

**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, 2022

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 April 29, 2022, the registrant had 36,909,956 shares of common stock outstanding.

AYRO, Inc.
Quarter Ended March 31, 2022

Table of Contents

PART I	FINANCIAL INFORMATION	F-1
ITEM 1.	Financial Statements (Unaudited)	F-1
	Condensed Consolidated Balance Sheets as of March 31, 2022 and December 31, 2021	F-1
	Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2022 and 2021	F-2
	Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2022 and 2021	F-3
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2022 and 2021	F-4
	Notes to the Condensed Consolidated Financial Statements (Unaudited)	F-5
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	1
ITEM 3.	Quantitative and Qualitative Disclosure About Market Risk	10
ITEM 4.	Controls and Procedures	10
PART II	OTHER INFORMATION	11
ITEM 1.	Legal Proceedings	11
ITEM 1A.	Risk Factors	11
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	11
ITEM 3.	Defaults Upon Senior Securities	11
ITEM 4.	Mine Safety Disclosures	11
ITEM 5.	Other Information	11
ITEM 6.	Exhibits	12
	SIGNATURES	14

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	March 31,	December 31,
	2022	2021
ASSETS		
Current assets:		
Cash	\$ 43,494,716	\$ 69,160,466
Accounts receivable, net	1,203,820	969,429
Marketable securities	19,977,899	-
Inventory, net	3,857,403	3,744,037
Prepaid expenses and other current assets	2,589,170	2,276,178
Total current assets	71,123,008	76,150,110
Property and equipment, net	864,306	835,160
Intangible assets, net	82,281	88,322
Operating lease – right-of-use asset	954,233	1,012,884
Deposits and other assets	41,289	41,288
Total assets	\$ 73,065,117	\$ 78,127,764
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 616,151	\$ 647,050
Accrued expenses	1,985,049	2,990,513
Current portion lease obligation – operating lease	180,333	206,426
Total current liabilities	2,781,533	3,843,989
Lease obligation - operating lease, net of current portion	820,521	859,543
Total liabilities	3,602,054	4,703,532
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, 2022 and December 31, 2021, respectively)	-	-
Convertible Preferred Stock Series H-3, (\$0.0001 par value; authorized – 8,461 shares; issued and outstanding – 1,234 as of March 31, 2022 and December 31, 2021, respectively)	-	-
Convertible Preferred Stock Series H-6, (\$0.0001 par value; authorized – 50,000 shares; issued and outstanding – 50 as of March 31, 2022 and December 31, 2021, respectively)	-	-
Common Stock, (\$0.0001 par value; authorized – 100,000,000 shares; issued and outstanding – 36,909,956 and 36,866,956 as of March 31, 2022 and December 31, 2021, respectively)	3,691	3,687
Additional paid-in capital	132,272,263	131,654,776
Accumulated deficit	(62,812,891)	(58,234,231)
Total stockholders' equity	69,463,063	73,424,232
Total liabilities and stockholders' equity	\$ 73,065,117	\$ 78,127,764

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

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

	Three Months Ended March 31,	
	2022	2021
Revenue	\$ 1,026,846	\$ 788,869
Cost of goods sold	1,177,145	644,503
Gross profit (loss)	<u>(150,299)</u>	<u>144,366</u>
Operating expenses:		
Research and development	872,631	1,927,561
Sales and marketing	844,816	558,404
General and administrative	2,697,704	3,301,309
Total operating expenses	<u>4,415,151</u>	<u>5,787,274</u>
Loss from operations	(4,565,450)	(5,642,908)
Other income (expense):		
Other income, net	8,891	9,926
Unrealized loss on marketable securities	(22,101)	-
Interest expense	-	(851)
Other income (expense), net	<u>(13,210)</u>	<u>9,075</u>
Net loss	<u>\$ (4,578,660)</u>	<u>\$ (5,633,833)</u>
Net loss per share, basic and diluted	<u>\$ (0.12)</u>	<u>\$ (0.18)</u>
Basic and diluted weighted average Common Stock outstanding	<u>36,907,155</u>	<u>32,007,002</u>

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

F-2

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

	Three Months Period Ended March 31, 2022										
	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, 2021	8	\$ -	1,234	\$ -	50	\$ -	36,866,956	\$ 3,687	\$ 131,654,776	\$ (58,234,231)	\$ 73,424,232
Stock Based Compensation									288,110		288,110
Vesting of Restricted Stock							43,000	4	329,377		329,381
Net Loss										(4,578,660)	(4,578,660)
Balance, March 31, 2022	<u>8</u>	<u>-</u>	<u>1,234</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>36,909,956</u>	<u>\$ 3,691</u>	<u>\$ 132,272,263</u>	<u>\$ (62,812,891)</u>	<u>\$ 69,463,063</u>
	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>

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

F-3

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

	Three Months Ended March 31,	
	2022	2021

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$	(4,578,660)	\$ (5,633,833)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		121,425	124,198
Stock-based compensation		288,110	1,699,423
Amortization of right-of-use asset		58,651	39,234
Provision for bad debt expense		11,657	29,032
Unrealized loss on marketable securities		22,101	-
Change in operating assets and liabilities:			
Accounts receivable		(246,050)	(316,870)
Inventory		(137,258)	313,046
Prepaid expenses and other current assets		(312,992)	(179,843)
Deposits		-	(18,798)
Accounts payable		(30,899)	174,392
Accrued expenses		(676,083)	383,225
Contract liability		-	(24,000)
Lease obligations - operating leases		(65,115)	(39,273)
Net cash used in operating activities		<u>(5,545,113)</u>	<u>(3,450,067)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(113,637)	(131,111)
Purchase of marketable securities		(20,000,000)	-
Purchase of intangible assets		(7,000)	(16,183)
Net cash used in investing activities		<u>(20,120,637)</u>	<u>(147,294)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of debt		-	(1,829)
Proceeds from exercise of warrants, net of fees		-	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>-</u>	<u>58,551,425</u>
Net change in cash		(25,665,750)	54,954,064
Cash, beginning of year		<u>69,160,466</u>	<u>36,537,097</u>
Cash, end of quarter	\$	<u>43,494,716</u>	\$ <u>91,491,161</u>
Supplemental disclosure of cash and non-cash transactions:			
Cash paid for interest	\$	-	\$ 851
Restricted Stock issued, previously accrued	\$	329,381	\$ -
Supplemental non-cash amounts of lease liabilities arising from obtaining right of use assets	\$	-	\$ 120,440

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

F-4

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 of AYRO Operating Company, Inc. (“AYRO Operating”), 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 Certificate 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. The all-electric vehicles are typically sold both directly and to dealers in the United States.

