	
	2021	2020
Research and development	\$ 23,486	\$ 15,872
Sales and marketing	63,449	34,584
General and administrative	1,612,488	106,002
Total	\$ 1,699,423	\$ 156,458

Options

The following table reflects the stock option activity:

	Number of Shares	Weighted Average Exercise Price	Contractual Life (Years)
Outstanding at December 31, 2020	1,920,269	\$ 4.40	8.66
Exercised	(74,987)	(2.45)	
Outstanding at March 31, 2021	1,845,282	\$ 4.48	8.47

Of the outstanding options, 971,528 were vested and exercisable as of March 31, 2021. At March 31, 2021 the aggregate intrinsic value of stock options vested and exercisable

was \$3,277,319.

The Company recognized \$269,895 and \$134,402 of stock option expense for the three months ended March 31, 2021 and 2020, respectively. Total compensation cost related to non-vested stock option awards not yet recognized as of March 31, 2021 was \$1,708,387 and will be recognized on a straight-line basis through the end of the vesting periods through October 2023. The amount of future stock option compensation expense could be affected by any future option grants or by any forfeitures.

Determining the appropriate fair value of the stock-based awards requires the input of subjective assumptions, including the fair value of the Company's common stock, and for stock options, the expected life of the option, and the expected stock price volatility. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

The Company uses the following inputs when valuing stock-based awards.

	Three Months Ended March 31,	
	2021	2020
Expected life (years)	0.0	5.0
Risk-free interest rate	0%	0.29%
Expected volatility	0%	74.4%
Total grant date fair value	\$ 0.00	\$ 0.99

The expected life of the employee stock options was estimated using the "simplified method," as the Company has no historical information to develop reasonable expectations about future exercise patterns and employment duration for its stock option grants.

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The simplified method is based on the average of the vesting tranches and the contractual life of each grant. The expected life of awards that vest immediately use the contractual maturity since they are vested when issued. For stock price volatility, the Company uses public company comparables and historical private placement data as a basis for its expected volatility to calculate the fair value of option grants. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected life of the option at the grant-date.

Restricted Stock

The following table reflects the restricted stock activity:

	Number of Shares	Weighted Average Grant Price
Outstanding at December 31, 2020	1,072,503	\$ 5.30
Granted	172,000	\$ 7.66
Outstanding at March 31, 2021	1,244,503	\$ 5.63

In September 2020, the Company issued 436,368 shares of restricted stock to non-executive directors, of which 15,115 immediately vested and the remainder to vest in December 2020, which was subsequently modified to vest in full in May 2021. The Company recognized compensation expense during the three months ended March 31, 2021 of \$500,765. Total compensation cost related to non-vested restricted stock not yet recognized as of March 31, 2021 was \$333,843 and will be recognized on a straight-line basis through the end of the vesting periods through May 2021.

In December 2020, based on objectives achieved, the Company issued 651,250 shares of restricted stock to Rodney C. Keller, Jr. ("the "Keller Restricted Stock") that vest according to the following vesting schedule: one-third will vest on May 28, 2021, one-third will vest on December 4, 2021 and one-third will vest on December 4, 2022. Compensation expense for the Keller Restricted Stock of \$745,774 was recognized for the three months ended March 31, 2021. Total compensation cost related to non-vested restricted stock not yet recognized as of March 31, 2021 was \$3,380,843 and will be recognized on a straight-line basis through the end of the vesting periods through December 4, 2022.

On February 24, 2021, pursuant to the AYRO, Inc. 2020 Long-Term Incentive Plan, the Company issued 172,000 shares of restricted stock to non-executive directors at a value of \$7.66 per share. The shares vest 50% at June 30, 2021, 25% at September 30, 2021 and 25% at December 31, 2021. The Company recognized compensation expense during the three months ended March 31, 2021 of \$182,989. Total compensation cost related to non-vested restricted stock not yet recognized as of March 31, 2021 was \$1,134,531 and will be recognized on a straight-line basis through the end of the vesting periods through December 31, 2021.

Other Share-Based Payments

The Company grants stock warrants pursuant to the 2017 Long Term Incentive Plan ("LTIP") effective January 1, 2017. The Company measured consultant stock-based awards at grant-date fair value and recognizes contractor consulting expense for contractor warrants on a straight-line method basis over the vesting period of the award. Grants to consultants are expensed at the earlier of (i) the date at which a commitment for performance by the service provider to earn the equity instrument is reached and (ii) the date at which the service provider's performance is complete.

The Company recognized \$0 and \$22,056 of warrant expense related to consulting services for the three months ended March 31, 2021 and 2020, respectively.

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NOTE 11. CONCENTRATIONS AND CREDIT RISK

Revenues

In March 2019, the Company entered into a five-year Master Procurement Agreement, or the MPA, with Club Car for the sale of AYRO's four-wheeled vehicle. The MPA grants Club Car the exclusive right to sell AYRO's four-wheeled vehicle in North America, provided that Club Car orders at least 500 vehicles per year. The MPA has an initial term of five (5) years commencing January 1, 2019 and may be renewed by Club Car for successive one-year periods upon 60 days' prior written notice. For the period ended March 31, 2021 and 2020, two customers accounted for the Company's revenues, one for 72% and 94% and the second for 24% and 2%, respectively.

Accounts Receivable

As of March 31, 2021 and December 31, 2020, multiple customers accounted for more than 10% of the Company's accounts receivable. One customer accounted for approximately 72% and 74% as of March 31, 2021 and December 31, 2020, respectively. A second and third customer accounted for approximately 17% and 10% as of March 31, 2021.

Purchasing

The Company places orders with various suppliers. During the three months ended March 31, 2021 and 2020, multiple suppliers provided more than 10% of the Company's raw materials purchases. During the three months ended March 31, 2021, one supplier accounted for approximately 30%, another supplier accounted for 22%, and a third supplier accounted for 16%. During the three months ended March 31, 2020, the Company's purchases of raw materials from one supplier accounted for approximately 38%, another supplier accounted for 16% and a third supplier accounted for approximately 12%. The Company's top supplier accounted for approximately 58% and 77% of its bill of materials as included in costs of goods sold for the three months ended March 31, 2021 and 2020, respectively. Any disruption in the operation of this supplier could adversely affect the Company's operations.

Manufacturing

Cenntro Automotive Group ("Cenntro"), a related party owns the design of the AYRO 411 model and has granted the Company an exclusive license to manufacture the AYRO 411 model for sale in North America. The Company's business is dependent on such license, and if it fails to comply with its obligations to maintain that license, the Company's business will be substantially harmed. Under the Manufacturing License Agreement, dated April 27, 2017, between Cenntro and the Company, the Company is granted an exclusive license to manufacture and sell AYRO 411 in the United States, and the Company required to purchase the minimum volume of product units from Cenntro, among other obligations.

