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 June 30, 2023

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:

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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 August 11, 2023, the registrant had 37,732,530 shares of common stock outstanding.

AYRO, Inc.
Quarter Ended June 30, 2023

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash	$ 13,569,265	$ 39,096,562
Marketable securities	19,464,015	9,848,804
Accounts receivable, net	104,155	510,071
Inventory	3,049,972	970,381
Prepaid expenses and other current assets	3,269,831	1,478,845
Total current assets	39,457,238	51,904,663
Property and equipment, net	3,201,260	2,192,337
Operating lease – right-of-use asset	750,877	819,401
Deposits and other assets	84,595	73,683
Total assets	**$ 43,493,970**	**$ 54,990,084**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	716,236	1,107,215
Accrued expenses	910,114	964,937
Current portion lease obligation – operating lease	178,013	165,767
Total current liabilities	1,804,363	2,237,919
Lease obligation – operating lease, net of current portion	601,349	693,776
Total liabilities	**2,405,712**	**2,931,695**
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 June 30, 2023 and December 31, 2022, respectively)	-	-
Convertible Preferred Stock Series H-3, ($0.0001 par value; authorized – 8,461 shares; issued and outstanding – 1,234 as of June 30, 2023 and December 31, 2022, respectively)	-	-
Convertible Preferred Stock Series H-6, ($0.0001 par value; authorized – 50,000 shares; issued and outstanding – 50 as of June 30, 2023 and December 31, 2022, respectively)	-	-
Common Stock, ($0.0001 par value; authorized – 100,000,000 shares; issued and outstanding – 37,536,101 and 37,241,642 as of June 30, 2023 and December 31, 2022, respectively)	3,753	3,724
Additional paid-in capital	133,733,091	133,224,249
Accumulated deficit	(92,648,586)	(81,169,584)
Total stockholders' equity	41,088,258	52,058,389
Total liabilities and stockholders' equity	**$ 43,493,970**	**$ 54,990,084**

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 June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenue	$ 139,544	$ 981,560	$ 252,628	$ 2,008,405
Cost of goods sold	332,027	2,827,512	551,820	4,004,657
Gross loss	(192,483)	(1,845,952)	(299,192)	(1,996,252)
Operating expenses:				
Research and development	2,405,398	1,046,797	4,535,388	1,912,204
Sales and marketing	420,861	337,226	1,138,953	1,182,042
General and administrative	3,247,731	2,741,700	6,091,047	5,446,627
Total operating expenses	6,073,990	4,125,723	11,765,388	8,540,873
Loss from operations	(6,266,473)	(5,971,675)	(12,064,580)	(10,537,125)
Other income (expense):				
Other income (expense), net	(9,166)	10,706	52,532	19,597
Interest income	117,278	-	261,638	-
Unrealized gain (loss) on marketable securities	146,935	(13,479)	198,215	(35,580)
Realized gain on marketable securities	8,193	-	73,193	-
Other income (expense), net	263,240	(2,773)	585,578	(15,983)
Net loss	$ (6,003,233)	$ (5,974,448)	$ (11,479,002)	$ (10,553,108)
Net loss per share, basic and diluted	$ (0.16)	$ (0.16)	$ (0.31)	$ (0.29)
Basic and diluted weighted average Common Stock outstanding	37,476,845	36,982,436	37,398,555	36,945,240

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

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

Three and Six Months Ended June 30, 2023

	Series H Preferred Stock		Series H-3 Preferred Stock		Series H-6 Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	(Deficit)	Total
Balance, January 1, 2023	**8**	**$ -**	**1,234**	**$ -**	**50**	**$ -**	**37,241,642**	**$ 3,724**	**$133,224,249**	**$ (81,169,584)**	**$52,058,389**
Stock Based Compensation									20,116		20,116
Vesting of Restricted Stock							110,562	11	246,614		246,625
Net Loss										(5,475,769)	(5,475,769)
Balance, March 31, 2023	**8**	**-**	**1,234**	**-**	**50**	**-**	**37,352,204**	**3,735**	**133,490,979**	**(86,645,353)**	**46,849,361**
Stock Based Compensation									11,417		11,417
Vesting of Restricted Stock							183,897	18	230,695		230,713
Net Loss										(6,003,233)	(6,003,233)
Balance, June 30, 2023	**8**	**-**	**1,234**	**-**	**50**	**-**	**37,536,101**	**$ 3,753**	**$133,733,091**	**$ (92,648,586)**	**$41,088,258**

Three and Six Months Ended June 30, 2022

	Series H Preferred Stock		Series H-3 Preferred Stock		Series H-6 Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	(Deficit)	Total
Balance, January 1, 2022	**8**	**$ -**	**1,234**	**$ -**	**50**	**$ -**	**36,866,956**	**$ 3,687**	**$131,654,776**	**$ (58,234,231)**	**$73,424,232**
Stock Based Compensation									288,110		288,110
Vesting of Restricted Stock							43,000	4	329,377		329,381
Net Loss										(4,578,660)	(4,578,660)
Balance, March 31, 2022	**8**	**-**	**1,234**	**-**	**50**	**-**	**36,909,956**	**3,691**	**132,272,263**	**(62,812,891)**	**69,463,063**
Stock Based Compensation									303,553		303,553
Vesting of Restricted Stock							110,562	11	(11)		-
Net Loss										(5,974,448)	(5,974,448)
Balance, June 30, 2022	**8**	**$ -**	**1,234**	**$ -**	**50**	**$ -**	**37,020,518**	**$ 3,702**	**$132,575,805**	**$ (68,787,339)**	**$63,792,168**

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

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,479,002)	$ (10,553,108)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	452,848	257,791
Loss on disposal of fixed asset	11,666	-
Stock-based compensation	508,869	591,663
Amortization of right-of-use asset	81,524	118,092
Bad debt expense	292,010	2,069
Unrealized (gain) loss on marketable securities	(198,215)	35,580
Realized (gain) on marketable securities	(73,193)	-
Impairment of inventory and prepaid	-	1,938,386
Change in operating assets and liabilities:		
Accounts receivable	113,906	(955,609)
Inventory	(2,079,590)	325,282
Prepaid expenses and other current assets	(1,790,987)	(785,762)
Accounts payable	(405,979)	164,809
Accrued expenses	(234,155)	(838,304)
Lease obligations - operating leases	(93,181)	(132,403)
Net cash used in operating activities	(14,893,479)	(9,831,514)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,271,311)	(414,197)
Purchase of marketable securities, net	(9,343,804)	(18,006,486)
Purchase of intangible assets	(18,703)	(17,500)
Net cash used in investing activities	(10,633,818)	(18,438,183)
Net change in cash	(25,527,297)	(28,269,697)
Cash, beginning of period	39,096,562	69,160,466
Cash, end of period	$ 13,569,265	$ 40,890,769
Supplemental disclosure of cash and non-cash transactions:		
Accrued Fixed Assets	$ 194,335	$ -
Restricted Stock issued, previously accrued	$ -	$ 329,381

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

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

AYRO, Inc. (“AYRO” or the “Company”), a Delaware corporation formerly known as DropCar, Inc. (“DropCar”), a corporation headquartered outside Austin, Texas, is the merger successor discussed below of AYRO Operating Company, Inc. (“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 to customers and to dealers in the United States.

Strategic Review

Following the hiring of the Company’s current Chief Executive Officer in the third quarter of 2021, AYRO initiated a strategic review of its product development strategy, as AYRO focused on creating value within the electric vehicle, last-mile delivery, smart payload and enabling infrastructure markets. In connection with the strategic review by the Company, AYRO cancelled development of its planned next-generation three-wheeled high-speed vehicle.

For the past several years, AYRO’s primary supplier has been Cenntro Automotive Group, Ltd. (“Cenntro”), which operates a large electric vehicle factory in the automotive district in Hangzhou, China. As a result of rising shipping costs, quality issues with certain components and persistent delays, the Company ceased production of the AYRO 411x from Cenntro in September 2022 in order to focus its resources on the development and launch of the new 411 fleet vehicle model year 2023 refresh (the “Vanish”).