Strategic Review

Following the hiring of the Company’s new Chief Executive Officer in the third quarter of 2021, the Company initiated a strategic review of their product development strategy, as they focus on creating value within the electric vehicle, last-mile delivery, and smart payload and enabling infrastructure markets. While the Company completes their strategic review, they have paused all material research and development activity and expenditures associated with their planned next-generation three-wheeled high speed vehicle.

In December of 2021 the Company began research and development on the new 411 fleet vehicle model refresh, the AYRO Z, including updates on their supply chain evolution, offshoring/onshoring mix, manufacturing strategy, and annual model year refresh program.

NOTE 2. LIQUIDITY AND OTHER UNCERTAINTIES

Liquidity and Other Uncertainties

The 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. The Company incurred net losses of \$4,578,660 for the three months ended March 31, 2022, and negative cash flows from operations of \$5,545,113 for the three months ended March 31, 2022. At March 31, 2022, the Company had cash balances totaling \$43,494,716 and marketable securities of \$19,977,899. In addition, overall working

capital decreased by \$3,946,646 during the three months ended March 31, 2022. Management believes that the existing cash at March 31, 2022 will be sufficient to fund operations for at least the next twelve months following the issuance of these condensed consolidated financial statements.

F-5

Since early 2020, when the World Health Organization declared the spread of 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, 2021 and into 2022, the measures taken by the governments of countries affected has adversely affected the Company's business, financial condition, and results of operations.

The Company relies on foreign suppliers, including Cenntro Automotive Group ("Cenntro"), its largest supplier, for a number of raw materials, instruments and technologies that the Company purchases. The Company's success is dependent on the ability to import or transport such products from Cenntro and other overseas vendors in a timely and cost-effective manner. The Company relies heavily on third parties, including ocean carriers and truckers, in that process. The global shipping industry is experiencing ocean shipping disruptions, trucking shortages, increased ocean shipping rates and increased trucking and fuel costs, and the Company cannot predict when these disruptions will end.

There is currently a shortage of shipping capacity from China and other parts of Asia, and as a result, receipt of imported products may be disrupted or delayed. The shipping industry is also experiencing issues with port congestion and pandemic-related port closures and ship diversions. Labor disputes among freight carriers and at ports of entry are common, and the Company expects labor unrest and its effects on shipping products to be a challenge for it. A port worker strike, work slow-down or other transportation disruption in the port of Long Beach, California could significantly disrupt the Company's business. The Company is currently experiencing such disruption at the port due to multiple factors brought about by the COVID-19 pandemic, such as supply and demand imbalance, a shortage of warehouse workers, truck drivers, transport equipment (tractors and trailers) and other causes, which have resulted in heightened congestion, bottlenecks and gridlock, leading to abnormally high transportation delays. This has materially and adversely affected the Company's business and could continue to materially and adversely affect our business and financial results. If significant disruptions along these lines continue, this could lead to further significant disruptions in the Company's business, delays in shipments, and revenue and profitability shortfalls, which could adversely affect the business, prospects, financial condition and operating results.

The global shipping industry is also experiencing unprecedented increases in shipping rates from the trans-Pacific ocean carriers due to various factors, including limited availability of shipping capacity. For example, the cost of shipping products by ocean freight has recently increased to at least three times historical levels and will have a corresponding impact on profitability. The Company may find it necessary to rely on an increasingly expensive spot market and other alternative sources to make up any shortfall in shipping needs. Additionally, if increases in fuel prices occur, transportation costs would likely further increase. Similarly, supply chain disruptions such as those described in the preceding paragraphs may lead to an increase in transportation costs. Such cost increases have adversely affected the Company's business and could have additional adverse effects on the business, prospects, financial condition and operating results.

The Company may experience increases in the cost or a sustained interruption in the supply or shortage of raw materials, including lithium-ion battery cells, semiconductors, and integrated circuits. Any such increase or supply interruption could materially negatively impact the business, prospects, financial condition and operating results. Currently, the Company is experiencing supply chain shortages, including with respect to lithium-ion battery cells, integrated circuits, vehicle control chips, and displays. Certain production-ready components may be delayed in shipment to company facilities which has and may continue to cause delays in validation and testing for these components, which would in turn create a delay in the availability of saleable vehicles.

F-6

The Company uses various raw materials, including aluminum, steel, carbon fiber, non-ferrous metals (such as copper), and cobalt. The prices for these raw materials fluctuate depending on market conditions, and global demand and could adversely affect business and operating results. For instance, the Company is exposed to multiple risks relating to price fluctuations for lithium-ion cells. These risks include:

- the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells required to support the growth of the electric vehicle industry as demand for such cells increases;
- disruption in the supply of cells due to quality issues or recalls by the battery cell manufacturers; and
- an increase in the cost of raw materials, such as cobalt, used in lithium-ion cells.

