

**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 September 30, 2024

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)

900 E. Old Settlers Boulevard, Suite 100
Round Rock, Texas
(Address of principal executive offices)

98-0204758
(I.R.S. Employer
Identification No.)

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

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

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

As of November 11, 2024, the registrant had 6,812,141 shares of common stock outstanding.

AYRO, INC.
QUARTER ENDED SEPTEMBER 30, 2024

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
AYRO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2024	December 31, 2023
	Unaudited	Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,729,904	\$ 33,440,867
Restricted cash	10,022,700	10,000,000
Marketable securities	16,127,434	—
Accounts receivable, net of allowance for credit losses of \$0 and \$53,696 at September 30, 2024, and December 31, 2023, respectively	—	219,000
Inventory	3,209,892	3,431,982
Prepaid expenses and other current assets	1,287,553	1,887,782
Total current assets	33,377,483	48,979,631
Property and equipment, net	1,973,465	3,117,164
Operating lease – right-of-use asset	521,236	671,451
Deposits and other assets	53,368	95,532
Total assets	\$ 35,925,552	\$ 52,863,778
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,382,260	\$ 2,456,258
Accrued expenses and other current liabilities	1,332,991	1,656,541
Accrued preferred stock redemption payable (H-7)	2,166,268	—
Current portion lease obligation – operating lease	211,766	196,682
Total current liabilities	5,093,285	4,309,481
Derivative liability	4,365,000	9,400,000
Warranty liability	4,182,900	13,319,800
Lease obligation - operating lease, net of current portion	340,959	502,831
Total liabilities	13,982,144	27,532,112
Mezzanine equity:		
Redeemable Series H-7 Convertible Preferred Stock, (\$0.0001 par value per share and \$1,000 face value per share; authorized - 22,000 shares; issued and outstanding – 14,500 and 22,000 shares, at September 30, 2024, and December 31, 2023, respectively). Liquidation preference of \$16,857,966, as of September 30, 2024	10,485,122	11,193,939
Stockholders' equity:		
Preferred Stock, (authorized – 20,000,000 shares)	—	—
Series H Convertible Preferred Stock, (\$0.0001 par value per share; authorized – 8,500 shares; issued and outstanding – 8 shares as of September 30, 2024, and December 31, 2023, respectively)	—	—
Liquidation preference of \$1 as of September 30, 2024	—	—
Convertible Preferred Stock Series H-3, (\$0.0001 par value; authorized – 8,461 shares; issued and outstanding – 1,234 shares as of September 30, 2024, and December 31, 2023, respectively)	—	—
Liquidation preference of \$108 as of September 30, 2024	—	—
Series H-6 Convertible Preferred Stock, (\$0.0001 par value per share; authorized – 50,000 shares; issued and outstanding – 50 shares as of September 30, 2024, and December 31, 2023, respectively)	—	—
Liquidation preference of \$525 as of September 30, 2024	—	—
Common Stock, (\$0.0001 par value; authorized – 200,000,000 shares; issued and outstanding – 7,004,952 and 4,913,907 shares as of September 30, 2024, and December 31, 2023, respectively)	700	492
Additional paid-in capital	122,961,200	129,467,274
Accumulated deficit	(111,503,614)	(115,330,039)
Total stockholders' equity	11,458,286	14,137,727
Total liabilities, mezzanine equity and stockholders' equity	\$ 35,925,552	\$ 52,863,778