NOTE 12. RELATED PARTY TRANSACTIONS

Supply Chain Agreements

In 2017, the Company executed a supply chain contract with Cenntro, the Company's primary supplier, a manufacturer located in the People's Republic of China. Prior to the Merger, Cenntro was a significant shareholder in AYRO Operating. Through the partnership, Cenntro acquired 19% of AYRO Operating's common stock. Cenntro beneficially owned approximately 3.37% of the Company's common stock as of March 31, 2021. Cenntro owns the design of the AYRO 411 Fleet vehicles and has granted the Company an exclusive license to purchase the AYRO 411 Fleet vehicles for sale in North America. Currently, the Company purchases 100% of its vehicle chassis, cabs and wheels through this supply chain relationship with Cenntro. The Company must sell a minimum number of units in order to maintain its exclusive supply chain contract upon availability of the 411x product. As of March 31, 2021 and 2020, the amounts outstanding to Cenntro as a component of accounts payable were \$13,469 and \$69,825, respectively. See Note 11 for concentration amounts.

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Under a memo of understanding signed between the Company and Cenntro on March 22, 2020, the Company agreed to purchase 300 units within the following twelve months of signing the memo of understanding, and 500 and 800 in each of the following respective twelve-month periods. On July 9, 2020, in exchange for certain percentage discounts for raw materials, the Company made a \$1.2 million prepayment for inventory. During the three months ended March 31, 2021, the Company made an additional deposit of \$100,000, as prepayment for additional inventory for 2021. As of March 31, 2021 and 2020, the prepayment deposits were \$1,044,590 and \$49,162.

Other

The Company had received short-term expense advances from its founders. As of March 31, 2021 and December 31, 2020, the amounts outstanding were \$15,000 for each year and recorded as a component of accounts payable on the accompanying unaudited condensed consolidated balance sheets.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Lease Agreements

In 2019 the Company entered into a new lease agreement for office and manufacturing space. The lease commencement date was January 16, 2020. Prior to the commencement date of the new lease agreement, the Company leased other office and manufacturing space on a short-term basis. The Company determined if an arrangement is a lease at inception of the contract and whether a contract is or contains a lease by determining whether it conveys the right to control the use of identified asset for a period of time. The contract provides the right to substantially all the economic benefits from the use of the identified asset and the right to direct use of the identified asset, as such, the contract is, or contains, a lease. In connection with the adoption of ASC 842, *Leases*, the Company has elected to treat the lease and non-lease components as a single component.

During March 2021, the Company subleased additional office space to support the Company's expansion plan. The term is for 16 months with a total lease obligation of \$131,408. In connection with the adoption of ASC 842, *Leases*, the Company has elected to treat the lease and non-lease components as a single component.

Leases were classified as an operating lease at inception. An operating lease results in the recognition of a Right-of-Use ("ROU") assets and lease liability on the balance sheet. ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term as of the commencement date. Because the lease does not provide an explicit or implicit rate of return, the Company determines incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments on an individual lease basis.

The incremental borrowing rate for a lease is the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments for the asset under similar term, which is 10.41%. Lease expense for the lease is recognized on a straight-line basis over the lease term.

The Company's leases do not contain any residual value guarantees or material restrictive covenants. Leases with a lease term of 12 months or less are not recorded on the balance sheet and lease expense is recognized on a straight-line basis over the lease term. The remaining terms for the Company's leases as of March 31, 2021 are 6.0 and 1.25 years, respectively. The Company currently has no finance leases.

During the three months ended March 31, 2021 and 2020, cash paid for amounts included in the measurement of lease liabilities- operating cash flows from operating lease was \$39,273 and \$4,096, respectively.

The components of lease expense consist of the following:

	Three Months Ended March 31,	
	2021	2020
Operating lease expense	\$ 68,795	\$ 45,868
Short-term lease expense	3,533	60,836
Total lease cost	\$ 72,328	\$ 106,704

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Balance sheet information related to leases consists of the following:

	March 31, 2021	December 31, 2020
Assets		
Operating lease – right-of-use asset	\$ 1,180,025	\$ 1,098,819
Total lease assets	<u>\$ 1,180,025</u>	<u>\$ 1,098,819</u>
Liabilities		
Current liabilities:		
Lease obligation – operating lease	\$ 215,555	\$ 123,139
Noncurrent liabilities:		
Lease obligation - operating lease, net of current portion	<u>991,545</u>	<u>1,002,794</u>
Total lease liability	<u>\$ 1,207,100</u>	<u>\$ 1,125,933</u>

The weighted-average remaining lease term and discount rate is as follows:

Weighted average remaining lease term (in years) – operating lease	6.0
Weighted average discount rate – operating lease	10.41%

Cash flow information related to leases consists of the following:

	March 31, 2021	March 31, 2021
Operating cash flows for operating leases	\$ 39,273	\$ 4,096
Supplemental non-cash amounts of lease liabilities arising from obtaining right of use assets	\$ 120,440	\$ 1,210,680

Future minimum lease payment under non-cancellable lease as of March 31, 2021 are as follows:

As of March 31, 2021	Operating Leases
2021, remaining	\$ 231,501
2022	306,691
2023	247,533
2024	254,277
2025	261,223
2026 and thereafter	313,307
Total minimum lease payments	<u>1,614,532</u>
Less effects of discounting	<u>(407,432)</u>
Present value of future minimum lease payments	<u>\$ 1,207,100</u>

Manufacturing Agreements

On September 25, 2020, AYRO entered into a Master Manufacturing Services Agreement with Karma Automotive, LLC (the “Karma Agreement”). The term of the contract is for 12 months. Pursuant to the agreement Karma will provide certain manufacturing services, starting in 2021, under an attached statement of work including final assembly, raw material storage and logistical support of our vehicles in return for compensation of \$1,160,800.

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The Company paid Karma an amount of \$440,000 for the first production level builds and \$80,000 for setup costs. In addition, the Company issued warrants to an advisor to the transaction with a fair value of \$66,845 due at signing of the contract and was expensed in the prior year. The payment was recorded as prepaid expense as of December 31, 2020. On February 24, 2021, a first amendment to the Karma Agreement was made where Parties jointly agree to amend the terms of Exhibit A Statement of Work to Master Services Agreement, in order to allow Karma to assemble a certain number of units of the AYRO 411 vehicle. For the period ended March 31, 2021, the Company recorded an expense of \$7,120 related to the Karma Agreement for the assembly of the AYRO 411 vehicle as discussed above. This amount was recorded against cost of goods for direct labor as part of the first production level builds.