Any disruption in the supply of lithium-ion battery cells, semiconductors, or integrated circuits could temporarily disrupt production of the Company's vehicles until a different supplier is fully qualified. Moreover, battery cell manufacturers may refuse to supply electric vehicle manufacturers if they determine that the vehicles are not sufficiently safe. Furthermore, fluctuations or shortages in petroleum and other economic conditions may cause the Company to experience significant increases in freight charges and raw material costs. Substantial increases in the prices for our raw materials would increase operating costs and could reduce our margins if the increased costs cannot be recouped through increased electric vehicle prices. There can be no assurance that the Company will be able to recoup increasing costs of raw materials by increasing vehicle prices.

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 vary and, in many cases, are 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements represent the consolidation of the accounts of the Company and its subsidiaries in conformity with GAAP. All intercompany accounts and transactions have been eliminated in 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. 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, 2022, 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, 2021, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on March 23, 2022, as amended on May 2, 2022.

Use of Estimates

The preparation of the 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 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, valuation of long lived assets, sales warranties, and the measurement of stock-based compensation expenses. Actual results could differ from these estimates.

F-7

Marketable Securities

Marketable securities includes the investment in fixed income bonds and U.S. Treasury securities that are considered to be highly liquid and easily tradeable. The marketable securities are considered trading securities and are measured at fair value and are accounted for in accordance with ASC 320. The marketable securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company's fair value hierarchy.

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 and delivery 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 similar in all material respects 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 \$110,549 and \$50,626 for the three months ended March 31, 2022 and 2021, respectively, included in General and Administrative Expenses.

F-8

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 and non-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. For value-based vesting grants, expense is recognized via straight line expense over the expected period per grant as determined by outside valuation experts. Stock-based compensation is reversed for forfeitures in the period of forfeiture.

We estimate the fair value of stock-based and cash unit awards containing a market condition using a Monte Carlo simulation model. Key inputs and assumptions used in the Monte Carlo simulation model include the stock price of the award on the grant date, the expected term, the risk-free interest rate over the expected term, the expected annual dividend yield and the expected stock price volatility. The expected volatility is based on a combination of the historical and implied volatility of the Company's publicly traded, near-the-money stock options, and the valuation period is based on the vesting period of the awards. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant and, since the Company does not currently pay or plan to pay a dividend on its common stock, the expected dividend yield was zero.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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.

F-9

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,	
	2022	2021
Options to purchase common stock	1,107,773	1,845,282
Restricted stock unvested	892,248	1,244,503
Warrants outstanding	6,106,023	7,361,083
Preferred stock outstanding	2,475	2,475
Totals	8,108,519	10,453,343

NOTE 4. REVENUES

Disaggregation of Revenue

Revenue by type was as follows:

Revenue type	Three Months Ended March 31,	
	2022	2021
Product revenue	\$ 919,343	\$ 710,199
Shipping revenue	107,503	41,983
Service income	-	36,687
	\$ 1,026,846	\$ 788,869

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, 2022 and December 31, 2021, warranty reserves were recorded within accrued expenses of \$330,180 and \$240,517, respectively.

NOTE 5. ACCOUNTS RECEIVABLE, NET

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

	March 31,	December 31,
	2022	2021
Trade receivables	\$ 1,388,615	\$ 1,142,567
Less: Allowance for doubtful accounts	(184,795)	(173,138)
	\$ 1,203,820	\$ 969,429

NOTE 6. INVENTORY, NET

Inventory consisted of the following:

	March 31,	December 31,
	2022	2021
Raw materials	\$ 3,585,607	\$ 3,481,614
Work-in-progress	91,969	51,441
Finished goods	179,827	210,982
	\$ 3,857,403	\$ 3,744,037

For the three months ended March 31, 2022 and 2021, depreciation recorded for fleet inventory was \$3,892 and \$23,886, respectively. Reserve for inventory was \$388,735 as of December 31, 2021. Management has determined that no additional reserve for inventory obsolescence was required as of March 31, 2022.

F-10

NOTE 7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	March 31,	December 31,
	2022	2021
Prepaid final assembly services	\$ 350,660	\$ 439,660
Prepayments for inventory	1,764,198	1,622,617
Prepaid other	474,312	213,901

\$ 2,589,170 \$ 2,276,178

NOTE 8. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	March 31, 2022	December 31, 2021
Computer and equipment	\$ 913,882	\$ 853,695
Furniture and fixtures	204,756	173,155
Lease improvements	304,121	282,271
Prototypes	300,376	300,376
Computer software	455,875	455,875
	<u>2,179,010</u>	<u>2,065,372</u>
Less: Accumulated depreciation	(1,314,704)	(1,230,212)
	<u>\$ 864,306</u>	<u>\$ 835,160</u>

Depreciation expense for the three months ended March 31, 2022 and 2021 was \$84,492 and \$71,128, respectively.

NOTE 9. MARKETABLE SECURITIES

Marketable securities consisted of the following:

	Cost Basis	Gross Unrealized Losses	Total
Bonds	\$ 12,178,027	\$ (22,101)	\$ 12,155,926
US treasury securities	7,821,973	-	7,821,973
	<u>\$ 20,000,000</u>	<u>\$ (22,101)</u>	<u>\$ 19,977,899</u>

NOTE 10. STOCKHOLDERS' EQUITY

Restricted Stock

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. 43,000 shares of common stock remained unissued as of December 31, 2021; these shares were issued during the three months ended March 31, 2022.