In December of 2021 the Company began research and development on the Vanish, including updates on its 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 unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP"), which contemplates continuation of the Company as a going concern. The Company is subject to a number of risks similar to those of earlier stage commercial companies, including dependence on key individuals and products, the difficulties inherent in the development of a commercial market, the potential need to obtain additional capital, competition from larger companies, other technology companies and other technologies. The Company has a limited operating history and the sales and income potential of its business and market are unproven. The Company incurred net losses of $11,479,002 for the six months ended June 30, 2023, and negative cash flows from operations of $14,893,479 for the six months ended June 30, 2023. On June 30, 2023, the Company had cash balances totaling $13,569,265 and marketable securities of $19,464,015. In addition, overall working capital decreased by $12,013,869 during the six months ended June 30, 2023. Management believes that the existing cash as of June 30, 2023, will be sufficient to fund operations for at least the next twelve months following the issuance of these unaudited condensed consolidated financial statements. Additionally, on August 7, 2023, the Company entered into a Securities Purchase Agreement to which it agreed to sell to certain existing investors (the "Investors") an aggregate of 22,000 shares of the Company's newly designated Series H-7 convertible preferred stock with a stated value of $1,000 per share ("Series H-7 Preferred Stock"). The Company raised approximately $22 million from the sale, which closed on August 10, 2023.

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 and 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.

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 the 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.

On October 3, 2022, the Company received a letter from the Listing Qualifications Department of the Nasdaq Stock Market ("Nasdaq") indicating that, based upon the closing bid price of the Company's common stock for the 30 consecutive business day period between August 19, 2022 and September 30, 2022, the Company did not meet the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Price Requirement"). The letter also indicated that the Company will be provided with a compliance period of 180 calendar days, or until April 3, 2023 (the "Initial Compliance Period"), in which to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A).

On April 4, 2023, the Company received a letter from Nasdaq notifying the Company that the Company has been granted an additional 180-day period, or until October 2, 2023, to regain compliance with the Minimum Bid Price Requirement. The new compliance period is an extension of the Initial Compliance Period provided for in Nasdaq's deficiency notice to the Company dated October 3, 2022. Nasdaq's determination was based on the Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the Nasdaq Capital Market, with the exception of the Minimum Bid Price Requirement, and the Company's written notice of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary.

Management's plan to regain compliance with the Minimum Bid Price Requirement is to seek stockholder approval for, and to file, an amendment to the Company's amended and restated certificate of incorporation ("Certificate of Incorporation") to effect a reverse stock split of the Company's common stock at a ratio of 1-for-2 to 1-for-10 with the exact ratio within such range to be determined by the Company's board of directors at its discretion (the "Reverse Stock Split Amendment"). On August 8, 2023, the Company filed a preliminary proxy statement in connection with a special meeting of the Company's stockholders to be held on September 14, 2023 for the purpose of approving, among other things, the Reverse Stock Split Amendment.

If compliance with the Minimum Bid Price Requirement cannot be demonstrated by October 2, 2023, Nasdaq will provide written notification that the Company's common stock could be delisted. In such an event, Nasdaq rules permit the Company to appeal any delisting determination to a Nasdaq Hearings Panel. Accordingly, there can be no assurance that the Company will be able to regain compliance with the Nasdaq listing rules or maintain its listing on Nasdaq.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements represent the consolidation of the accounts of the Company and its subsidiary 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 and six months ended June 30, 2023, 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, 2022, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on March 23, 2023, as amended on May 1, 2023.

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 unaudited consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

The Company's most significant estimates include marketable securities, revenue recognition, and the measurement of stock-based compensation expenses. Actual results could differ from these estimates.

Marketable Securities

Marketable securities include 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. The Company held $19,464,015 and $9,848,804 in marketable securities as of June 30, 2023 and December 31, 2022, respectively.

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 $20,768 and $145,496 for the three months ended June 30, 2023, and 2022 and $41,334 and $256,045 for the six months ended June 30, 2023 and 2022 respectively, included in General and Administrative Expenses.

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.

Miscellaneous income

Miscellaneous income consists of late fees charged for receivables not paid within the terms of the customer agreement based upon the outstanding customer receivable balance. This revenue is earned when a customer's receivable balance becomes delinquent, and its collection is reasonably assured and is calculated using a stated late fee rate multiplied by the outstanding balance that is subject to a late fee charge.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation-Stock Compensation. 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.

The Company estimates 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.

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 is the same for periods with a net loss.

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

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Options to purchase common stock	732,422	788,546	732,422	788,546
Restricted stock unvested	1,120,502	781,686	1,120,502	781,686
Restricted stock vested - unissued	6,269	-	6,269	-
Warrants outstanding	5,969,595	6,106,023	5,969,595	6,106,023
Preferred stock outstanding	2,475	2,475	2,475	2,475
Total	7,831,263	7,678,730	7,831,263	7,678,730

NOTE 4. REVENUES

Disaggregation of Revenue

Revenue by type was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue type				
Product revenue	$ 127,106	$ 918,808	$ 247,388	$ 1,838,150
Shipping revenue	12,438	22,752	(4,150)	130,255
Miscellaneous income	-	40,000	9,390	40,000
Total Revenue	$ 139,544	$ 981,560	$ 252,628	$ 2,008,405

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 June 30, 2023, and December 31, 2022, warranty reserves were recorded within accrued expenses of $395,071 and $410,017, respectively.

NOTE 5. ACCOUNTS RECEIVABLE, NET

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

	June 30, 2023	December 31, 2022
Trade receivables	$ 104,155	$ 512,420
Less: Allowance for doubtful accounts	-	(2,349)
Accounts receivable, net	$ 104,155	$ 510,071

The Company reduced allowance for doubtful accounts by $2,349 for the three and six months ended June 30, 2023, and recorded $292,010 of bad debt expense due to direct write off balances due from Club Car, LLC ("Club Car") for the six months ended June 30, 2023. The Company recorded $2,069 of bad debt expense for the three and six months ending June 30, 2022.

NOTE 6. INVENTORY

Inventory consisted of the following:

	June 30, 2023	December 31, 2022
Raw materials	$ 2,481,859	$ 330,931
Work-in-progress	-	-
Finished goods	568,113	639,450
Total	$ 3,049,972	$ 970,381

For the three months ended June 30, 2023 and 2022, depreciation for fleet inventory was $0 and $23,883, and for the six months ended June 30, 2023 and 2022, was $0 and $47,775 respectively.

NOTE 7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	June 30, 2023	December 31, 2022
Prepayments for inventory	$ 2,603,057	$ 1,174,466
Prepayments for insurance	274,724	118,434
Prepayments on advances on design	101,815	75,000
Prepayments on software	190,333	103,851
Prepaid other	99,902	7,094
Total Prepaid Expenses and Other Current Assets	$ 3,269,831	$ 1,478,845

NOTE 8. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2023	December 31, 2022
Computer and equipment	$ 3,211,535	$ 1,970,001
Furniture and fixtures	395,705	323,789
Lease improvements	1,093,481	952,952
Computer software	455,875	455,875
Property and equipment, gross	5,156,596	3,702,617
Less: Accumulated depreciation	(1,955,336)	(1,510,280)
Property and equipment, net	$ 3,201,260	$ 2,192,337

Depreciation expense for the three months ended June 30, 2023 and 2022 was $254,160 and $98,913, and for the six months ended June 30, 2023 and 2022 was $444,966 and $183,405, respectively. The company recorded a loss on disposal for fixed assets of $11,666 for the three and six months ending June 30, 2023.