Litigation

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, that it believes are incidental to the operation of its business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on its results of operations, financial positions or cash flows.

Other

On February 12, 2021, the Company entered into an agreement with Arcimoto, Inc. to settle certain patent infringement claims (the “Arcimoto Settlement”) for a de minimis amount, pursuant to which the Company agreed to cease the production, importation and sale of the AYRO 311, among other things. Accordingly, the Company would not be contractually permitted to resume production of the AYRO 311. The Company is continuing the development of an all-new, three-wheeled electric vehicle, which the Company has intended to replace AYRO 311 as its three-wheeled electric vehicle product offering.

As of January 1, 2019, DropCar Operating, Inc. (“DropCar”) had accrued approximately \$232,000 for the settlement of multiple employment disputes. As of March 31, 2021, approximately \$5,603 remained accrued as accounts payable and accrued expenses for the settlement of the final remaining employment dispute.

On March 23, 2018, DropCar was made aware of an audit being conducted by the New York State Department of Labor (“DOL”) regarding a claim filed by an employee. The DOL is investigating whether DropCar properly paid overtime for which DropCar has raised several defenses. In addition, the DOL is conducting its audit to determine whether the Company owes spread of hours pay (an hour’s pay for each day an employee worked or was scheduled for a period over ten hours in a day). If the DOL determines that monies are owed, the DOL will seek a backpay order, which management believes will not, either individually or in the aggregate, have a material adverse effect on the Company’s business, consolidated financial position, results of operations or cash flows. Management believes the case has no merit.

DropCar was a defendant in a class action lawsuit which resulted in a judgement entered into whereby the Company is required to pay legal fees in the amount of \$45,000 to the plaintiff’s counsel. As of March 31, 2021 and December 31, 2020, the balance due remains \$45,000. This amount was included in the \$186,000 of prefunded liabilities assumed by AYRO in the Merger – See Note 1.

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

The following management's discussion and analysis should be read in conjunction with our historical financial statements and the related notes thereto. This management's discussion and analysis contains forward-looking statements, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect" and the like, and/or future tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those under "Risk Factors" in our filings with the Securities and Exchange Commission ("SEC") that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. See "Cautionary Note Regarding Forward-Looking Statements."

References in this management's discussion and analysis to "we," "us," "our," "our Company" or "AYRO" refer to AYRO, Inc. and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q (this "Form 10-Q") contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terms such as "anticipates," "assumes," "believes," "can," "could," "estimates," "expects," "forecasts," "guides," "intends," "is confident that," "may," "plans," "seeks," "projects," "targets," "would" and "will" or the negative of such terms or other variations on such terms or comparable terminology. Such forward-looking statements include, but are not limited to, future financial and operating results, the company's plans, objectives, expectations and intentions and other statements that are not historical facts. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition, and results of operations. These forward-looking statements speak only as of the date of this Form 10-Q and are subject to a number of risks, uncertainties, and assumptions that could cause actual results to differ materially from our historical experience and our present expectations, or projections described under the sections in this Form 10-Q and our other reports filed with the SEC titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

If any of the following risks occur, our business, financial condition, results of operations, cash flows, cash available for distribution, ability to service our debt obligations and prospects could be materially and adversely affected.

- we may be acquired by a third party based on preexisting agreements;
- we have a history of losses and have never been profitable, and we expect to incur additional losses in the future and may never be profitable;
- the market for our products is developing and may not develop as expected;
- our business is subject to general economic and market conditions, including trade wars and tariffs;
- our business, results of operations and financial condition may be adversely impacted by public health epidemics, including the recent COVID-19 outbreak;
- our limited operating history makes evaluating our business and future prospects difficult and may increase the risk of any investment in our securities;

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- we may experience lower-than-anticipated market acceptance of our vehicles;
 - developments in alternative technologies or improvements in the internal combustion engine may have a materially adverse effect on the demand for our electric vehicles;
 - the markets in which we operate are highly competitive, and we may not be successful in competing in these industries;
 - a significant portion of our revenues are derived from a single customer;
 - we rely on and intend to continue to rely on a single third-party supplier and manufacturer located in the People's Republic of China for the sub-assemblies in a semi-knocked-down state for our current vehicles;
 - we may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims;
 - the range of our electric vehicles on a single charge declines over time, which may negatively influence potential customers' decisions whether to purchase our vehicles;
 - increases in costs, disruption of supply or shortage of raw materials, in particular lithium-ion cells, could harm our business;
 - our business may be adversely affected by labor and union activities;
 - we may be required to raise additional capital to fund our operations, and such capital raising may be costly or difficult to obtain and could dilute our stockholders' ownership interests, and our long-term capital requirements are subject to numerous risks;
 - increased safety, emissions, fuel economy, or other regulations may result in higher costs, cash expenditures, and/or sales restrictions;
 - we may fail to comply with environmental and safety laws and regulations;
 - our proprietary designs are susceptible to reverse engineering by our competitors;
 - if we are unable to protect the confidentiality of our trade secrets or know-how, such proprietary information may be used by others to compete against us;
 - should we begin transacting business in other currencies, we are subject to exposure from changes in the exchange rates of local currencies; and
 - we are subject to governmental export and import controls that could impair our ability to compete in international market due to licensing requirements and subject us to liability if we are not in compliance with applicable laws.

For a more detailed discussion of these and other factors that may affect our business and that could cause the actual results to differ materially from those projected in these forward-looking statements, see the risk factors and uncertainties set forth in Part I, Item 1A of our Annual Report on Form 10-K as filed on March 31, 2021 as amended on April 30, 2021. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements

Overview

Merger

On May 28, 2020, pursuant to the previously announced Agreement and Plan of Merger, dated December 19, 2019 (the “Merger Agreement”), by and among AYRO, Inc., a Delaware corporation previously known as DropCar, Inc., ABC Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (“Merger Sub”), and AYRO Operating Company, a Delaware corporation previously known as AYRO, Inc. (“AYRO Operating”), Merger Sub was merged with and into AYRO Operating, with AYRO Operating continuing after the merger as the surviving entity and a wholly owned subsidiary of the Company (the “Merger”). At the effective time of the Merger, without any action on the part of any stockholder, each issued and outstanding share of AYRO Operating’s common stock, par value \$0.001 per share (the “AYRO Operating Common Stock”), including shares underlying AYRO Operating’s outstanding equity awards and warrants, was converted into the right to receive 1.3634 pre-split and pre-stock dividend shares (the “Exchange Ratio”) of the Company’s common stock, par value \$0.0001 per share (the “Company Common Stock”). Upon completion of the Merger and the transactions contemplated in the Merger Agreement and assuming the exercise in full of all pre-funded warrants issued pursuant thereto, (i) the former AYRO Operating equity holders (including the investors in a bridge financing and private placements that closed prior to closing of the Merger) owned approximately 79% of the outstanding equity of the Company; (ii) former DropCar stockholders owned approximately 18% of the outstanding equity of the Company; and (iii) a financial advisor to DropCar and AYRO owned approximately 3% of the outstanding equity of the Company.