F-11

Series H Convertible Preferred Stock

As of March 31, 2022, such payment would be calculated as follows:

Number of Series H Preferred Stock outstanding as of March 31, 2022	8
Multiplied by the stated value	\$ 154
Equals the gross stated value	\$ 1,232
Divided by the conversion price	\$ 184.8
Equals the convertible shares of Company Common Stock	7
Multiplied by the fair market value of Company Common Stock as of March 31, 2022	\$ 1.28
Equals the payment	\$ 9

Series H-3 Convertible Preferred Stock

As of March 31, 2022, such payment would be calculated as follows:

Number of Series H-3 Preferred Stock outstanding as of March 31, 2022	1,234
Multiplied by the stated value	\$ 138.00
Equals the gross stated value	\$ 170,292
Divided by the conversion price	\$ 165.6
Equals the convertible shares of Company Common Stock	1,028
Multiplied by the fair market value of Company Common Stock as of March 31, 2022	\$ 1.28
Equals the payment	\$ 1,316

Series H-6 Convertible Preferred Stock

As of March 31, 2022, such payment would be calculated as follows:

Number of Series H-6 Preferred Stock outstanding as of March 31, 2022	50
Multiplied by the stated value	\$ 72.00
Equals the gross stated value	\$ 3,600
Divided by the conversion price	\$ 2.5
Equals the convertible shares of Company Common Stock	1,440
Multiplied by the fair market value of Company Common Stock as of March 31, 2022	\$ 1.28
Equals the payment	\$ 1,843

Shares Underlying
Warrants

Weighted Average
Exercise Price

Weighted Average
Remaining Contractual
Term (in years)

Outstanding at December 31, 2021	6,108,823	\$ 7.37	2.56
Granted	-	-	
Exercised	-	-	
Expired	(2,800)	165.60	
Outstanding at March 31, 2022	6,108,823	\$ 7.30	2.07

F-12

NOTE 11. STOCK-BASED COMPENSATION

AYRO 2020 Long Term Incentive Plan

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 1,255,590 stock options, restricted stock and warrants remaining under this plan as of March 31, 2022.

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,	
	2022	2021
Research and development	\$ 16,704	\$ 23,486
Sales and marketing	12,945	63,449
General and administrative	258,461	1,612,488
Total	\$ 288,110	\$ 1,699,423

Options

The following table reflects the stock option activity:

	Number of Shares	Weighted Average Exercise Price	Contractual Life (Years)
Outstanding at December 31, 2021	1,338,675	\$ 5.14	8.26
Exercised	-		
Forfeitures	(230,903)	3.19	
Outstanding at March 31, 2022	1,107,773	\$ 5.59	7.88

Of the outstanding options, 1,068,318 were vested and exercisable as of March 31, 2022. At March 31, 2022 the aggregate intrinsic value of stock options vested and exercisable was \$0.

The Company recognized \$32,376 and \$269,895 of stock option expense for the three months ended March 31, 2022 and 2021, respectively. Total compensation cost related to non-vested stock option awards not yet recognized as of March 31, 2022 was \$58,199 and will be recognized on a straight-line basis through the end of the vesting periods through December 2023. The amount of future stock option compensation expense could be affected by any future option grants or by any forfeitures.

Restricted

	Number of Shares	Weighted Average Grant Price
Outstanding at December 31, 2021	450,000	\$ 2.48
Granted	442,248	
Vested	-	
Forfeitures	-	
Outstanding at March 31, 2022	892,248	\$ 1.89

On February 1, 2022, pursuant to the AYRO, INC. 2020 Long-Term Incentive Plan, the Company issued 442,248 shares of restricted stock to non-executive directors at a value of \$1.29 per share. The Company recognized compensation expense related to all restricted stock issued during the three months ended March 31, 2022 and 2021 of \$55,734 and \$1,429,528, respectively. Total compensation cost related to non-vested restricted stock not yet recognized as of March 31, 2022 was \$,250,305.

NOTE 12. CONCENTRATIONS AND CREDIT RISK

Revenues

In March 2019, the Company entered into a five-year Master Procurement Agreement, or the MPA, with Club Car, LLC ("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. Two customers accounted for approximately 99% and 1%, respectively, of the Company's revenues for the three months ended March 31, 2022 and for 72% and 24%, respectively, for the three months ended March 31, 2021.

Accounts Receivable

As of March 31, 2022 one customer accounted for approximately 99% of the Company's gross accounts receivable. As of December 31, 2021 two customers accounted for more than 10% of the Company's gross accounts receivable. One customer accounted for approximately 87% of the Company's gross accounts receivable and a second customer accounted for approximately 10% of the Company's gross accounts receivable.

Purchasing

The Company places orders with various suppliers. During the three months ended March 31, 2022 and 2021, multiple suppliers provided more than 10% of the Company's raw materials purchases. During the three months ended March 31, 2022, one supplier accounted for approximately 65%, and another supplier accounted for 15% 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% of the Company's raw materials purchases. Any disruption in the operation of any of these suppliers could adversely affect the Company's operations.

Manufacturing

Cenntro owns the design of the AYRO 411x model and has granted the Company an exclusive license to manufacture AYRO 411x 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 the AYRO 411x in the United States, and the Company is required to purchase the minimum volume of product units from Cenntro, among other obligations.

In April 2022, the Company received a letter from Cenntro claiming that it had not met the minimum purchase requirements under the MLA and that Cenntro would therefore be terminating its exclusive license. Although AYRO's purchases were below the numerical minimums set forth in the MLA, the Company believes it should retain its exclusive license, as the failure to meet such minimums was not due to the Company's failure to perform under the MLA. The Company is in discussions with Cenntro concerning the continued applicability of its exclusive license. If AYRO loses this license, Cenntro could sell identical or similar products through other companies or directly to the Company's customers, which could have a material adverse effect on its results of operations and financial condition.

F-13

NOTE 13. COMMITMENTS AND CONTINGENCIES

Manufacturing Agreements

On September 25, 2020, AYRO entered into a Master Manufacturing Services Agreement (the "Karma Agreement") with Karma Automotive, LLC ("Karma"). 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.