NOTE 9. ACCRUED EXPENSES

	June 30, 2023	December 31, 2022
Accrued professional and consulting fees	$ 122,964	$ 410,711
Accrued payroll	392,079	6,000
Accrued warranty reserve	395,071	410,017
Accrued expenses other	-	138,209
Total accrued expenses	$ 910,114	$ 964,937

NOTE 10. STOCKHOLDERS' EQUITY

Restricted Stock

On February 1, 2023, pursuant to the AYRO, Inc. 2020 Long-Term Incentive Plan, the Company granted 760,668 shares of restricted stock to non-executive directors at a value of $0.75 per share. During the six months ended June 30, 2023 183,897 were vested and an equal number of shares of common stock were issued.

On February 1, 2022, pursuant to the AYRO, Inc. 2020 Long-Term Incentive Plan, the Company issued 442,249 shares of restricted stock to non-executive directors at a value of $1.29 per share. As of December 31, 2022, 110,562 shares of common stock remained unissued; these shares were issued during the six months ended June 30, 2023.

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. As of December 31, 2021, 43,000 shares of common stock remained unissued; these shares were issued during the six months ended June 30, 2022.

Series H Convertible Preferred Stock

Number of Series H Preferred Stock outstanding as of June 30, 2023		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 June 30, 2023	$	0.68
Equals the payment	$	5

Series H-3 Convertible Preferred Stock

Number of Series H-3 Preferred Stock outstanding as of June 30, 2023		1,234
Multiplied by the stated value	$	138
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 June 30, 2023	$	0.68
Equals the payment	$	699

Series H-6 Convertible Preferred Stock

Number of Series H-6 Preferred Stock outstanding as of June 30, 2023		50
Multiplied by the stated value	$	72
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 June 30, 2023	$	0.68
Equals the payment	$	979

Warrants

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

	Shares Underlying Warrants		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at December 31, 2022	6,106,023	$	7.30	1.32
Granted	-		-	
Exercised	-		-	
Expired	(136,428)		9.60	
Outstanding at June 30, 2023	5,969,595	$	7.25	0.84

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 443,732 stock options, restricted stock and warrants remaining under this plan as of June 30, 2023.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Research and development	$ 5,034	$ (6,904)	$ 11,798	$ 9,800
Sales and marketing	(435)	870	5,489	13,815
General and administrative	237,532	309,587	491,582	568,048
Total	$ 242,131	$ 303,553	$ 508,869	$ 591,663

Options

The following table reflects a summary of stock option activity:

	Number of Shares	Weighted Average Exercise Price	Contractual Life (Years)
Outstanding at December 31, 2022	777,922	$ 6.15	7.56
Forfeitures	(45,500)	0.97	
Outstanding at June 30, 2023	732,422	$ 6.47	7.10

Of the outstanding options, 654,937 were vested and exercisable as of June 30, 2023. At June 30, 2023 the aggregate intrinsic value of stock options vested and exercisable was $0.

The Company recognized $11,417 and $(6,298) of stock option expense for the three months ended June 30, 2023 and 2022, and $31,533 and $26,078 for the six months ended June 30, 2023 and June 30, 2022, respectively. Total compensation cost related to non-vested stock option awards not yet recognized as of June 30, 2023 was $69,823 and will be recognized on a straight-line basis through the end of the vesting periods through April 2025. The amount of future stock option compensation expense could be affected by any future option grants or by any forfeitures.

Restricted Stock

	Number of Shares	Weighted Average Grant Price
Outstanding at December 31, 2022	660,562	$ 1.91
Granted	760,668	0.75
Vested	(300,728)	0.95
Outstanding at June 30, 2023	1,120,502	$ 1.38

On February 1, 2023, pursuant to the AYRO, Inc. 2020 Long-Term Incentive Plan, the Company granted 760,668 shares of restricted stock to non-executive directors at a value of $0.75 per share. There are 6,269 vested and unissued shares of restricted stock awards as of June 30, 2023. As of June 30, 2023 570,502 shares of restricted stock remain unvested and unissued.

The Company recognized compensation expense related to all restricted stock during the three months ended June 30, 2023, and 2022 of $230,713 and $309,850 and for the six months ended June 30, 2023 and 2022 $477,335 and $565,585, respectively. Total compensation cost related to non-vested restricted stock not yet recognized as of June 30, 2023, was $428,473.

NOTE 12. CONCENTRATIONS AND CREDIT RISK

Revenues

One customer accounted for approximately 46% of the Company's revenues for the three months ended June 30, 2023 and another customer accounted for 35%. Club Car accounted for approximately 89% and another customer 10% of the Company's revenues for the three months ended June 30, 2022. Three customers accounted for approximately 42%, 25%, and 20% of the Company's revenues for the six months ended June 30, 2023, respectively. Club Car accounted for approximately 95% of the Company's revenues for the six months ended June 30, 2022. We do not expect Club Car to remain a customer going forward.

Accounts Receivable

As of June 30, 2023, two customers accounted for 61% and 39%, respectively, of the Company's net accounts receivable. As of December 31, 2022, Club Car accounted for 100% of the Company's net accounts receivable.

Purchasing

The Company places orders with various suppliers. No suppliers accounted for more than 10% of the Company's raw materials purchased for the three months ended June 30, 2023. During the six months ended June 30, 2023, two suppliers accounted for more than 10% of the Company's raw materials, one supplier accounted for 15% the other 13%. During the six months ended June 30, 2022, two suppliers accounted for accounted for more than 10% of the Company's raw materials. One supplier accounted for 61% and the other 13%. The Company's purchases of raw materials from one supplier was approximately 43% and 9% of its total purchases of raw materials for the three months ended June 30, 2022.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Manufacturing Agreements

On July 28, 2022, the Company partnered with Linamar Corporation ("Linamar") a Canadian manufacturer, in a manufacturing agreement (the "Linamar MLA") to provide certain sub assembly and assembly parts, including the cabin frame and skate for the Vanish (collectively, the "Products"). During the term of the Linamar MLA, Linamar has the exclusive right to supply the Products to the Company, subject to certain exceptions. The Linamar MLA has an initial term of three years and will automatically renew for successive two-year terms unless either party has given at least 12 months' written notice of nonrenewal. Either party may terminate the Linamar MLA at any time upon 12 months' written notice, and in the event of a change in control of the Company prior to the end of the initial term, the Company may terminate upon written notice within three days of completion of such change in control.

In the event the Company terminates the Linamar MLA prior to its expiration, whether following a change in control or otherwise, the Company must purchase any remaining raw material inventory, finished goods inventory and work in progress and any unamortized capital equipment used in production and testing of the Products and pay a termination fee of $750,000, subject to certain adjustments. The Company is dependent on the Linamar MLA, and in the event of its termination the Company's manufacturing operations and customer deliveries would be materially impacted.

Supply Chain Agreements

In 2017, the Company executed a supply chain contract with Cenntro, which has historically been the Company's primary supplier. Cenntro was previously a significant stockholder 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. The Company purchased 100% of its vehicle chassis, cabs and wheels for AYRO 411 Fleet Vehicles 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.

As of December 31, 2021, the net balance between prepaid expenses and accrued expenses with Cenntro was a prepaid balance of $602,016. As of December 31, 2022, the balance was zero. Impairments of prepaid expenses led to a write-down, netted with the balance in accrued expenses. The remainder of the balance was expensed through cost of goods sold for $621,097. Additionally, all inventory associated with Cenntro's lithium-ion line NCM line was written off to cost of goods sold for $1,317,289.

The Company has canceled all purchase orders and future builds with Cenntro and currently intends to only order replacement parts from Cenntro in the future.

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.

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 (non-exempt worker whose workday is longer than ten hours must receive an extra hour of pay at the basic minimum hourly rate). Management believes the case has no merit.

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 December 31, 2021, the Company has accrued $476,280 in expense for such additional sales tax and interest and paid as of December 31, 2022.

NOTE 14. SUBSEQUENT EVENTS

On June 15, 2023, a certain lease agreement commenced for the purpose of expanding AYRO operations into Florida. The agreement called for the leased premises to provide general systems and equipment to be available in working order. The said premises ultimately failed to meet the working order provision, and all parties agreed to terminate the said lease. Thus, the lease for the Florida expansion premises was terminated on July 28, 2023, amicably, by all parties. Remaining obligations for this lease are de minimis.