The Merger was treated as a reverse recapitalization effected by a share exchange for financial accounting and reporting purposes since substantially all of DropCar, Inc.’s operations were disposed of as part of the consummation of the Merger and therefore no goodwill or other intangible assets were recorded by the Company as a result of the Merger. AYRO Operating is treated as the accounting acquirer as its stockholders control the Company after the Merger, even though DropCar, Inc. was the legal acquirer. As a result, the assets and liabilities and the historical operations that are reflected in our consolidated financial statements are those of AYRO Operating as if AYRO Operating had always been the reporting company.

Reverse Stock Split and Stock Dividend

On May 28, 2020, immediately following the effective time of the Merger, we effected a reverse stock split of the issued and outstanding shares of our common stock, at a ratio of one share for ten shares (the “Reverse Stock Split”). Immediately following the Reverse Stock Split, we issued a stock dividend of one share of the Company’s common stock for each outstanding share of common stock to all holders of record immediately following the effective time of the Reverse Stock Split (the “Stock Dividend”).

The net result of the Reverse Stock Split and the Stock Dividend was a 1-for-5 reverse stock split. We made proportionate adjustments to the per share exercise price and/or the number of shares issuable upon the exercise or vesting of all stock options, restricted stock units (if any) and warrants outstanding as of the effective times of the Reverse Stock Split and the Stock Dividend in accordance with the terms of each security based on the split or dividend ratio. Also, we reduced the number of shares reserved for issuance under our equity compensation plans proportionately based on the split and dividend ratios. Except for adjustments that resulted from the rounding up of fractional shares to the next whole share, the Reverse Stock Split and Stock Dividend affected all stockholders uniformly and did not change any stockholder’s percentage ownership interest in the Company. The Reverse Stock Split did not alter the par value of Company Common Stock, \$0.0001 per share, or modify any voting rights or other terms of the common stock. Except as otherwise set forth herein, share and related option or warrant information presented in this Management’s Discussion and Analysis of Financial Condition and Results of Operations have been adjusted to reflect the reduced number of shares outstanding, the increase in share price which resulted from these actions or otherwise to give effect to the Reverse Stock Split and the Stock Dividend.

Closing of Asset Purchase Agreement

On December 19, 2019, DropCar entered into an asset purchase agreement (the “Asset Purchase Agreement”) with DC Partners Acquisition, LLC (“DC Partners”), Spencer Richardson and David Newman, pursuant to which DropCar agreed to sell substantially all of the assets associated with its business of providing vehicle support, fleet logistics and concierge services for both consumers and the automotive industry to an entity controlled by Messrs. Richardson and Newman, the Company’s Chief Executive Officer and Chief Business Development Officer at the time, respectively. The aggregate purchase price for the purchased assets consisted of the cancellation of certain liabilities pursuant to those certain employment agreements by and between DropCar and each of Messrs. Richardson and Newman, plus the assumption of certain liabilities relating to, or arising out of, workers’ compensation claims that occurred prior to the closing date of the Asset Purchase Agreement. On May 28, 2020, the parties to the Asset Purchase Agreement entered into Amendment No. 1 to the Asset Purchase Agreement (the “Asset Purchase Agreement Amendment”), which Asset Purchase Agreement Amendment (i) provides for the inclusion of up to \$30,000 in refunds associated with certain insurance premiums as assets being purchased by DC Partners, (ii) amends the covenant associated with the funding of the DropCar business, such that DropCar provided the DropCar business with additional funding of \$175,000 at the closing of the transactions contemplated by the Asset Purchase Agreement and (iii) provides for a current employee of the Company being transferred to DC Partners to provide transition services to the Company for a period of three months after the closing of the transactions contemplated by the Asset Purchase Agreement. The Asset Purchase Agreement closed on May 28, 2020, immediately following the consummation of the Merger.

Business

Prior to the Merger, DropCar provided consumer and enterprise solutions to urban automobile-related logistical challenges. Following the Merger, we design and manufacture compact, sustainable electric vehicles for closed campus mobility, urban and community transport, local on-demand and last mile delivery, and government use. Our four-wheeled purpose-built electric vehicles are geared toward commercial customers including universities, business and medical campuses, last mile delivery services and food service providers. We are currently designing our next generation three-wheeled vehicle to support the above-listed markets.

Products

AYRO vehicles provide the end user an environmentally friendly alternative to internal combustion engine vehicles (cars powered by gasoline or diesel oil), for light duty uses, including low-speed logistics, maintenance and cargo services, at a lower total cost. The majority of our sales are comprised of sales of our four-wheeled vehicle to Club Car, a division of Ingersoll Rand, Inc. (“Club Car”), through a strategic arrangement entered in early 2019. We plan to continue growing our business through our experienced management team by leveraging our supply chain, allowing us to scale production without a large capital investment.

Manufacturing Agreement with Cenntro

In 2017, AYRO Operating partnered with Cenntro Automotive Group, Ltd. (“Cenntro”), which operates a large electric vehicle factory in the automotive district in Hangzhou, China, in a supply chain agreement to provide sub-assembly manufacturing services. Through the partnership, Cenntro initially acquired 19% in 2017 of AYRO Operating’s common stock. Cenntro beneficially owned approximately 4.38% of our common stock as of December 31, 2020 and 3.37% as of March 31, 2021. Cenntro owns the design of the AYRO 411 Fleet vehicles and has granted us an exclusive license to purchase the AYRO 411 Fleet vehicles for sale in North America.

Under our Manufacturing License Agreement with Cenntro (the “MLA”), in order for us to maintain our exclusive territorial rights pursuant to the MLA, for the first three years after the effective date of March 22, 2020, we must meet the following minimum purchase requirements, which we believe we satisfied for the initial period: (i) a minimum of 300 units sold by the first anniversary of the effective date of the MLA; (ii) a minimum of 800 units sold by the second anniversary of the effective date of the MLA; and (iii) a minimum of 1,300 units sold by the third anniversary of the effective date of the MLA.

Cenntro will determine the minimum sale requirements for the years thereafter. Should any event of default occur, the other party may terminate the MLA by providing written notice to the defaulting party, who will have 90 days from the effective date of the notice to cure the default. Unless waived by the party providing notice, a failure to cure the default(s) within the 90-day time frame will result in the automatic termination of the MLA. Events of default under the MLA include a failure to make a required payment when due, the insolvency or bankruptcy of either party, the subjection of either party’s property to any levy, seizure, general assignment for the benefit of creditors, and a failure to make available or deliver the products in the time and manner provided for in the MLA. We are dependent on the MLA, and in the event of its termination our manufacturing operations and customer deliveries would be materially impacted.