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

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Revenue	\$ 5,426	\$ 88,395	\$ 63,777	\$ 341,023
Cost of goods sold	286,028	231,837	2,544,131	783,656
Gross loss	<u>(280,602)</u>	<u>(143,442)</u>	<u>(2,480,354)</u>	<u>(442,633)</u>
Operating expenses:				
Research and development	14,776	1,335,167	1,397,760	5,870,555
Sales and marketing	216,605	390,684	769,995	1,529,637
General and administrative	1,414,026	4,370,684	6,453,710	10,461,733
Total operating expenses	<u>1,645,407</u>	<u>6,096,535</u>	<u>8,621,465</u>	<u>17,861,925</u>
Loss from operations	(1,926,009)	(6,239,977)	(11,101,819)	(18,304,558)
Other income (expense):				
Interest income	89,060	35,557	382,925	370,387
Change in fair value - warrant liability	126,600	(10,095,960)	9,136,900	(10,095,960)
Change in fair value - derivative liability	2,408,000	3,216,000	5,035,000	3,216,000
Unrealized gain (loss) on marketable securities	(240,743)	403,996	26,159	602,211
Realized gain on marketable securities	562,627	90,812	1,014,748	143,344
Other income (expense), net	(468,978)	—	(667,488)	—
Total other income (expense), net	<u>2,476,566</u>	<u>(6,349,595)</u>	<u>14,928,244</u>	<u>(5,764,018)</u>
Net income (loss) prior to provision for income taxes	<u>\$ 550,557</u>	<u>\$ (12,589,572)</u>	<u>\$ 3,826,425</u>	<u>\$ (24,068,576)</u>
Provision for income taxes	—	—	—	—
Net income (loss)	<u>\$ 550,557</u>	<u>\$ (12,589,572)</u>	<u>\$ 3,826,425</u>	<u>\$ (24,068,576)</u>
Dividends earned on Series H-7 convertible preferred stock	(741,172)	(244,000)	(1,739,906)	(244,000)
Accretion of discounts to redemption value of Series H-7 convertible preferred stock	(1,506,979)	(1,165,635)	(6,601,588)	(1,165,635)
Deemed dividend (Series H-5 warrants)	—	(199,000)	—	(199,000)
Net loss attributable to common stockholders	<u>\$ (1,697,594)</u>	<u>\$ (14,198,207)</u>	<u>\$ (4,515,069)</u>	<u>\$ (25,677,211)</u>
Net loss per share basic	<u>\$ (0.25)</u>	<u>\$ (2.99)</u>	<u>\$ (0.78)</u>	<u>\$ (5.47)</u>
Net loss per share diluted	<u>\$ (0.25)</u>	<u>\$ (2.99)</u>	<u>\$ (0.78)</u>	<u>\$ (5.47)</u>
Basic weighted average Common Stock outstanding	<u>6,863,234</u>	<u>4,744,229</u>	<u>5,807,416</u>	<u>4,698,104</u>
Diluted weighted average Common Stock outstanding	<u>6,863,234</u>	<u>4,744,229</u>	<u>5,807,416</u>	<u>4,698,104</u>

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

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

Three and Nine Months Ended September 30, 2024

	Series H-7		Series H		Series H-3		Series H-6		Common Stock		Additional	Accumulated	Total
	Preferred Stock		Preferred Stock		Preferred Stock		Preferred Stock		Shares	Amount	Paid-in Capital	(Deficit)	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, January 1, 2024	22,000	\$11,193,939	8	\$ —	1,234	\$ —	50	\$ —	4,913,907	\$ 492	\$129,467,274	\$(115,330,039)	\$14,137,727
Stock based compensation	—	—	—	—	—	—	—	—	—	—	12,398	—	12,398
Vested restricted stock	—	—	—	—	—	—	—	—	23,771	2	48,312	—	48,314
Dividends (accrued Series H-7 Preferred)	—	452,086	—	—	—	—	—	—	—	—	(452,086)	—	(452,086)
Accretion of discounts to redemption value of Series H-7 convertible preferred stock	—	3,095,473	—	—	—	—	—	—	—	—	(3,095,473)	—	(3,095,473)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(3,638,752)	(3,638,752)
Balance, March 31, 2024	22,000	\$14,741,498	8	\$ —	1,234	\$ —	50	\$ —	4,937,678	\$ 494	\$125,980,425	\$(118,968,791)	\$ 7,012,128
Stock based compensation	—	—	—	—	—	—	—	—	—	—	(4,319)	—	(4,319)
Preferred stock redemptions and conversions including cash premium	(2,667)	(3,065,973)	—	—	—	—	—	—	1,634,940	163	1,454,741	—	1,454,904
Deemed dividend	—	—	—	—	—	—	—	—	—	—	(80,553)	—	(80,553)
Preferred stock dividends	—	466,095	—	—	—	—	—	—	—	—	(466,095)	—	(466,095)
Accretion of discounts to redemption value of Series H-7 convertible preferred stock	—	1,999,136	—	—	—	—	—	—	—	—	(1,999,136)	—	(1,999,136)
Net income	—	—	—	—	—	—	—	—	—	—	—	6,914,620	6,914,620
Balance, June 30, 2024	19,333	\$14,140,756	8	\$ —	1,234	\$ —	50	\$ —	6,572,618	\$ 657	\$124,885,063	\$(112,054,171)	\$12,831,549
Stock based compensation	—	—	—	—	—	—	—	—	—	—	81	—	81
Preferred stock redemptions and conversions including cash premium	(4,833)	(5,638,092)	—	—	—	—	—	—	432,334	43	324,207	—	324,250
Deemed dividend	—	—	—	—	—	—	—	—	—	—	(265,693)	—	(265,693)
Preferred stock dividends	—	475,479	—	—	—	—	—	—	—	—	(475,479)	—	(475,479)
Accretion of discounts to redemption value of Series H-7 convertible preferred stock	—	1,506,979	—	—	—	—	—	—	—	—	(1,506,979)	—	(1,506,979)
Net income	—	—	—	—	—	—	—	—	—	—	—	550,557	550,557
Balance, September 30, 2024	14,500	\$10,485,122	8	\$ —	1,234	\$ —	50	\$ —	7,004,952	\$ 700	\$122,961,200	\$(111,503,614)	\$11,458,286