On August 7, 2023, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with the Investors, pursuant to which it agreed to sell to the Investors (i) an aggregate of 22,000 shares of Series H-7 Preferred Stock, initially convertible into up to 22,000,000 shares of the Company's common stock at a conversion price of $1.00 per share, and (ii) warrants to acquire up to an aggregate of 22,000,000 shares of common stock at an exercise price of $1.00 per share (the "Warrants, and such transactions collectively, the "Private Placement").

The closing of the Private Placement occurred on August 10, 2023. The aggregate gross proceeds from the Private Placement were approximately $22 million. The Company expects to use the net proceeds from the Private Placement for general corporate purposes.

The Purchase Agreement contains certain representations and warranties, covenants, and indemnities customary for similar transactions. The representations, warranties and covenants contained in the Purchase Agreement were made solely for the benefit of the parties to the Purchase Agreement and may be subject to limitations agreed upon by the contracting parties.

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, the development and launch of the AYRO Vanish (the "Vanish") 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;
- our failure to meet the continued listing requirements of The Nasdaq Capital Market could result in a delisting of our common stock;
- a significant portion of our revenues has historically been derived from Club Car pursuant to the MPA. Following our termination of the MPA, our sales could decrease significantly, and we will need to identify new strategic channel partners to support the sales of our vehicles;
- holders of our Series H-7 convertible preferred stock with a stated value of $1,000 per share ("Series H-7 Preferred Stock") are entitled to certain payments that may be paid in cash or in shares of common stock depending on the circumstances, if we make these payments in cash, we may be required to expend a substantial portion of our cash resources, and if we make these payments in common stock, it may result in substantial dilution to the holders of our common stock;
- the certificate of designations for the Series H-7 Preferred Stock and the warrants issued concurrently therewith contain anti-dilution provisions that may result in the reduction of the conversion price of the Series H-7 Preferred Stock or the exercise price of such warrants in the future. These features may increase the number of shares of common stock being issuable upon conversion of the Series H-7 Preferred Stock or upon the exercise of the warrants;
- under the Purchase Agreement (as defined below) we are subject to certain restrictive covenants that may make it difficult to procure additional financing;
- if we do not receive approval from our stockholders, we will be unable to pay amounts due to the holders of the Series H-7 Preferred Shares in shares of common stock and we will be required to pay such amounts in cash, which may force us to divert cash from other uses;

- we rely on a single third-party supplier and manufacturer located in Canada for certain sub-assembly and assembly parts for the Vanish and any disruption in the operations of this third-party supplier could adversely affect our business and results of operations;

- 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;

- we may be unable to replace lost manufacturing capacity on a timely and cost-effective basis, which could adversely impact our operations and ability to meet delivery timelines;

- we may experience delays in the development and introduction of new products;

- 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;

- 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;

- our future growth depends on customers' willingness to adopt electric vehicles;

- we may experience lower-than-anticipated market acceptance of our current models and the vehicles in development;

- 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;

- if we fail to include key feature sets relative to the target markets for our electric vehicles, our business will be harmed;

- 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;

- unforeseen or recurring operational problems at our facilities, or a catastrophic loss of our 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;

- if our vehicles fail to perform as expected due to defects, our ability to develop, market and sell our electric vehicles could be seriously harmed;

- we depend on key personnel to operate our business, and the loss of one or more members of our management team, or our failure to attract, integrate and retain other highly qualified personnel in the future, could harm our business;

- transitioning from an offshoring to an onshoring business model carries risk;

- 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;

- failure to maintain the strength and value of our brand could have a material adverse effect on our business, financial condition, and results of operations;

- 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;

- an unexpected change in failure rates of our products could have a material adverse impact on our business, financial condition, and operating results;

- 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 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;

- failure in our information technology and storage systems could significantly disrupt the operation of our business;

- 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;

- our long-term capital requirements are subject to numerous risks;

- we may invest in or acquire other businesses, and our business may suffer if we are unable to successfully integrate acquired businesses into our company or otherwise manage the growth associated with multiple acquisitions;

- increased safety, emissions, fuel economy or other regulations may result in higher costs, cash expenditures, and/or sales restrictions;

- our vehicles are subject to multi-jurisdictional motor vehicle standards;
- 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;

- unusual or significant litigation, governmental investigations or adverse publicity arising out of alleged defects in our vehicles, or otherwise, may derail our business;

- we are required to comply with state-specific regulations regarding the sale of vehicles by a manufacturer;

- 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 intellectual property from third parties in the future, and if we fail to obtain licenses 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;

- many of our proprietary designs are in digital form, and a breach of our computer systems could result in these designs being stolen;

- 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;

- legal proceedings or third-party claims of intellectual property infringement and other challenges may require us to spend substantial time and money and could harm our business;

- we are generally obligated to indemnify our sales channel partners, customers, suppliers and contractors for certain expenses and liabilities resulting from intellectual property infringement claims regarding our products, which could force us to incur substantial costs;

- we are subject to exposure from changes in the exchange rates of local currencies;

- we are subject to governmental export and import controls that could impair our ability to compete in international markets 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 our 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 with the SEC on March 23, 2023 and amended on May 1, 2023 ("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.

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 current 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. In connection with our strategic review, we cancelled development of our planned next-generation three-wheeled high-speed vehicle.

For the past several years, our primary supplier has been Cenntro Automotive Group, Ltd. (“Cenntro”), which operates a large electric vehicle factory in the automotive district in Hangzhou, China. As a result of rising shipping costs, quality issues with certain components and persistent delays, we ceased production of the AYRO 411x from Cenntro in September 2022 in order to focus our resources on the development and launch of the new 411 fleet vehicle model year 2023 refresh, the Vanish. We began design and development of the Vanish in December 2021, including updates to our supply chain, the offshoring/onshoring mix, our manufacturing strategy and our annual model year refresh program. We unveiled the first Vanish prototype in the fourth quarter of 2022. Pre-production of the Vanish was completed in December 2022.

Club Car MPA Termination

The majority of our sales have historically been comprised of sales to Club Car LLC (“Club Car”) pursuant to a master procurement agreement (the “MPA”) entered into by and among AYRO Operating Company, Inc., our subsidiary (“AYRO Operating”), and Club Car on March 5, 2019. The MPA grants Club Car the exclusive right to sell our 411 and 411x vehicles (the “AYRO 411 Fleet”) in North America, provided that Club Car orders at least 500 vehicles per year. Club Car did not meet this volume threshold for 2020, 2021 or 2022. Pursuant to the MPA, AYRO Operating 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. AYRO Operating also agreed to collaborate with Club Car on new products similar to the AYRO 411 Fleet and improvements to existing products and granted Club Car a right of first refusal to purchase similar commercial utility vehicles which AYRO Operating may develop during the term of the MPA.

On April 4, 2023, AYRO Operating delivered notice of termination of the MPA to Club Car, and we intend to replace Club Car with new business partners for selling our products beginning with the Vanish. We do not expect Club Car to remain a customer going forward. In connection with the termination of the MPA and the forthcoming introduction of the Vanish, we are reevaluating our channel strategy with an eye towards distributing our next-generation platform and payloads in a manner that maximizes visibility, moderates channel costs, and creates value. The loss of Club Car as a customer could have a material adverse effect on our sales, financial condition, and results of operations.

Nasdaq Minimum Bid Price Requirement

As previously reported, on October 3, 2022, we received a letter from the Listing Qualifications Department of the Nasdaq Stock Market (“Nasdaq”) indicating that, based upon the closing bid price of our common stock for the 30 consecutive business day period between August 19, 2022 and September 30, 2022, we did not meet the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2) (the “Minimum Bid Price Requirement”). The letter also indicated that the Company would be provided with a compliance period of 180 calendar days, or until April 3, 2023 (the “Initial Compliance Period”), in which to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A).