Master Procurement Agreement with Club Car

In March 2019, AYRO Operating entered into a five-year Master Procurement Agreement, or the MPA, with Club Car for the sale of our four-wheeled vehicle. The MPA grants Club Car the exclusive right to sell AYRO’s four-wheeled vehicle in North America, provided that Club Car orders at least 500 vehicles per year. Although Club Car did not meet the volume threshold for 2020, we currently have no intention of selling our four-wheeled vehicles other than exclusively through Club Car. Under the terms of the MPA, we receive orders from Club Car dealers for vehicles of specific configurations, and AYRO invoices Club Car once the vehicle has shipped. The MPA has an initial term of five (5) years commencing January 1, 2019 and may be renewed by Club Car for successive one-year periods upon 60 days’ prior written notice. Pursuant to the MPA, we granted Club Car a right of first refusal for sales of 51% or more of AYRO Operating’s assets or equity interests, which right of first refusal is exercisable for a period of 45 days following AYRO Operating’s delivery of an acquisition notice to Club Car. We also agreed to collaborate with Club Car on new products similar to our four-wheeled vehicle and improvements to existing products and granted Club Car a right of first refusal to purchase similar commercial utility vehicles we develop during the term of the MPA. We are currently engaged in discussions with Club Car to develop additional products to be sold by Club Car in Europe and Asia but there can be no assurance that these discussions will be successful. For the three months ended March 31, 2021, revenues from Club Car constituted approximately 75% of our revenue. Any loss of, or a significant reduction in purchases by, Club Car that constitutes a significant portion of our sales could have an adverse effect on our financial condition and operating results.

Manufacturing Services Agreement with Karma

On September 25, 2020, we entered into a Master Manufacturing Services Agreement (the “Karma Agreement”) with Karma Automotive LLC (“Karma”), pursuant to which Karma agreed to provide certain manufacturing services for the production of our vehicles. The initial statement of work provides that Karma will perform assembly of a certain quantity of the AYRO 411 vehicles and provide testing, materials management and outbound logistics services. For such services in the initial statement of work, we agreed to pay \$1.2 million to Karma, of which (i) \$0.52 million was paid at closing and (ii) \$0.64 million is due and payable five months following the satisfaction of certain production requirements. The Karma Agreement expires (i) 12 months from the start of volume production of the vehicles or (ii) such earlier time as the parties mutually agree in writing. In addition, Karma, in its sole discretion, may terminate the Karma Agreement at any time, without cause, upon twelve months’ prior written notice. We may terminate the Karma Agreement, without cause, upon six months’ prior written notice.

On February 24, 2021, a first amendment to the Karma Agreement was made where Parties jointly agree to amend the terms of Exhibit A Statement of Work to Master Services Agreement, in order to allow Karma to assemble a certain number of units of the AYRO 411 vehicle.

Supply Agreement with Gallery Carts

During 2020, we entered into a supply agreement with Gallery Carts, a leading provider of food and beverage kiosks, carts, and mobile storefront solutions. Joint development efforts have led to the launch of the parties’ first all-electric configurable mobile hospitality vehicle for “on-the-go” venues across the United States. This innovative solution permits food, beverage and merchandising operators to bring goods directly to consumers.

The configurable Powered Vendor Box, in the rear of the vehicle, features long-life lithium batteries that power the preconfigured hot/cold beverage and food equipment and is directly integrated with the Club Car 411. The canopy doors, as well as the full vehicle, can be customized with end-user logos and graphics to enhance the brand experience. Gallery, with 40 years of experience delivering custom food kiosk solutions, has expanded into mobile electric vehicles as customers increasingly want food, beverages and merchandise delivered to where they are gathering. For example, a recent study conducted by Technomic found that a large majority of students, 77%, desired alternative mobile and to-go food options on campus.

Gallery Carts, a premier distributor of Club Car 411 low-speed electric vehicles manufactured by AYRO, has a diverse clientele throughout mobile food, beverage and merchandise distribution markets, for key customer applications such as university, corporate and government campuses, major league and amateur-level stadiums and arenas, resorts, airports and event centers. In addition to finding innovative and safe ways to deliver food and beverages to their patrons, reducing and ultimately eliminating their carbon footprint is a top priority for many of these customers.

Recent Developments

On January 25, 2021, we entered into a securities purchase agreement with certain institutional and accredited investors, pursuant to which we agreed to issue and sell in a registered direct offering an aggregate of 3,333,334 shares at an offering price of \$6.00 per share, for gross proceeds of \$20.0 million before the deduction of fees and offering expenses. In a concurrent private placement, we sold to such investors warrants to purchase, at any time on or after July 26, 2021 and on or before July 26, 2023, additional shares of common stock equal to the full amount of the common stock it purchased at the initial closing, or an aggregate of 3,333,334 shares, at an exercise price of \$6.93 per share.

In connection with the January 25, 2021 securities purchase agreement, we issued Palladium Capital Group, LLC (collectively with its affiliates, “Palladium”) a warrant to purchase 233,334 shares of common stock (which equals 7.0% of the aggregate number of shares of common stock sold in the January 2021 registered direct offering). The warrants issued to Palladium have the same terms as the investor warrants issued under the January 25, 2021 concurrent private placement.

On February 11, 2021, we entered into a securities purchase agreement with certain institutional and accredited investors, pursuant to which we agreed to issue and sell in a registered direct offering an aggregate of 4,400,001 shares of common stock at an offering price of \$9.50 per share, for gross proceeds of \$41.8 million before the deduction of fees and offering expenses. Each purchaser was also granted an option to purchase, on or before February 16, 2022, additional shares of common stock equal to the full amount of 75% of the common stock it purchased at the initial closing, or an aggregate of 3,300,001 shares, at an exercise price of \$11.50 per share.

Palladium and Spartan Capital Securities, LLC (“Spartan,” or collectively with Palladium, the “Financial Advisors”) were entitled to a fee equal to 8% of the gross proceeds raised in the February 2021 registered direct offering and warrants to purchase an aggregate of 271,158 shares of our common stock at an exercise price of \$10.925 per share and 35,885 shares of our common stock at an exercise price of \$10.45 per share. The warrants are exercisable immediately following issuance and terminate five years

following issuance.

Pursuant to the Securities Purchase Agreement dated July 21, 2020, during the three months ended March 31, 2021, investors purchased 302,500 of the Additional Shares of our common stock par value \$0.0001 per share, at an offering price of \$5.00 per share, for gross proceeds of \$1.5 million.