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, which amount was expensed in the prior year. The payment was recorded as prepaid expense as of December 31, 2020. For the year ended December 31, 2021, the Company recorded expense of \$641,140 related to the Karma Agreement for the assembly of the AYRO 411 and 411x vehicles (the "AYRO 411 Fleet"), of which \$468,480 was recorded to reduce the total remain prepaid to match the expected number of 411x vehicles to be built in 2022. This amount was recorded against cost of goods for direct labor as part of the first production level builds, and \$73,333 was recorded for pre-production costs. \$350,660 prepaid balance remained as of March 31, 2022.

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.

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. 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. See Note 12 for concentration amounts.

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; however, these minimums were waived by Cenntro in 2021. As of March 31, 2022 and December 31, 2021, the total prepaid expenses were \$1,483,546 and \$1,469,743, respectively. As of March 31, 2022 and December 31, 2021 the Company's total accrued expense balance was \$780,340 and \$867,727, respectively.

Other

As of January 1, 2019, DropCar had accrued approximately \$232,000 for the settlement of multiple employment disputes. As of March 31, 2022 and December 31, 2021, approximately \$3,500 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). 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 \$5,000 to the plaintiff's counsel. As of March 31, 2022 and December 31, 2021, the balance due remains \$45,000, recorded as a component of accounts payable on the accompanying consolidated balance sheet. In addition, this amount was included in the \$186,000 of prefunded liabilities assumed by AYRO in the Merger.

DropCar was audited by the New York State Department of Taxation and Finance ("DOTF") for its sales tax paid over the period of 2017 – 2020. The DOTF believes DropCar owes additional sales tax plus interest. Management is investigating the details this audit. As of March 31, 2022 and December 31, 2021, the Company has an accrued balance of \$476,280 for such additional sales tax and interest.

F-14

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," "the Company," "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, statements concerning the strategic review of our product development strategy 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.”

A summary of the principal risk factors that make investing in our securities risky and might cause our actual results to differ materially from those projected in these forward-looking statements is set forth below. 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;
- 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;
- if we lose our exclusive license to manufacture the AYRO 411x model in North America, Cenntro could sell identical or similar products through other companies or directly to our customers;
- the market for our products is developing and may not develop as expected;
- we are currently evaluating our product development strategy, which may result in significant changes and have a material impact on our business, results of operations and financial condition;
- 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 COVID-19 outbreak;
- if disruptions in our transportation network continue to occur or our shipping costs continue to increase, we may be unable to sell or timely deliver our products, and our gross margin could decrease;
- our limited operating history makes evaluating our business and future prospects difficult and may increase the risk of any investment in our securities;
- if we are unable to effectively implement or manage our growth strategy, our operating results and financial condition could be materially and adversely affected;
- 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;

1

- a significant portion of our revenues is derived from a single customer;
- our future growth depends on customers’ willingness to adopt electric vehicles;
- if we are unable to manage our growth and expand our operations successfully, our business and operating results will be harmed, and our reputation may be damaged;
- unanticipated changes in industry standards could render our vehicles incompatible with such standards and adversely affect our business;
- our future success depends on our ability to identify additional market opportunities and develop and successfully introduce new and enhanced products that address such markets and meet the needs of customers in such markets;
- through the third quarter of calendar year 2022, we will rely upon 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;
- unforeseen or recurring operational problems at ours or our prime supplier’s facilities, or a catastrophic loss of ours or our prime supplier’s manufacturing facilities, may cause significant lost or delayed production and adversely affect our results of operations;
- 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;
- we currently have limited electric vehicles marketing and sales experience, and if we are unable to establish sales and marketing capabilities or enter into dealer agreements to market and sell our vehicles, we may be unable to generate any revenue;
- 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 battery cells, chipsets and displays, could harm our business;
- customer financing and insuring our vehicles may prove difficult because retail lenders are unfamiliar with our vehicles and our vehicles have a limited loss history determining residual values and within the insurance industry;
- our electric vehicles make use of lithium-ion battery cells, which, if not appropriately managed and controlled, have occasionally been observed to catch fire or vent smoke and flames;
- our business may be adversely affected by labor and union activities;
- we rely on our dealers for the service of our vehicles and have limited experience servicing our vehicles, and if we are unable to address the service requirements of our future customers, our business will be materially and adversely affected;

- if we fail to deliver vehicles and accessories to market as scheduled, our business will be harmed;
- 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 evolving environmental and safety laws and regulations;
- changes in regulations could render our vehicles incompatible with federal, state or local regulations, or use cases.
- we have identified a material weakness in our internal control over financial reporting, and if we are unable to remediate the material weakness, or if we experience additional material weaknesses in the future, our business may be harmed;
- if we are unable to adequately protect our proprietary designs and intellectual property rights, our competitive position could be harmed;
- we may need to obtain rights to other intellectual property in the future, and if we fail to obtain licenses we need or fail to comply with our obligations in existing agreements under which we have licensed intellectual property and other rights from third parties, we could lose our ability to manufacture our vehicles;
- 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;
- 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 II, Item 1A of this Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K as filed on March 23, 2022, as amended on May 2, 2022 ("Form 10-K"). Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise, except as required by law.

Merger

On May 28, 2020, pursuant to the previously announced Agreement and Plan of Merger, dated December 19, 2019, 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, Inc., 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").

Overview

We design and manufacture compact, sustainable electric vehicles for closed campus mobility, low speed 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 updating our next model year (model year 2023) vehicle lineup in support of the aforementioned markets.

Strategic Review

Following the hiring of our new Chief Executive Officer in the third quarter of 2021, we initiated a strategic review of our product development strategy, as we focus on creating value within the electric vehicle, last-mile delivery, smart payload and enabling infrastructure markets. While we complete our strategic review, we have paused all material research and development activity and expenditures associated with our planned next-generation three-wheeled high speed vehicle.

In December of 2021, we began research and development on the new 411 fleet vehicle model refresh, the AYRO Z, including updates on our supply chain evolution, the offshoring/onshoring mix, our manufacturing strategy, and our annual model year refresh program.