On April 4, 2023, we received a letter from Nasdaq notifying us that we had been granted an additional 180-day period, or until October 2, 2023, to regain compliance with the Minimum Bid Price Requirement. The new compliance period is an extension of the Initial Compliance Period provided for in Nasdaq’s deficiency notice to the Company dated October 3, 2022. Nasdaq’s determination was based on our meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the Nasdaq Capital Market, with the exception of the Minimum Bid Price Requirement, and our written notice of our intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary.

Management's plan to regain compliance with the Minimum Bid Price Requirement is to seek stockholder approval for, and to file, an amendment to our amended and restated certificate of incorporation ("Certificate of Incorporation") to effect a reverse stock split of our common stock at a ratio of 1-for-2 to 1-for-10, including shares held by us as treasury shares, with the exact ratio within such range to be determined by our board of directors at its discretion (the "Reverse Stock Split Amendment"). On August 8, 2023, we filed a preliminary proxy statement in connection with a special meeting of our stockholders to be held on September 14, 2023 (the "Special Meeting") for the purpose of approving, among other things, the Reverse Stock Split Amendment.

If compliance with the Minimum Bid Price Requirement cannot be demonstrated by October 2, 2023, Nasdaq will provide written notification that our common stock could be delisted. In such an event, Nasdaq rules permit us to appeal any delisting determination to a Nasdaq Hearings Panel. There can be no assurance that we will be able to regain compliance with the Nasdaq listing rules or maintain its listing on Nasdaq.

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.

Manufacturing Agreement with Cenntro

In 2017, AYRO Operating partnered with Cenntro 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 "Cenntro MLA"), in order for us to maintain our exclusive territorial rights pursuant to the Cenntro MLA, we must meet certain minimum purchase requirements.

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

On May 31, 2022, we received a letter from Cenntro purporting to terminate all agreements and contracts between the Company and Cenntro. Although we do not believe Cenntro's termination of the Cenntro MLA is valid, we have determined to cease production of the AYRO 411x and focus our resources on the development and launch of the Vanish. We have canceled all purchase orders and future builds with Cenntro and currently intend to only order replacement parts for vehicles from Cenntro in the future. Cenntro inventory remaining on hand as of June 30, 2023, was valued at $109,238. We expect to lose our exclusive license under the Cenntro MLA, in which case 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 Vanish to utilize assemblies and products that will largely eliminate our dependency on Chinese imports and optimize the supply chain to rely primarily upon North American and European sources. Final assembly of the Vanish will occur in our Round Rock, Texas facilities.

Manufacturing Agreement with Linamar

On July 28, 2022, we partnered with Linamar Corporation ("Linamar"), a Canadian manufacturer, in a manufacturing agreement (the "Linamar MLA") to provide certain sub assembly and assembly parts, including the cabin frame and skate for the Vanish (collectively, the "Products"). During the term of the Linamar MLA, Linamar has the exclusive right to supply the Products to the Company, subject to certain exceptions. The Linamar MLA has an initial term of three years and will automatically renew for successive two-year terms unless either party has given at least 12 months' written notice of nonrenewal. Either party may terminate the Linamar MLA at any time upon 12 months' written notice, and in the event of a change in control of the Company prior to the end of the initial term, we may terminate upon written notice within three days of completion of such change in control.

In the event we terminate the Linamar MLA prior to its expiration, whether following a change in control or otherwise, we must purchase any remaining raw material inventory, finished goods inventory, work in progress and any unamortized capital equipment used in production and testing of the Products and pay a termination fee of $750,000, subject to certain adjustments. We are dependent on the Linamar MLA, and in the event of its termination our manufacturing operations and customer deliveries would be materially impacted.

Under the Linamar MLA, we must commit to certain minimum purchases, to be determined by AYRO on a quarterly basis.

We import the Products from Linamar in Canada, and we manufacture and assemble the Vanish at our customization, service, and integration facility in Round Rock, Texas. Over 98% of the vehicle assemblies, components, and products are from North American and European sources.

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 AYRO 411x and will be directly integrated with the Vanish. 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 AYRO vehicles, 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.

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 dealer network, we directed our business development resources towards supporting Club Car's enterprise and fleet sales function as Club Car proceeds in its new product introduction initiatives. Substantially all of our sales have historically been to Club Car pursuant to the MPA. On April 4, 2023, we delivered notice of termination of the MPA to Club Car, and we intend to replace Club Car with new business partners for selling our products beginning with the Vanish. We do not expect Club Car to remain a customer going forward.

Tariffs

Countervailing tariffs on certain goods from China continued to have an adverse impact on raw material costs throughout 2021 and 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 2021 and 2022, 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. In addition, we could be impacted by shortages of other products or raw materials, including silicon chips that we or our suppliers use in the production of our vehicles or parts sourced for our vehicles.

We intend for the Vanish to utilize assemblies and products that will eliminate our dependency on Chinese imports and optimize the supply chain to North American 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 tourist 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 the 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 restricted stock vests.

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.

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 expenses 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 potential sales channels.

General and Administrative Expense

General and administrative expenses consist 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 and unrealized gain/loss on marketable securities.

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 June 30, 2023 compared to three months ended June 30, 2022

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

	For the Three Months Ended June 30,		
	2023	**2022**	**Change**
Revenue	$ 139,544	$ 981,560	$ (842,016)
Cost of goods sold	332,027	2,827,512	(2,495,485)
Gross loss	(192,483)	(1,845,952)	1,653,469
Operating expenses:			
Research and development	2,405,398	1,046,797	1,358,601
Sales and marketing	420,861	337,226	83,635
General and administrative	3,247,731	2,741,700	506,031
Total operating expenses	6,073,990	4,125,723	1,948,267
Loss from operations	(6,266,473)	(5,971,675)	(294,798)
Other income (expense):			
Other income (expense), net	(9,166)	10,706	(19,872)
Interest income	117,278	-	117,278
Unrealized gain (loss) on marketable securities	146,935	(13,479)	160,414
Realized gain on marketable securities	8,193	-	8,193
Net loss	$ (6,003,233)	$ (5,974,448)	$ (28,785)

Revenue

Revenue was $0.14 million for the three months ended June 30, 2023, as compared to $0.98 million for the same period in 2022, a decrease of 85.8%, or $0.84 million. The decrease in revenue was the result of a reduction in sales to Club Car as we wind down our relationship with Club Car.

Cost of goods sold and gross loss

Cost of goods decreased by $2.5 million, or 88.3% for the three months ended June 30, 2023, as compared to the same period in 2022, corresponding with the decrease in vehicle sales and a $1.32 million write-off of NCM inventory and $0.62 million of Cenntro prepaid and accrued balances that were expensed in the same period in 2022.

Research and development expense

Research and development ("R&D") expense was $2.41 million for the three months ended June 30, 2023, as compared to $1.05 million for the same period in 2022, an increase of $1.36 million, or 129.8%. The increase was primarily due to pre-production and low-rate initial production costs for the AYRO Vanish. We had an increase in R&D contracting for professional service and design costs of $0.41 million, an increase in design and testing material of $0.54 million, and an increase in salaries and related expenses of $0.37 million.

Sales and marketing expense

Sales and marketing expense was $0.42 million for the three months ended June 30, 2023, as compared to $0.34 million for the same period in 2022, an increase of $0.08 million, or 24.8%, as we increased our focus on marketing-related initiatives surrounding the AYRO Vanish. Contracting for professional marketing services increased by $0.07 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 $3.25 million for the three months ended June 30, 2023, compared to $2.74 million for the same period in 2022, an increase of $0.51 million, or 18.5% primarily due to contracting and professional services for overall repositioning of engineering, design, and manufacturing partnerships. Salaries and related expenses decreased by $0.09 million, primarily due to reducing headcount. Fulfillment expense and rent expense decreased by $0.05 million and $0.04 million, respectively. Depreciation and stock-based compensation increased by $0.06 million and decreased by $0.07 million, respectively.