Factors Affecting Results of Operations

Master Procurement Agreement

In March 2019, we entered into the MPA with Club Car. In partnership with Club Car and in interaction with its substantial dealer network, we have redirected our business development resources towards supporting Club Car's enterprise and fleet sales function as Club Car proceeds in its new product introduction initiatives.

COVID-19 Pandemic

Our business, results of operations and financial condition have been adversely impacted by the recent coronavirus outbreak both in China and the United States. This has delayed our ability to timely procure raw materials from our supplier in China, which in turn, has delayed shipments to and corresponding revenue from customers. The pandemic and social distancing directives have interfered with our ability, and the ability of our employees, workers, contractors, suppliers and other business partners to perform our and their respective responsibilities and obligations relative to the conduct of our business. The COVID-19 pandemic poses restrictions on our employees' and other service providers' ability to travel on pre-sales meetings, customers' abilities to physically meet with our employees and the ability of our customers to test drive or purchase our vehicles and shutdowns that may be requested or mandated by governmental authorities, and we expect these restrictions to continue at least through the second quarter of 2021. The pandemic adversely impacted our sales and the demand for our products in 2020 and is expected to continue adversely impacting demand for our products in 2021.

Components of Results of Operations

Revenue

We derive revenue from the sale of our four-wheeled electric vehicles, and, to a lesser extent, shipping, parts and service fees. In the past we also derived rental revenue from vehicle revenue sharing agreements with our tourist destination fleet operators, or Destination Fleet Operators ("DFOs"), and, to a lesser extent, shipping, parts and service fees. Provided that all other revenue recognition criteria have been met, we typically recognize revenue upon shipment, as title and risk of loss are transferred to customers and channel partners at that time. Products are typically shipped to dealers or directly to end customers, or in some cases to our international distributors. These international distributors assist with import regulations, currency conversions and local language. Our vehicle product sales revenues vary from period to period based on, among other things, the customer orders received and our ability to produce and deliver the ordered products. Customers often specify requested delivery dates that coincide with their need for our vehicles.

Because these customers may use our products in connection with a variety of projects of different sizes and durations, a customer's orders for one reporting period generally do not indicate a trend for future orders by that customer. Additionally, order patterns do not necessarily correlate amongst customers.

Cost of Goods Sold

Cost of goods sold primarily consists of costs of materials and personnel costs associated with manufacturing operations, and an accrual for post-sale warranty claims. Personnel costs consist of wages and associated taxes and benefits. Cost of goods sold also includes freight and changes to our warranty reserves. Allocated overhead costs consist of certain facilities and utility costs. We expect cost of revenue to increase in absolute dollar, as product revenue increases.

Operating Expenses

Our operating expenses consist of general and administrative, sales and marketing and research and development expenses. Salaries and personnel-related costs, benefits, and stock-based compensation expense are the most significant components of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities and utility costs.

Research and Development Expense

Research and development expense consists primarily of employee compensation and related expenses, prototype expenses, depreciation associated with assets acquired for research and development, amortization of product development costs, product strategic advisory fees, third-party engineering and contractor support costs and allocated overhead. We expect our research and development expenses to increase in absolute dollars as we continue to invest in new and existing products.

Sales and Marketing Expense

Sales and marketing expense consist primarily of employee compensation and related expenses, sales commissions, marketing programs, travel and entertainment expenses and allocated overhead. Marketing programs consist of advertising, tradeshows, events, corporate communications and brand-building activities. We expect sales and marketing expenses to increase in absolute dollars as we expand our sales force, expand our product lines, increase marketing resources, and further develop sales channels.

General and Administrative Expense

General and administrative expense consists primarily of employee compensation and related expenses for administrative functions including finance, legal, human resources and fees for third-party professional services, and allocated overhead. We expect our general and administrative expense to increase in absolute dollars as we continue to invest in growing our business.

Stock-based compensation

We account for stock-based compensation expense in accordance with ASC 718, *Compensation—Stock Compensation*, which requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of grant.

The fair value of each stock option granted to employees is estimated on the date of the grant using the Black-Scholes option-pricing model and the related stock-based compensation expense is recognized over the vesting period during which an employee is required to provide service in exchange for the award. The fair value of the options granted to non-employees is measured and expensed as the options vest.

Restricted stock grants are stock awards that entitle the holder to receive shares of our common stock as the award vests over time. The fair value of each restricted stock grant is based on the fair market value price of common stock on the date of grant, and it is measured and expensed as the options vest.

Other (Expense) Income

Other (expense) income consists of income received or expenses incurred for activities outside of our core business. Other expense consists primarily of interest expense.

Provision for Income Taxes

Provision for income taxes consists of estimated income taxes due to the United States government and to the state tax authorities in jurisdictions in which we conduct business. In the case of a tax deferred asset, we reserve the entire value for future periods.

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Results of Operations

Three months ended March 31, 2021 compared to three months ended March 31, 2020

The following table sets forth our results of operations for each of the periods set forth below:

	For the three months ended March 31,		
	2021	2020	Change
Revenue	\$ 788,869	\$ 146,816	\$ 642,053
Cost of goods sold	644,503	113,155	531,348
Gross profit	144,366	33,661	110,705
Operating expenses:			
Research and development	1,927,561	154,699	1,772,862
Sales and marketing	558,404	319,454	238,950
General and administrative	3,301,309	1,249,052	2,052,257
Total operating expenses	5,787,274	1,723,205	4,064,069
Loss from operations	(5,642,908)	(1,689,544)	(3,953,364)
Other income and expense:			
Other income, net	9,926	16	9,910
Interest expense	(851)	(105,625)	104,774
Net loss	\$ (5,633,833)	\$ (1,795,153)	\$ (3,838,680)

Revenue

Revenue was \$0.79 million for the three months ended March 31, 2021 as compared to \$0.15 million for the same period in 2020, an increase of 437.3%, or \$0.64 million. The increase in revenue was the result of an increase in sales of our vehicles, deriving from our MPA with Club Car, related powered-food box sales and other vehicle options.

Cost of goods sold and gross profit

Cost of goods sold increased by \$0.53 million, or 469.6% for the three months ended March 31, 2021, as compared to the same period in 2020, corresponding with the increase in vehicle sales and an increase in time-of-order options for our vehicles and specialty products.

Gross margin percentage was 18.3% for the three months ended March 31, 2021, as compared to 22.9% for the three months ended March 31, 2020. The decrease in gross margin percentage in the core business was primarily due to an increase in tariffs on raw materials imported from China and an increase in shipping costs due to the global COVID-19 pandemic. Vehicle sales prices were increased in January 2021 to partially offset these cost increases.