Products

Our 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 services, cargo services, and personal/group transport in a quiet, zero emissions vehicle with a lower total cost of ownership. The majority of our sales are comprised of sales of our four-wheeled vehicle to Club Car, LLC ("Club Car"), through a strategic arrangement entered into in early 2019.

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. Cenntro owns the design of the AYRO Club Car 411 and 411x ("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 the Company continue utilizing Cenntro as a vehicle supplier. 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. Cenntro waived these minimum requirements for the second year after the effective date.

We import semi-knocked-down vehicle kits from Cenntro for the 411x models comprising our model year 2022 lineup. The vehicle kits are received through shipping containers at the assembly facility of Karma Automotive LLC (“Karma”), our manufacturing partner, in southern California, as well as at our customization, service and integration facility in Round Rock, Texas. The vehicles are then assembled with tailored customization requirements per order.

In April 2022, we received a letter from Cenntro claiming that we had not met the minimum purchase requirements under the MLA and that Cenntro would therefore be terminating our exclusive license. Although our purchases were below the numerical minimums set forth in the MLA, we believe we should retain our exclusive license, as the failure to meet such minimums was not due to our failure to perform under the MLA. We are in discussions with Cenntro concerning the continued applicability of our exclusive license. If we lose this license, Cenntro could sell identical or similar products through other companies or directly to our customers, which could have a material adverse effect on our results of operations and financial condition.

We intend for the new AYRO Z to utilize assemblies and products that will reduce the Company’s dependency on Chinese imports and on-shore the supply chain to North America and European sources.

Master Procurement Agreement with Club Car

In March 2019, we entered into a five-year Master Procurement Agreement (the “MPA”) with Club Car for the sale of our four-wheeled vehicles. The MPA grants Club Car the exclusive right to sell our four-wheeled vehicles 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 or 2021, we currently have no intention of selling our model year 2022 411x vehicles commercially other than through Club Car. Under the terms of the MPA, we receive orders from Club Car dealers for vehicles of specific configurations, and we invoice 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 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 which we may develop during the term of the MPA. For the three months ended March 31, 2022, revenues from Club Car constituted approximately 99% of our revenues. Any loss of Club Car as a customer, or significant reduction in purchases by Club Car, could have an adverse impact 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, 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 was due and payable five months following the satisfaction of certain production requirements. This second payment was accrued for as of December 31, 2021. As of March 31, 2022, \$350,660 was included in prepaid expenses.

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, the Karma Agreement was amended 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 (“Gallery”), 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 411 and 411x. 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 electric mobile delivery 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 campuses.

Gallery, a premier distributor of 411 and 411x 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 14, 2022, Curtis Smith, who served as our Chief Financial Officer, resigned from his role as an officer and employee of the Company. The Company and Mr. Smith entered into a General Release and Severance Agreement (the “Smith Severance Agreement”). Pursuant to the Smith Severance Agreement, Mr. Smith received a cash separation payment in the amount of \$237,500. The Smith Severance Agreement also provides for certain customary mutual covenants regarding confidentiality, indemnification and non-disparagement. Under the Smith Severance Agreement, the treatment of any outstanding equity awards to Mr. Smith shall be determined in accordance with the terms of our 2017 Long Term Incentive Plan (the “2017 LTIP”) and the applicable award agreement.

On January 14, 2022, Brian Groh, who served as our Chief of Business Development, terminated his engagement with the Company. As such, the independent contractor agreement between the Company and 2196005 Ontario, Inc., an Ontario corporation owned and controlled by Mr. Groh, dated September 16, 2019 was terminated. The Company and Mr. Groh entered into a General Release Agreement (the “Groh Release Agreement”). Pursuant to the Groh Release Agreement, Mr. Groh received a cash separation payment in the amount of \$237,500. The Groh Release Agreement also provides for certain customary mutual covenants regarding confidentiality, indemnification and non-disparagement. Under the Groh Release Agreement, the treatment of any outstanding equity awards to Mr. Groh shall be determined in accordance with the terms of the 2017 LTIP and the applicable award agreement.

On January 14, 2022, Richard Perley, who served as our Chief Marketing Officer, terminated his engagement with the Company. As such, the independent contractor agreement between the Company and PerITek, a corporation owned and controlled by Mr. Perley, dated August 27, 2018, was terminated. In connection with the termination of such agreement, the Company and Mr. Perley entered into a General Release Agreement (the “Perley Release Agreement”). Pursuant to the Perley Release Agreement, Mr. Perley received a cash separation payment in the amount of \$237,500. The Perley Release Agreement also provides for certain customary mutual covenants regarding confidentiality, indemnification and non-disparagement. Under the Perley Release Agreement, the treatment of any outstanding equity awards to Mr. Perley shall be determined in accordance with the terms of the 2017 LTIP and the applicable award agreement.

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 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 third quarter of 2022. The pandemic adversely impacted our sales and the demand for our products in 2021 and the first quarter of 2022, and is expected to continue adversely impacting demand for our products at least through the third quarter of 2022.

Tariffs

Countervailing tariffs on certain goods from China continued to have an adverse impact on raw material costs throughout 2021 and the first quarter of 2022, and are expected to continue to do so through the third quarter of 2022.

Shipping Costs and Delays

A majority of our raw materials are shipped via container from overseas vendors in China, such as Cenntro, our largest supplier. We rely heavily on third parties, including ocean carriers and truckers, in that process. The global shipping industry is experiencing a shortage of shipping capacity from China, trucking shortages, increased ocean shipping rates and increased trucking and fuel costs. As a result, our receipt of imported products has been, and may continue to be, disrupted or delayed.