Three and Nine Months Ended September 30, 2023

	Series H-7		Series H		Series H-3		Series H-6		Common Stock		Additional	Accumulated	Total
	Preferred Stock		Preferred Stock		Preferred Stock		Preferred Stock		Shares	Amount	Paid-in Capital	(Deficit)	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, January 1, 2023	—	\$ —	8	\$ —	1,234	\$ —	50	\$ —	4,655,205	\$ 466	\$133,227,507	\$(81,169,584)	\$ 52,058,389
Stock based compensation	—	—	—	—	—	—	—	—	—	—	20,116	—	20,116
Vested restricted stock	—	—	—	—	—	—	—	—	13,858	1	246,624	—	246,625
Net loss	—	—	—	—	—	—	—	—	—	—	—	(5,475,769)	(5,475,769)
Balance, March 31, 2023	—	\$ —	8	\$ —	1,234	\$ —	50	\$ —	4,669,063	\$ 467	\$133,494,247	\$(86,645,353)	\$ 46,849,361
Stock based compensation	—	—	—	—	—	—	—	—	—	—	11,417	—	11,417
Vested restricted stock	—	—	—	—	—	—	—	—	23,569	2	230,711	—	230,713
Net loss	—	—	—	—	—	—	—	—	—	—	—	(6,003,233)	(6,003,233)
Balance, June 30, 2023	—	\$ —	8	\$ —	1,234	\$ —	50	\$ —	4,692,632	\$ 469	\$133,736,375	\$(92,648,586)	\$ 41,088,258
Stock based compensation	—	—	—	—	—	—	—	—	—	—	15,165	—	15,165
Vested restricted stock	—	—	—	—	—	—	—	—	23,975	3	207,730	—	207,733

Issuance of convertible preferred stock, net of discounts and transaction costs	22,000	6,515,674	—	—	—	—	—	—	—	—	—	—	—
Issuance of rounded shares as a result of the reverse stock split.	—	—	—	—	—	—	—	—	173,530	17	(17)	—	—
Dividends (accrued Series H-7 Preferred)	—	244,000	—	—	—	—	—	—	—	—	—	(244,000)	(244,000)
Accretion of discounts to redemption value of H-7 convertible preferred stock	—	1,165,635	—	—	—	—	—	—	—	—	—	(1,165,635)	(1,165,635)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(12,589,572)	(12,589,572)
Balance, September 30, 2023	22,000	\$7,925,309	8	\$ —	1,234	\$ —	50	\$ —	4,890,137	\$ 489	\$133,959,253	\$(106,647,793)	\$ 27,311,949

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)