Research and development expense

Research and development ("R&D") expense was \$1.93 million for the three months ended March 31, 2021, as compared to \$0.15 million for the same period in 2020, an increase of \$1.78 million, or 1146.01%. The increase was primarily due to expenses related to personnel costs for our engineering, design, and research teams as we expanded the suite of option packages for our vehicles and initiated development of our next-generation three-wheeled vehicle. We had an increase in salaries and related expenses of \$0.29 million, an increase of \$1.18 million from R&D contracting for professional service and design costs and an increase in design and testing material of \$0.25 million.

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Sales and marketing expense

Sales and marketing expense was \$0.56 million for the three months ended March 31, 2021, as compared to \$0.32 million for the same period in 2020, as we expanded our sales and marketing staff and marketing-related initiatives surrounding our next generation three-wheeled vehicle. Salaries and wages increased by \$0.08 million and stock-based compensation increased by \$0.03 million due to the addition of our sales and marketing resources. Discretionary marketing programs increased by \$0.05 million and contracting for professional marketing services increased by \$0.05 million. Additionally, depreciation expense for demonstration vehicles assigned to the sales and marketing team increased by \$0.02 million as compared to the same period in 2020 due to a reclassification from general and administration expenses to sales and marketing expense for demonstration vehicles assigned to the sales and marketing team.

General and administrative expenses

The majority of our operating losses from continuing operations resulted from general and administrative expenses. General and administrative expenses consist primarily of costs associated with our overall operations and with being a public company. These costs include personnel, legal and financial professional services, insurance, investor relations, and compliance related fees. General and administrative expense was \$3.30 million for the three months ended March 31, 2021, compared to \$1.25 million for the same period in 2020, an increase of \$2.05 million. Contracting for professional services increased by \$0.34 million primarily a result of additional audit, legal and investor relations expenses incurred to support public reporting requirements. This amount was offset by the decrease of various expenses, primarily acquisition and financing cost of \$0.35 million and a decrease in consulting services of \$0.06 million. Board compensation expense increased by \$0.12 million. Salaries and related costs increased by \$0.28 million due to corporate expansion. Stock-based compensation expense increased by \$1.53 million, primarily due to the expense of director and employee equity awards granted in 2020. Other public company-related expenses increased by \$0.09 million.

Depreciation decreased by \$0.01 million, primarily driven by fully depreciating the tooling for our AYRO 311 product line during 2020 and the reclassification of depreciation

expense for demonstration vehicles assigned to the sales and marketing team due to our redirection of our marketing focus in-house. Rent decreased for the three months ended March 31, 2021 as compared to the same period in 2020 due to the accounting in 2020 for \$0.02 million expense from contract liabilities and a rent payment towards the prior office space of \$0.03 million.

Non-GAAP Financial Measure

We present Adjusted EBITDA because we consider it to be an important supplemental measure of our operating performance, and we believe it may be used by certain investors as a measure of our operating performance. Adjusted EBITDA is defined as income (loss) from operations before interest income and expense, income taxes, depreciation, amortization of intangible assets, amortization of discount on debt, impairment of long-lived assets, stock-based compensation expense and certain non-recurring expenses. Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles in the United States, or GAAP.

Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact our non-cash operating expenses, we believe that providing a non-GAAP financial measure that excludes non-cash and non-recurring expenses allows for meaningful comparisons between our core business operating results and those of other companies, as well as providing us with an important tool for financial and operational decision making and for evaluating our own core business operating results over different periods of time.

Adjusted EBITDA may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items.

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Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to operating income or as an indication of operating performance or any other measure of performance derived in accordance with GAAP. We do not consider Adjusted EBITDA to be a substitute for, or superior to, the information provided by GAAP financial results.

Below is a reconciliation of Adjusted EBITDA to net loss to common stockholders for the three months ended March 31, 2021 and 2020.

	Three Months Ended	
	March 31,	
	2021	2020
Net Loss	\$ (5,633,833)	\$ (1,795,153)
Depreciation and Amortization	124,198	114,275
Stock-based compensation expense	1,699,423	156,458
Amortization of Discount on Debt	-	63,744
Interest expense	851	28,436
Adjusted EBITDA	\$ (3,809,361)	\$ (1,432,240)

Liquidity and Capital Resources

As of March 31, 2021, we had \$91.49 million in cash and working capital of \$92.96 million. As of December 31, 2020, we had \$36.54 million in cash and working capital of \$38.50 million. The increase in cash and working capital was primarily a result of our capital raising activities during the three months ended March 31, 2021.

Our sources of cash since inception have been predominantly from the sale of equity and debt.

On January 25, 2021, we entered into a securities purchase agreement with certain institutional and accredited investors, pursuant to which we agreed to issue and sell in a registered direct offering an aggregate of 3,333,334 shares at an offering price of \$6.00 per share, for gross proceeds of \$20.00 million before the deduction of fees and offering expenses. In a concurrent private placement, we sold to such investors warrants to purchase, at any time on or after July 26, 2021 and on or before July 26, 2023, additional shares of common stock equal to the full amount of the common stock it purchased at the initial closing, or an aggregate of 3,333,334 shares, at an exercise price of \$6.93 per share.

On February 11, 2021, we entered into a securities purchase agreement with certain institutional and accredited investors, pursuant to which we agreed to issue and sell in a registered direct offering an aggregate of 4,400,001 shares of common stock at an offering price of \$9.50 per share, for gross proceeds of \$41.80 million before the deduction of fees and offering expenses. Each purchaser was also granted the option to purchase, on or before February 16, 2022, additional shares of common stock equal to the full amount of 75% of the common stock it purchased at the initial closing, or an aggregate of 3,300,001 shares, at a purchase price of \$11.50 per share.

Pursuant to the Securities Purchase Agreement dated July 21, 2020, during the three months ended March 31, 2020, investors purchased 302,500 additional shares at an offering price of \$5.00 per share, for gross proceeds of \$1.5 million.

Our business is capital-intensive, and future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of our sales and marketing teams, the timing of new product introductions and the continuing market acceptance of our products and services. We may also use capital for strategic acquisitions or transactions.

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We are subject to a number of risks similar to those of earlier stage commercial companies, including dependence on key individuals and products, the difficulties inherent in the development of a commercial market, the potential need to obtain additional capital, competition from larger companies, other technology companies and other technologies. Based on the foregoing, management believes that the existing cash at March 31, 2021, will be sufficient to fund operations for at least the next twelve months following the date of this report.