Other income and expense

We recorded a $0.01 million decrease of net other income from disposing a fixed asset, a $0.17 million increase in interest income on cash accounts, an increase in unrealized gains of $0.16 million on marketable securities, and an increase in realized gains of $0.01 million on marketable securities.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

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

	For the Six Months Ended June 30,		
	2023	2022	Change
Revenue	$ 252,628	$ 2,008,405	$ (1,755,777)
Cost of goods sold	551,820	4,004,657	(3,452,837)
Gross loss	(299,192)	(1,996,252)	1,697,060
Operating expenses:			
Research and development	4,535,388	1,912,204	2,623,184
Sales and marketing	1,138,953	1,182,042	(43,089)
General and administrative	6,091,047	5,446,627	644,420
Total operating expenses	11,765,388	8,540,873	3,224,515
Loss from operations	(12,064,580)	(10,537,125)	(1,527,455)
Other income (expense):			
Other income (expense), net	52,532	19,597	32,935
Interest income	261,638	-	261,638
Unrealized gain (loss) on marketable securities	198,215	(35,580)	233,795
Realized loss on marketable securities	73,193	-	73,193
Net loss	$ (11,479,002)	$ (10,553,108)	$ (925,894)

Revenue

Revenue was $0.25 million for the six months ended June 30, 2023, as compared to $2.01 million for the same period in 2022, a decrease of 87.4%, or $1.76 million. The decrease in revenue was the result of a reduction in sales to Club Car as we wind down our relationship with Club Car.

Cost of goods sold and gross profit

Cost of goods decreased by $3.45 million, or 86.2% for the six months ended June 30, 2023, as compared to the same period in 2022, corresponding with the decrease in vehicle sales and a $1.32 million write-off of NCM inventory and $0.62 million of Cenntro prepaid and accrued balances that were expensed in the same period in 2022.

Research and development expense

Research and development ("R&D") expense was $4.54 million for the six months ended June 30, 2023, as compared to $1.91 million for the same period in 2022, an increase of $2.62 million, or 137.2%. The increase was primarily due to pre-production and low-rate initial production costs for the AYRO Vanish. We had an increase in R&D contracting for professional service and design costs of $1.5 million, an increase in design and testing material of $0.66 million, and an increase in salaries and related expenses of $0.4 million.

Sales and marketing expense

Sales and marketing expense was $1.14 million for the six months ended June 30, 2023, as compared to $1.18 million for the same period in 2022, an decrease of $0.04 million, or 3.6%, as we restructured our sales and marketing staff and marketing-related initiatives surrounding the AYRO Vanish. Salaries and related expenses decreased by $0.48 million due to the reduction of our sales and marketing resources. Bad debt increased by $0.29 million due to winding down our relationship with Club Car. Contracting for professional marketing services increased by $0.16 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 $6.09 million for the six months ended June 30, 2023, compared to $5.45 million for the same period in 2022, an increase of $0.64 million, or 11.8% primarily due to an overall repositioning of engineering, design, and manufacturing partnerships. Salaries and related expenses increased by $0.21 million, primarily due to expanding headcount. Fulfillment expense and rent expense decreased by $0.21 million and $0.13 million, respectively. Depreciation and stock-based compensation increased by $0.1 million and decreased by $0.08 million, respectively.

Other income and expense

We recorded a $0.5 million increase of net other income from an insurance settlement on damaged vehicles in transit and loss on disposal of a fixed asset of $0.01 million, a $0.26 million increase in interest income on cash accounts, an increase in realized gains of $0.07 million on marketable securities and an increase in unrealized gains of $0.24 million on marketable securities.

Liquidity and Capital Resources

As of June 30, 2023, we had $13.57 million in cash, $19.46 million in marketable securities and working capital of $37.65 million. As of December 31, 2022, we had $39.1 million in cash, $9.85 million in marketable securities and working capital of $49.67 million. The decrease in cash and working capital was primarily a result of our operating loss. Our sources of cash since inception have been predominately from the sale of equity and debt.

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.

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, and competition from larger companies, other technology companies and other technologies. Based on the foregoing, management believes that the existing cash at June 30, 2023, will be sufficient to fund operations for at least the next twelve months following the date of this report.

As discussed above, in connection with our strategic review we canceled development of our planned next-generation three-wheeled vehicle. In December of 2022 we completed pre-production on the new 411 fleet vehicle model refresh, the Vanish.

Summary of Cash Flows

The following table summarizes our cash flows:

	For the Six Months Ended June 30,			
	2023		2022	
Cash Flows:				
Net cash used in operating activities	$	(14,893,479)	$	(9,831,514)
Net cash used in investing activities	$	(10,633,818)	$	(18,438,183)
Net cash provided by financing activities	$	-	$	-

Operating Activities

During the six months ended June 30, 2023, we used $14.89 million in cash in operating activities, an increase in use of $5.06 million compared to the cash used in operating activities of $9.83 million during the same period in 2022. The increase in cash used in operating activities was primarily a result of raw materials purchased and $1.51 million of prepayments for inventory and manufacturing services, payments of accrued expenses, 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 six months ended June 30, 2023, we used cash of $10.63 million from investing activities as compared to $18.44 million of cash used in investing activities during 2022, a decrease of $7.8 million. The net decrease was primarily due to our investment in marketable securities of $9.3 million for the six months ended June 30, 2023 compared to $18 million for the six months ended June 30, 2022.

Financing Activities

During the six months ended June 30, 2023, and 2022, we had no financing activities of note.

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.

Recent Developments

August 2023 Private Placement

On August 7, 2023, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain existing investors (the "Investors"), pursuant to which we agreed to sell to the Investors (i) an aggregate of 22,000 shares of our newly-designated Series H-7 Preferred Stock, initially convertible into up to 22,000,000 shares of our common stock at a conversion price of $1.00 per share (the "Preferred Shares"), and (ii) warrants to acquire up to an aggregate of 22,000,000 shares of common stock at an exercise price of $1.00 per share (the "Investor Warrants," and such transactions collectively, the "Private Placement").

The Private Placement is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws. Each of the Investors has represented to us that it is an accredited investor within the meaning of Rule 501(a) of Regulation D and that it is acquiring the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The Preferred Shares and Investor Warrants were offered without any general solicitation by us or our representatives.
The Private Placement closed on August 10, 2023. The aggregate gross proceeds from the Private Placement were approximately $22 million. We expect to use the net proceeds from the Private Placement for general corporate purposes.

The Purchase Agreement contains certain representations and warranties, covenants and indemnities customary for similar transactions. The representations, warranties and covenants contained in the Purchase Agreement were made solely for the benefit of the parties to the Purchase Agreement and may be subject to limitations agreed upon by the contracting parties.

In connection with the Private Placement, pursuant to an Engagement Letter, dated August 7, 2023, between the Company and Palladium Capital Group, LLC (the "Placement Agent"), we agreed to pay the Placement Agent (i) a cash fee equal to 6% of the gross proceeds from any sale of securities in the Private Placement and (ii) warrants ("Placement Agent Warrants," and together with the Investor Warrants, the "Warrants") to purchase shares of common stock equal to 2% of the number of shares of common stock that the Preferred Shares are initially convertible into, with an exercise price of $1.00 per share and a five-year term.

Series H-7 Preferred Stock

The terms of the Preferred Shares are as set forth in the certificate of designations filed with the Secretary of State of the State of Delaware prior to the closing of the Private Placement (the "Certificate of Designations"). The Preferred Shares are convertible into shares of common stock (the "Conversion Shares") at the election of the holder at any time at an initial conversion price ("Conversion Price") of $1.00. The Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment in the event of any issuances of common stock, or securities convertible, exercisable or exchangeable for common stock, at a price below the then-applicable Conversion Price (subject to certain exceptions). We are required to redeem the Preferred Shares in twelve equal monthly installments, commencing on a date between February 7, 2024 and August 7, 2025, at the election of each Investor. The amortization payments due upon such redemption are payable, at our election, in cash at 105% of the Installment Redemption Amount (as defined in the Certificate of Designations), or subject to certain limitations, in shares of common stock valued at the lower of (i) the Conversion Price then in effect and (ii) the greater of (A) 80% of the average of the three lowest closing prices of the common stock during the thirty trading day period immediately prior to the date the amortization payment is due or (B) the lower of $0.144 and 20% of the Minimum Price (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) on the date of receipt of Nasdaq Stockholder Approval (as defined below), which amortization payments are subject to certain adjustments as set forth in the Certificate of Designations.