	Nine Months Ended	
	September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 3,826,425	\$ (24,068,576)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,300,148	781,852
Loss on disposal of fixed asset	337,847	—
Stock-based compensation	56,472	731,768
Change in fair value - derivative liability	(5,035,000)	(3,216,000)
Change in fair value - warrant liability	(9,136,900)	10,095,960
Amortization of right-of-use asset	150,215	123,885
Bad debt expense	189,092	292,010
Unrealized gain on marketable securities	(26,159)	(602,211)
Realized gain on marketable securities	(1,014,748)	(143,344)
Impairment of inventory	1,709,449	—
Change in operating assets and liabilities:		
Accounts receivable	29,908	74,072
Inventory	(1,737,510)	(3,376,229)
Prepaid expenses and other current assets	887,184	(1,606,457)
Deposits and other assets	22,491	(500)
Accounts payable	(1,135,637)	(280,291)
Accrued expenses and other current liabilities	(610,503)	28,027
Lease obligations - operating leases	(146,788)	(136,086)
Net cash used in operating activities	<u>(10,334,014)</u>	<u>(21,302,120)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(162,833)	(2,076,070)
Change in marketable securities, net	(15,086,527)	(24,033,422)
Purchase of intangible assets	—	(29,204)
Net cash used in investing activities	<u>(15,249,360)</u>	<u>(26,138,696)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from private placement of preferred stock, net of transaction costs	—	21,632,156
Payment of preferred stock redemption (Series H-7)	(5,104,889)	—
Net cash provided (used) by financing activities	<u>(5,104,889)</u>	<u>21,632,156</u>
Net change in cash, cash equivalents and restricted cash	(30,688,263)	(25,808,660)
Cash, cash equivalents and restricted cash, beginning of period	<u>43,440,867</u>	<u>39,096,562</u>
Cash, cash equivalents and restricted cash, end of period	<u>\$ 12,752,604</u>	<u>\$ 13,287,902</u>
Supplemental disclosure of cash and non-cash transactions:		
Fixed asset additions included in accounts payable and accrued expenses	\$ 61,639	\$ —
Accrual of Series H-7 convertible preferred stock dividends	\$ 1,393,660	\$ 244,000
Accretion of discounts to redemption value of H-7 convertible preferred stock	\$ 6,601,588	\$ 1,165,635
Accrued Series H-7 preferred stock redemption payable	\$ 2,166,268	\$ —
Non-cash redemption of Series H-7 preferred stock	\$ 1,779,154	\$ —
Prepaid insurance financed through accrued expenses	\$ 286,955	\$ —
Initial fair value of warrant liability	\$ —	\$ 9,969,480
Initial fair value of derivative liability	\$ —	\$ 5,147,000
Deemed dividend Series H-5 Warrants	\$ —	\$ 199,000
Supplemental disclosure of restricted cash:		
Cash and cash equivalents	\$ 2,729,904	\$ 3,287,902
Restricted cash	10,022,700	10,000,000
Total cash, cash equivalents and restricted cash	<u>\$ 12,752,604</u>	<u>\$ 13,287,902</u>

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

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

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

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

Strategic Review

For the past several years, AYRO’s primary supplier for the AYRO 411x 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 (the “Vanish”).

The Company began the design and development of the Vanish in December 2021, including updates to its supply chain, the offshoring/onshoring mix, and its manufacturing strategy. The Company commenced low-rate initial production of the Vanish in the second quarter of 2023 and commenced initial sales and delivery of the Vanish in the third quarter of 2023.

On January 31, 2024, the Company began to implement an internal restructuring to achieve greater efficiency in pursuit of its strategic goals. As part of the restructuring, the Company eliminated a substantial number of positions and re-evaluated its sales, marketing, and manufacturing functions. Additionally, in connection with its internal restructuring, the Company appointed Gilbert Villarreal as President of its subsidiary, Ayro Operating Company, Inc. on August 21, 2024, to lead a thorough review of the Vanish, working closely with third-party consultants to achieve the Company’s objectives of lowering the bill of materials (“BOM”) and overall manufacturing expenses. These efforts aim to lower the Manufacturer’s Suggested Retail Price (“MSRP”) of the Vanish, with additional updates expected in the near term.

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 income of \$3,826,425, as a result of the non-cash changes in the warrant liability and the derivative liability, for the nine months ended September 30, 2024, and negative cash flow used in operations of \$10,334,014 for the nine months ended September 30, 2024. On September 30, 2024, the Company had cash and cash equivalent balances totaling \$2,729,904, restricted cash of \$10,022,700 and marketable securities of \$16,127,434. In addition, overall working capital decreased by \$16,385,952 during the nine months ended September 30, 2024. Management believes that the existing cash as of September 30, 2024 will be sufficient to fund operations for at least the next twelve months following the issuance of these unaudited condensed consolidated financial statements.)

On July 18, 2024, the Company received a letter from the Listing Qualifications Department of the Nasdaq Stock Market indicating that, based upon the closing bid price of the Company’s common stock for the 30 consecutive business days between June 3, 2024, to July 17, 2024, 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 letter also indicated that the Company will be provided with a compliance period of 180 calendar days, or until January 14, 2025, in which to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A). Delisting could harm the Company’s ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities.