Summary of Cash Flows

The following table summarizes our cash flows:

	For the Three Months Ended March 31,	
	2021	2020
Cash Flows:		
Net cash used in operating activities	\$ (3,450,067)	\$ (983,115)
Net cash used in investing activities	\$ (147,294)	\$ (88,085)
Net cash provided by financing activities	\$ 58,551,425	\$ 498,318

Operating Activities

During the three months ended March 31, 2021, we used \$3.45 million in cash in operating activities, an increase in use of \$2.47 million when compared to the cash used in operating activities of \$0.98 million during the same period in 2020. The increase in cash used in operating activities was primarily a result of prepayments for inventory and manufacturing services, an increase in accounts receivable, payments of accrued expenses, purchases of inventory and an increase in our operating loss as we continue to build our core business.

Our ability to generate cash from operations in future periods will depend in large part on profitability, the rate and timing of collections of our accounts receivable, inventory turns and our ability to manage other areas of working capital.

Investing Activities

During the three months ended March 31, 2021, we used cash of \$0.15 million from investing activities as compared to \$0.09 million of cash used in investing activities during 2020, an increase of \$0.06 million. The net increase was primarily due to purchases of property and equipment to support facilities and capabilities expansion.

Financing Activities

During the three months ended March 31, 2021, we received net proceeds of an aggregate of \$58.27 million from the issuance of common stock, net of fees and expenses, \$0.18 million from the exercise of options to purchase additional shares of common stock, and \$0.10 million from the exercise of warrants for cash. During the three months ended March 31, 2020, we received \$0.50 million in debt financing from certain DropCar investors of which the note was repaid upon closing of the Merger.

Contractual Obligations and Commitments

We have made certain indemnities, under which we may be required to make payments to an indemnified party, in relation to certain transactions. We indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware. In connection with our facility leases, we have indemnified our lessors for certain claims arising from the use of the facilities. The duration of the indemnities varies and, in many cases, is indefinite. These indemnities do not provide for any limitation of the maximum potential future payments we could be obligated to make. Historically, we have not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities.

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Off-Balance Sheet Arrangements

As of March 31, 2021, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our principal executive officer and our principal financial officer evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were ineffective due to the material weakness in internal control over financial reporting discussed below, as well as our continued implementation of disclosure controls and procedures following the Merger. As a result of the Merger transaction, the Company is in the process of assessing and improving its internal control processes and expanding its financial operations and reporting infrastructure.

In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2020, management identified a material weakness related to segregation of duties. Specifically, due to limited resources and headcount we did not have multiple people in the accounting function to provide for a full segregation of duties as required of a public company.

Plan for Remediation of Material Weakness

We have taken and continue to take remedial steps to improve our internal control over financial reporting by hiring additional personnel with added expertise in public company reporting and expect to conclude that the material weakness has been remediated as these individuals progress through the onboarding process. We also continue to expand the functionality of our internal accounting systems to provide for higher levels of automation and assurance in the financial reporting function.

Changes in Internal Controls over Financial Reporting

Following the completion of the Merger, our management is still in the process of evaluating any related changes to our internal control over financial reporting as a result of this integration. Except for any changes relating to this integration and as otherwise described above under “Plan for Remediation of Material Weakness,” there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than the proceedings identified in Note 13 of the Notes to the Financial Statements in this Form 10-Q, there have been no changes to the legal proceedings disclosed in our Annual Report on Form 10-K filed for the fiscal year ended December 31, 2020.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as identified in our Annual Report on Form 10-K filed March 31, 2021, as amended.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

- 2.1 Agreement and Plan of Merger and Reorganization by and among DropCar, Inc., ABC Merger Sub, Inc. and AYRO, Inc. dated December 19, 2019 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2019)
- 2.2 Asset Purchase Agreement, by and among DropCar, Inc., DropCar Operating Company, Inc., DC Partners Acquisition, LLC, Spencer Richardson and David Newman, dated December 19, 2019 (incorporated by reference to Exhibit 2.5 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2019)
- 2.3 Amendment to Asset Purchase Agreement, by and among DropCar, Inc., DropCar Operating Company, Inc., DC Partners Acquisition, LLC, Spencer Richardson and David Newman, dated May 28, 2020 (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 29, 2020)
- 3.1 Certificate of Amendment to the Certificate of Designations, Preferences and Rights of Series H-4 Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 29, 2020)
- 3.2 Amended and Restated Certificate of Incorporation, effective May 28, 2020 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 29, 2020)
- 3.3 Certificate of Amendment to Amended and Restated Certificate of Incorporation, effective May 28, 2020 (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 29, 2020)
- 3.4 Amended and Restated Bylaws, effective May 28, 2020 (incorporated by reference to Exhibit 3.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 29, 2020)
- 3.5 First Amendment to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 8, 2020)
- 4.1 Form of Investor Warrant issued in connection with the January 2020 Offering (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2021)
- 4.2 Form of Palladium Warrant issued in connection with the January 2020 Offering (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2021)
- 4.3 Form of Placement Agent Common Stock Purchase Warrant issued in connection with the February 2021 Offering (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2021)
- 4.4** Form of Spartan Common Stock Purchase Warrant issued in connection with the February 2021 Offering
- 10.1 Form of Securities Purchase Agreement, dated January 25, 2021, by and among the Company and the purchasers thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2021)
- 10.2 Form of Securities Purchase Agreement, dated February 11, 2021, by and among the Company and the purchasers thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2021)

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Exhibit No.	Description
31.1**	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS**	XBRL Instance Document

101 SCH** XBRL Taxonomy Extension Schema Document
101 CAL** XBRL Taxonomy Calculation Linkbase Document
101 DEF** XBRL Taxonomy Extension Definition Linkbase Document
101 LAB** XBRL Taxonomy Labels Linkbase Document
101 PRE** XBRL Taxonomy Presentation Linkbase Document

** Filed herewith.

+ Certain portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The omitted information is (i) not material and (ii) would likely cause competitive harm to the Company if publicly disclosed. The Company agrees to furnish supplementally an unredacted copy of the exhibit to the SEC upon its request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AYRO, INC.

Dated: May 13, 2021

By: /s/ Rodney C. Keller, Jr.
Rodney C. Keller, Jr,
President, Chief Executive Officer, and Director
(Principal Executive Officer)

Dated: May 13, 2021

By: /s/ Curtis Smith
Curtis Smith
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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CERTIFICATIONS UNDER SECTION 302

I, Rodney C. Keller, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AYRO, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2021

/s/ Rodney C. Keller, Jr.

Rodney C. Keller, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 302

I, Curtis Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AYRO, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2021

/s/ Curtis Smith

Curtis Smith

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of AYRO, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge and in the capacity of an officer, that:

The Quarterly Report for the quarter ended March 31, 2021 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: May 13, 2021

By: /s/ Rodney C. Keller, Jr.
Rodney C. Keller, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 13, 2021

By: /s/ Curtis Smith.
Curtis Smith
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