The holders of the Preferred Shares are entitled to dividends of 8% per annum, compounded monthly, which are payable in cash or shares of common stock at our option, in accordance with the terms of the Certificate of Designations. Upon the occurrence and during the continuance of a Triggering Event (as defined in the Certificate of Designations), the Preferred Shares will accrue dividends at the rate of 15% per annum. Upon conversion or redemption, the holders of the Preferred Shares are also entitled to receive a dividend make-whole payment assuming for calculation purposes that the stated value remained outstanding through and including the twelve (12) month anniversary of the first installment date as elected by an Investor. Except as required by applicable law, the holders of Preferred Shares are entitled to vote with holders of the common stock on as as-converted basis, with the number of votes to which each holder of Preferred Shares is entitled to be calculated assuming conversion at the Minimum Price (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Purchase Agreement.

Notwithstanding the foregoing, our ability to settle conversions and make amortization and dividend make-whole payments using shares of common stock is subject to certain limitations set forth in the Certificate of Designations, including a limit on the number of shares that may be issued until the time, if any, that our stockholders have approved the issuance of more than 19.9% of our outstanding shares of common stock in accordance with Nasdaq listing standards (the “Nasdaq Stockholder Approval”). We have agreed to seek stockholder approval of these matters at a meeting to be held no later than November 5, 2023. We intend to obtain the Nasdaq Stockholder Approval at the Special Meeting. Our directors and officers holding approximately 1,484,458 shares of common stock, representing approximately 3.9% of our issued and outstanding Common Stock, have executed an agreement to vote their shares in favor of the Nasdaq Stockholder Approval. The Certificate of Designations also contains a certain beneficial ownership limitation after giving effect to the issuance of shares of common stock issuable upon conversion of, or as part of any amortization or dividend make-whole payment under, the Certificate of Designations or Warrants. Such amount may be lowered with the consent of the holder and the Company.

The Certificate of Designations includes certain Triggering Events (as defined in the Certificate of Designations), including, among other things, the suspension from trading or the failure of the common stock to be trading or listed (as applicable) on an eligible market for a period of five (5) consecutive trading days and our failure to pay any amounts due to the holders of the Preferred Shares when due. In connection with a Triggering Event, each holder of Preferred Shares will be able to require us to redeem in cash any or all of the holder’s Preferred Shares at a premium set forth in the Certificate of Designations.

We are subject to certain affirmative and negative covenants regarding the incurrence of indebtedness, the existence of liens, investment transactions, the repayment of indebtedness, the payment of cash in respect of dividends (other than dividends pursuant to the Certificate of Designations), distributions or redemptions, the transfer of assets, and certain minimum cash requirements and establishment of a segregated deposit account for the proceeds of the offering, among other matters.

There is no established public trading market for the Preferred Shares and we do not intend to list the Preferred Shares on any national securities exchange or nationally recognized trading system.

Warrants

The Warrants are exercisable for shares of common stock (the “Warrant Shares”) immediately at an exercise price of $1.00 per share (the “Exercise Price”) and expire five years from the date of issuance. The Exercise Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment, on a “full ratchet” basis, in the event of any issuances of common stock, or securities convertible, exercisable or exchangeable for common stock, at a price below the then-applicable Exercise Price (subject to certain exceptions). There is no established public trading market for the Warrants and we do not intend to list the Warrants on any national securities exchange or nationally recognized trading system.

Registration Rights

The Preferred Shares, the Conversion Shares, the Warrants and the Warrant Shares have not been registered under the Securities Act. In connection with the Purchase Agreement, on August 7, 2023, the Company and the Investors entered into a Registration Rights Agreement (the “Registration Rights Agreement”), pursuant to which we are required to file a resale registration statement (the “Registration Statement”) with the SEC to register for resale 150% of the Conversion Shares and the Warrant Shares promptly following the closing date, but in no event later than 30 calendar days after the closing date, and to have such Registration Statement declared effective by the Effectiveness Date (as defined in the Registration Rights Agreement). We will be obligated to pay certain liquidated damages to the Investors if we fail to file the Registration Statement when required, fails to file or cause the Registration Statement to be declared effective by the SEC when required, or fails to maintain the effectiveness of the Registration Statement pursuant to the terms of the Registration Rights Agreement.

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 June 30, 2023. 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 June 30, 2023, 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.

In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2022, management identified a material weakness related to segregation of duties. Specifically, due to limited resources and headcount, we did not have multiple people in the accounting function for full segregation of duties.

Plan for Remediation of Material Weakness

We have engaged a third party to conduct a full assessment of our controls and procedures. In the fourth quarter of 2022 we completed our full assessment and are now in the process of testing those controls.

Changes in Internal Control 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.

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.

Our failure to meet the continued listing requirements of The Nasdaq Capital Market could result in a delisting of our common stock.

As previously reported, on October 3, 2022, we received a letter from Nasdaq indicating that, based upon the closing bid price of the Company's common stock for the 30 consecutive business day period between August 19, 2022 and September 30, 2022, we did not meet the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2). In order to regain compliance with Nasdaq's minimum bid price requirement, our common stock was required to maintain a minimum closing bid price of $1.00 for at least ten consecutive business days during the Initial Compliance Period. We did not regain compliance during the Initial Compliance Period. On April 4, 2023, we received a letter from Nasdaq notifying us that we had been granted an additional 180-day period, or until October 2, 2023, to regain compliance with the Minimum Bid Price Requirement. The new compliance period is an extension of the Initial Compliance Period provided for in Nasdaq's deficiency notice to the Company dated October 3, 2022. Nasdaq's determination was based on the Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the Nasdaq Capital Market, with the exception of the Minimum Bid Price Requirement, and our written notice of our intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary.

To resolve the noncompliance, we may consider available options including a reverse stock split, which may not result in a permanent increase in the market price of our common stock, which is dependent on many factors, including general economic, market and industry conditions and other factors detailed from time to time in the reports we file with the SEC. It is not uncommon for the market price of a company's shares to decline in the period following a reverse stock split.

If compliance with the Minimum Bid Price Requirement cannot be demonstrated by October 2, 2023, Nasdaq will provide written notification that our common stock could be delisted. In such an event, Nasdaq rules permit the Company to appeal any delisting determination to a Nasdaq Hearings Panel. However, there can be no assurance that we will be able to regain compliance with the Nasdaq listing rules or maintain its listing on Nasdaq.

Although we expect to take actions intended to restore our compliance with the listing requirements, we can provide no assurance that any action taken by us would be successful, or that any such action would stabilize the market price or improve the liquidity of our common stock. Should a delisting occur, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of our common stock, and our ability to raise future capital through the sale of our common stock could be severely limited.

A significant portion of our revenues has historically been derived from Club Car pursuant to the MPA. Following the termination of the MPA, we will need to identify new strategic channel partners to support the sales of our vehicles.

The majority of our sales have historically been comprised of sales to Club Car pursuant to the MPA, with revenues from Club Car constituting approximately 100% of our revenues in 2022 and 79% of our revenues in 2021. On April 4, 2023, we delivered notice of termination of the MPA to Club Car, and we do not expect them to remain a customer going forward. The loss of Club Car as a customer could have a material adverse effect on our sales, financial condition, and results of operations.

Following the termination of the MPA, we will need to identify new strategic channel partners to support the sales of our vehicles. It may take time to identify and add these partners and to train new personnel to market and support our vehicles. We may be unable to identify suitable partners, or such partners may not successfully market and sell our vehicles and may not devote sufficient time and resources to enable our vehicles to develop, achieve or sustain market acceptance. Failure to enter into arrangements with and retain a sufficient number of high-quality strategic channel partners could increase our marketing costs, adversely impact buying and inventory patterns, payment terms or other contractual terms, sell-through or delivery of our vehicles or curtail our routes-to-market, and could have a material adverse effect on our prospects, business, financial condition or results of operations.