The shipping industry is also experiencing issues with port congestion and pandemic-related port closures and ship diversions. A port worker strike, work slow-down or other transportation disruption in the port of Long Beach, California could significantly disrupt our business. We are currently experiencing such disruption at both ports due to multiple factors brought about by the COVID-19 pandemic, such as supply and demand imbalance, a shortage of warehouse workers, truck drivers, transport equipment (tractors and trailers) and other causes, which have resulted in heightened congestion, bottlenecks and gridlock, leading to abnormally high transportation delays. This has materially and adversely affected our business and financial results for the three months ended March 31, 2022 and could continue to materially and adversely affect our business and financial results throughout the remainder of 2022. If significant disruptions along these lines continue, this could lead to further significant disruptions in our business, delays in shipments, and revenue and profitability shortfalls, which could adversely affect our business, prospects, financial condition and operating results.

The global shipping industry is also experiencing unprecedented increases in shipping rates from the trans-Pacific ocean carriers due to various factors, including limited availability of shipping capacity. For example, the cost of shipping our products by ocean freight has recently increased to at least three times historical levels and will have a corresponding impact upon our profitability. Additionally, if increases in fuel prices occur, our transportation costs would likely further increase. Shipping pricing and logistical challenges have had an unfavorable impact on our margins and our ability to assemble vehicles during 2021. We expect these impacts to continue through the third quarter of 2022.

Supply Chain

Beginning in the second quarter of 2021, we offered a configuration of our 411x powered by lithium-ion battery technology. Additionally, our powered food box offerings are currently powered by lithium-ion battery technology. Our business depends on the continued supply of battery cells and other parts for our vehicles. During the year 2021, we at times experienced supply chain shortages of both lithium-ion battery cells and other critical components used to produce our vehicles, which has slowed our planned production of vehicles. We expect these shortages of lithium-ion battery cells and the varying supply limitations of other critical components to continued impacting our business through the third quarter of 2022. In addition, we could be impacted by shortages of other products or raw materials, including silicon chips that we use or our suppliers use in the production of our vehicles or parts sourced for our vehicles.

In December 2021 we began research and development on the new 411 fleet vehicle model refresh, the AYRO Z, including updates on our supply chain evolution, the offshoring/onshoring mix, our manufacturing strategy, and our annual model year refresh program. We intend for the new AYRO Z to utilize assemblies and products that will reduce the Company's dependency on Chinese imports and on-shore the supply chain to North America and European sources.

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, 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 dollars, 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.

Stock-based compensation

We account for stock-based compensation expense in accordance with Accounting Standards Codification (“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.

We estimate the fair value of stock-based and cash unit awards containing a market condition using a Monte Carlo simulation model. Key inputs and assumptions used in the Monte Carlo simulation model include the stock price of the award on the grant date, the expected term, the risk-free interest rate over the expected term, the expected annual dividend yield and the expected stock price volatility. The expected volatility is based on a combination of the historical and implied volatility of our publicly traded, near-the-money stock options, and the valuation period is based on the vesting period of the awards. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant and, since we do not currently pay or plan to pay a dividend on its common stock, the expected dividend yield was zero.

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.

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.

Results of Operations

Three months ended March 31, 2022 compared to three months ended March 31, 2021

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

	For the Three Months Ended March 31,		
	2022	2021	Change
Revenue	\$ 1,026,846	\$ 788,869	\$ 237,977
Cost of goods sold	1,177,145	644,503	532,642
Gross profit (loss)	(150,299)	144,366	(294,665)
Operating expenses:			
Research and development	872,631	1,927,561	(1,054,930)
Sales and marketing	844,816	558,404	286,412
General and administrative	2,697,704	3,301,309	(603,605)
Total operating expenses	4,415,151	5,787,274	(1,372,123)
Loss from operations	(4,565,450)	(5,642,908)	1,077,458
Other income and (expense):			
Other income, net	8,891	9,926	(1,035)
Unrealized loss on marketable securities	(22,101)	-	(22,101)
Interest expense	-	(851)	851
Net loss	\$ (4,578,660)	\$ (5,633,833)	\$ 1,055,173

Revenue

Revenue was \$1.03 million for the three months ended March 31, 2022 as compared to \$0.79 million for the same period in 2021, an increase of 30.2%, or \$0.24 million. The increase in revenue was the result of an increase in the volume of sales of our vehicles and in the price per unit of the 411x, 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 82.6% for the three months ended March 31, 2022, as compared to the same period in 2021, corresponding with the increase in vehicle sales, an increase in time-of-order options for our vehicles and specialty products, and an increase in shipping costs from China.

Gross margin percentage was (14.6%) for the three months ended March 31, 2022, as compared to 18.3% for the three months ended March 31, 2021. The decrease in gross margin percentage was primarily due to an increase in shipping costs due to the global COVID-19 pandemic and global supply chain constraints, as well as out of scope costs from the Karma facility. Vehicle sales prices were increased in both January 2021 and October 2021 to partially offset these cost increases.

Research and development expense

Research and development (“R&D”) expense was \$0.87 million for the three months ended March 31, 2022, as compared to \$1.93 million for the same period in 2021, a decrease of \$1.06 million, or 54.7%. The decrease was primarily due to a repositioning of expenses related to personnel costs for our engineering, design, and research teams from the initiated development of our next-generation three-wheeled vehicle to the AYRO Z. We had a decrease in R&D contracting for professional service and design costs of \$0.72 million, a decrease in design and testing material of \$0.27 million, and a decrease in salaries and related expenses of \$0.05 million.

7

Sales and marketing expense

Sales and marketing expense was \$0.84 million for the three months ended March 31, 2022, as compared to \$0.56 million for the same period in 2021, an increase of \$0.28 million, or 150%, as we expanded our sales and marketing staff and marketing-related initiatives surrounding our new AYRO Z. Salaries and related expenses increased by \$0.39 million due to the addition of our sales and marketing resources. Contracting for professional marketing services decreased by \$0.03 million.