Holders of our Series H-7 Preferred Stock are entitled to certain payments under the Certificate of Designations that may be paid in cash or in shares of common stock depending on the circumstances. If we make these payments in cash, we may be required to expend a substantial portion of our cash resources. If we make these payments in common stock, it may result in substantial dilution to the holders of our common stock.

Under the Certificate of Designations, we are required to redeem the Series H-7 Preferred Shares in monthly installments, commencing on a date between February 7, 2024 and August 7, 2025. Holders of the Series H-7 Preferred Shares are also entitled to receive dividends, payable in arrears monthly, and dividends payable on installment dates shall be paid as part of the applicable installment amount. Installment amounts are payable, at the company's election, in shares of common stock or, subject to certain limitations, in cash. Installment amounts paid in cash must be paid in the amount of 105% of the applicable payment amount due. For any installment amounts paid in shares of common stock, the number of shares of common stock shall be calculated by dividing the applicable payment amount due by the "installment conversion price." The installment conversion price shall be equal to the lower of (i) the Conversion Price (as defined in the Certificate of Designations) in effect as of the applicable payment date and (ii) the greater of (A) 80% of the average of the three lowest closing prices of our common stock during the thirty trading day period immediately prior to the date the payment is due or (B) the lower of (x) $0.144 and (y) 20% of the "Minimum Price" (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) on the date of the Nasdaq Stockholder Approval (subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events) or, in any case, such lower amount as permitted, from time to time, by the Nasdaq Stock Market.

Our ability to make payments due to the holders of the Preferred Shares using shares of common stock is subject to certain limitations set forth in the Certificate of Designations, including a limit on the number of shares that may be issued until our receipt of the Nasdaq Stockholder Approval. If we are unable to make installment payments in shares of common stock, we may be forced to make such payments in cash. If we do not have sufficient cash resources to make these payments, we may need to raise additional equity or debt capital, and we cannot provide any assurance that we will be successful in doing so. If are unable to raise sufficient capital to meet our payment obligations, we may need to delay, reduce or eliminate certain of our operations, sell some or all of our assets or merge with another entity.

Our ability to make payments due to the holders of the Series H-7 Preferred Shares using cash is also limited by the amount of cash we have on hand at the time such payments are due, as well as certain provisions of the Delaware General Corporation Law. Further, we intend to make the installment payments due to holders of Series H-7 Preferred Stock in the form of common stock to the extent allowed under the Certificate of Designations and applicable law in order to preserve our cash resources. The issuance of shares of common stock to the holders of our Series H-7 Preferred Stock will increase the number of shares of common stock outstanding and could result in substantial dilution to the existing holders of our common stock.

The Certificate of Designations and the Warrants contain anti-dilution provisions that may result in the reduction of the conversion price of the Preferred Shares or the exercise price of the Warrants in the future. These features may increase the number of shares of common stock being issuable upon conversion of the Preferred Shares or upon the exercise of the warrants.

The Certificate of Designations and the Warrants contain anti-dilution provisions, which provisions require the lowering of the applicable conversion price or exercise, as then in effect, to the purchase price of equity or equity-linked securities issued in any subsequent offerings. If in the future, while any shares of the Series H-7 Preferred Shares or Warrants are outstanding, we issue securities for a consideration per share of common stock (the "New Issuance Price") that is less than the Conversion Price of the Series H-7 Preferred Shares or the Exercise Price of the Warrants, as then in effect, we will be required, subject to certain limitations and adjustments as provided in the Certificate of Designations or the Warrants, to reduce the Conversion Price or the Exercise Price to be equal to the New Issuance Price, which will result in a greater number of shares of common stock being issuable upon conversion of the Preferred Shares and the exercise of the Warrants, which in turn will increase the dilutive effect of such conversions or exercises on existing holders of our common stock. It is possible that we will not have a sufficient number of shares available to satisfy the conversion of the Preferred Shares or the exercise of the Warrants if we enter into a future transaction that reduces the applicable Conversion Price or Exercise Price. If we do not have a sufficient number of available shares for any Preferred Share conversions or Warrant exercises, we may need to seek stockholder approval to increase the number of authorized shares of our common stock, which may not be possible and will be time consuming and expensive. The potential for such additional issuances may depress the price of our common stock regardless of our business performance and may make it difficult for us to raise additional equity capital while any of the Preferred Shares or Warrants are outstanding.

Under the Purchase Agreement we are subject to certain restrictive covenants that may make it difficult to procure additional financing.

The Purchase Agreement contains the following restrictive covenants: (i) until Preferred Shares are no longer outstanding, we agreed not to enter into any variable rate transactions; (ii) we agreed to offer to the Investors, until the later of (x) the date on which no Preferred Shares no longer outstanding and (y) the maturity date of the Preferred Shares, the opportunity to participate in any subsequent securities offerings by us; and (iii) we agreed to use our reasonable best efforts to hold a stockholder meeting, at which we would solicit our stockholders' affirmative vote for approval of our issuance of the maximum Conversion Shares upon conversion of the Preferred Shares and the maximum Warrant Shares upon exercise of the Warrants, each in accordance with the applicable law and rules and regulations of Nasdaq, no later than November 5, 2023. If we require additional funding while these restrictive covenants remain in effect, we may be unable to effect a financing transaction while remaining in compliance with the terms of the Purchase Agreement, or we may be forced to seek a waiver from the investors party to the Purchase Agreement.

If we do not receive approval from our stockholders, we will be unable to pay amounts due to the holders of the Series H-7 Preferred Shares in shares of common stock and we will be required to pay such amounts in cash, which may force us to divert cash from other uses.

Under the Purchase Agreement, we are required to hold a meeting of our stockholders to seek approval under Rule 5635(d) of the Nasdaq Stock Market for the sale, issuance or potential issuance by us of our common stock (or securities convertible into or exercisable for our common stock) in excess of 7,554,727 shares, which is 19.99% of the shares of common stock outstanding immediately prior to the execution of the Purchase Agreement. Our directors and officers, who held approximately 3.9% of our issued and outstanding common stock as of the date of the Purchase Agreement, are party to a voting agreement pursuant to which, among other things, each such stockholder agreed, solely in their capacity as a stockholder, to vote all of their shares of common stock in favor of the approval. If an insufficient number of our remaining stockholders vote in favor of the proposal we will be unable to issue shares of common stock in order to pay amounts due under the Certificate of Designations to holders of the Series H-7 Preferred Shares in shares of common stock. If we are unable to pay such amounts when due in shares of common stock, we will have to satisfy our payment obligations by means of cash payments. If we do not have sufficient cash resources to make these payments, we may need to delay, reduce or eliminate certain of our operations, sell some or all of our assets or merge with another entity.

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.

ITEM 6. EXHIBITS

The following exhibits are filed as part of , or incorporated by reference into, this Quarterly Report on Form 10-Q

3.1 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)

3.2 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)

3.3 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)

3.4 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)

3.5 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)

3.6 Form of Certificate of Designations of Series H-7 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 August 8, 2023)

4.1 Form of Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2023)

10.1 Form of Purchase Agreement (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 August 8, 2023)

10.2 Form of Registration Rights Agreement (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 August 8, 2023)

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

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: August 14, 2023

By: */s/ Thomas M. Wittenschlaeger*
Thomas M. Wittenschlaeger
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2023

By: */s/ David E. Hollingsworth*
David E. Hollingsworth
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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: August 14, 2023

/s/ Thomas M. Wittenschlaeger

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

Exhibit 31.2

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: August 14, 2023

/s/ David E. Hollingsworth

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

Exhibit 32.1

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 June 30, 2023 (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: August 14, 2023

By: */s/ Thomas M. Wittenschlaeger*
Thomas M. Wittenschlaeger
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2023

By: */s/ David E. Hollingsworth*
David E. Hollingsworth
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)