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 \$2.70 million for the three months ended March 31, 2022, compared to \$3.30 million for the same period in 2021, a decrease of \$0.60 million, or 18.3%, primarily due to a repositioning of engineering, design, and manufacturing partnerships. Salaries and related expenses decreased by \$0.87 million, primarily due to a reduction in headcount. Fulfillment expense and rent expense increased by \$0.16 million and \$0.07 million, respectively. We also recorded a loss on investment of \$0.03 million. Depreciation increased by \$0.01 million.

Liquidity and Capital Resources

As of March 31, 2022, we had \$43.49 million in cash, \$19.98 million in marketable securities and working capital of \$68.34 million. As of December 31, 2021, we had \$69.16 million in cash and working capital of \$72.31 million. The decrease in cash and working capital was primarily a result of our operating loss.

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 results of our strategic review, 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 are working to control expenses and deploy our capital in the most efficient manner.

8

We are evaluating other options for the strategic deployment of capital beyond our ongoing strategic initiatives, including potentially entering other segments of the electric vehicle market. We anticipate being opportunistic with our capital, and we intend to explore potential partnerships and acquisitions that could be synergistic with our competitive stance in the market.

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, 2022 will be sufficient to fund operations for at least the next twelve months following the date of this report.

As discussed above under “Strategic Review,” we suspended all material research and development activity and expenditures, including expenses associated with our planned next-generation three-wheeled vehicle, while we conduct a strategic review of our product development strategy. In December of 2021 we began research and development on the new 411 fleet vehicle model refresh, the AYRO Z.

Summary of Cash Flows

The following table summarizes our cash flows:

	For the Three Months Ended March 31,	
	2022	2021
Cash Flows:		
Net cash used in operating activities	\$ (5,545,113)	\$ (3,450,067)
Net cash used in investing activities	\$ (20,120,637)	\$ (147,294)
Net cash provided by financing activities	\$ -	\$ 58,551,425

Operating Activities

During the three months ended March 31, 2022, we used \$5.55 million in cash in operating activities, an increase in use of \$2.1 million when compared to the cash used in operating activities of \$3.45 million during the same period in 2021. The increase in cash used in operating activities was primarily a result of prepayments for inventory and manufacturing services, payments of accrued expenses, severance 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, 2022, we used cash of \$20.12 million from investing activities as compared to \$0.15 million of cash used in investing activities during 2021, an increase of \$19.97 million. The net increase was primarily due to our investment of \$20 million in marketable securities.

Financing Activities

During the three months ended March 31, 2022, we had no financing activities of note. 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.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of our consolidated financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions.

Our critical accounting estimates have not changed materially from those previously reported in our Form 10-K.

9

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including our principal executive and principal financial officers, we evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2022. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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, 2022, 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. Management has evaluated our disclosure controls and procedures, has made improvements in our processes and is continually evaluating and improving our disclosure controls and procedures and expanding our financial operations and reporting infrastructure.

In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2021, management identified a material weakness to segregation of duties. Specifically, due to limited resources and headcount, we did not have multiple people in the accounting function for a full segregation of duties.

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

Except as 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.

10

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no changes to the legal proceedings disclosed in our Form 10-K.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors as identified in our Form 10-K.

If we lose our exclusive license to manufacture the AYRO 411x model in North America, Cenntro could sell identical or similar products through other companies or directly to our customers.

Cenntro, our largest supplier, owns the design of the AYRO 411x model and granted us an exclusive license to manufacture the AYRO 411 and 411x models for sale in North America, subject to certain minimum purchase requirements. In April 2022, we received a letter from Cenntro claiming that we had not met such minimum purchase requirements, and that Cenntro would therefore be terminating our exclusive license. We are in discussions with Cenntro concerning the continued applicability of our exclusive license. If we lose such license, Cenntro could sell identical or similar products through other companies or directly to our customers, which could have a material adverse effect on our results of operations and financial condition.

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.

11

ITEM 6. EXHIBITS

- 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 \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 8, 2020\)](#)
- 3.6 [Second Amendment to the Amended and Restated Bylaws \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2021\)](#)
- 10.1† [General Release and Severance Agreement, by and between the Company and Curtis Smith, dated as of January 14, 2022 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 14, 2022\)](#)
- 10.2† [General Release Agreement, by and between the Company and Brian Groh, dated as of January 14, 2022 \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 14, 2022\)](#)
- 10.3† [General Release Agreement, by and between the Company and Richard Perley, dated as of January 14, \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 14, 2022\)](#)

12

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**	Inline XBRL Instance Document
101 SCH**	Inline XBRL Taxonomy Extension Schema Document
101 CAL**	Inline XBRL Taxonomy Calculation Linkbase Document
101 DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101 LAB**	Inline XBRL Taxonomy Labels Linkbase Document
101 PRE**	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)
**	Filed herewith.
***	Furnished herewith.
†	Management or compensatory plan or arrangement.

13

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 2, 2022

By: /s/ Thomas M. Wittenschlaeger
Thomas M. Wittenschlaeger

President and Chief Executive Officer
(Principal Executive Officer)

Dated: May 2, 2022

By: /s/ David E. Hollingsworth

David E. Hollingsworth
Interim Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS UNDER SECTION 302

I, Thomas M. Wittenschlaeger, 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.

Dated: May 2, 2022

/s/ Thomas M. Wittenschlaeger

Thomas M. Wittenschlaeger
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 302

I, David E Hollingsworth, 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.

Dated: May 2, 2022

/s/ David E. Hollingsworth

David E. Hollingsworth

Interim 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, 2022 (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.

Dated: May 2, 2022

By: /s/ Thomas M. Wittenschlaeger

Thomas M. Wittenschlaeger
President and Chief Executive Officer
(Principal Executive Officer)

Dated: May 2, 2022

By: /s/ David E. Hollingsworth

David E. Hollingsworth
Interim Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