On August 7, 2023, the Company entered into a Securities Purchase Agreement (the “Series H-7 Purchase Agreement”), pursuant to which it agreed to sell to certain existing investors (the “Series H-7 Investors”) in a private placement (the “Series H-7 Private Placement”) (i) an aggregate of 22,000 shares of the Company’s newly designated Series H-7 convertible preferred stock, par value \$0.0001 per share, with a stated value of \$1,000 per share (“Series H-7 Preferred Shares”), and (ii) warrants (the “Series H-7 Investor Warrants”) initially exercisable for up to an aggregate of 2,750,000 shares of common stock. The Company raised gross proceeds of \$22,000,000 from the sale, which closed on August 10, 2023 (see Note 9).

The certificate of designations for the Series H-7 Preferred Shares (the “Series H-7 Certificate of Designations”) contains certain restrictive provisions, including (i) a requirement to maintain unencumbered, unrestricted cash and cash equivalents on hand in an amount equal to (a) until December 31, 2023, at least \$20,000,000 plus the net proceeds from the sale of the Series H-7 Preferred Shares pursuant to the Series H-7 Purchase Agreement, and (b) from January 1, 2024 and until an aggregate of eighty percent (80%) of the Series H-7 Preferred Shares have been converted into shares of common stock, at least \$21,000,000, and (ii) a requirement to deposit an amount equal to \$10,000,000 from the Private Placement proceeds into a newly established segregated deposit account of the Company (“Segregated Cash”), and to use such Segregated Cash solely for the purpose of performing the Company’s monetary obligations to the holders of the Series H-7 Preferred Shares, provided, however, that the Company may use the Segregated Cash for any purpose, including general corporate purposes, with the prior written consent of holders of at least 75% of the outstanding Series H-7 Preferred Shares. As of September 30, 2024, the Company was in compliance with the restrictive provisions discussed above.

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. 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 number 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 raw materials would increase operating costs and could reduce 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.

The Company has made certain indemnities, under which the Company may be required to make payments to an indemnified party, in relation to certain transactions. The Company indemnifies their directors and officers to the maximum extent permitted under the laws of the State of Delaware. In connection with the Company’s facility leases, the Company has indemnified their 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 the Company could be obligated to make. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The 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 (the "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 nine months ended September 30, 2024, 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 audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2023, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on April 1, 2024, and amended on April 26, 2024.

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, fair value measurements of warrant and derivative liabilities, accretion of preferred stock and the measurement of stock-based compensation expenses. Actual results could differ from these estimates.

Restricted Cash

As of September 30, 2024, and December 31, 2023, \$10,022,700 and \$10,000,000, respectively, of cash was restricted in accordance with the Series H-7 Certificate of Designations, see Note 2.

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 *Investments—Debt and Equity Securities*. 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 \$16,127,434 and \$0 in marketable securities as of September 30, 2024, and December 31, 2023, respectively.

Derivative Financial Instruments

The Company evaluates all its financial instruments to determine if such instruments contain features that qualify as embedded derivatives. Embedded derivatives must be separately measured from the host contract if all the requirements for bifurcation are met. The assessment of the conditions surrounding the bifurcation of embedded derivatives depends on the nature of the host contract. Bifurcated embedded derivatives are recognized at fair value, with changes in fair value recognized in the statement of operations each period. Bifurcated embedded derivatives are classified with the related host contract in the Company's balance sheet. These particular derivatives are assessed under ASC 480, *Distinguishing Liabilities from Equity* and ASC 815, *Derivatives and Hedging*, as applicable.

Fair Value Measurements

In accordance with ASC 820 (Topic 820, Fair Value Measurements and Disclosures), the Company uses a three-level hierarchy for fair value measurements of certain assets and liabilities for financial reporting purposes that distinguishes between market participant assumptions developed from market data obtained from outside sources (observable inputs) and the Company's own assumptions about market participant assumptions developed from the best information available to the Company under the circumstances (unobservable inputs). The fair value hierarchy is divided into three levels based on the source of inputs as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly including inputs in markets that are not considered to be active; and
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Warrants and Preferred Shares

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

Redeemable Preferred Stock

Applicable accounting guidance requires an equity instrument that is redeemable for cash or other assets to be classified outside of permanent equity if it is redeemable (a) at a fixed or determinable price on a fixed or determinable date, (b) at the option of the holder, or (c) upon the occurrence of an event that is not solely within the control of the issuer.

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 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:

Inventory

Inventory consists of purchased chassis, cabs, batteries, truck beds and component parts which includes cost of raw materials, freight, direct labor, and related production overhead and are stated at the lower of cost or net realizable value, as determined using a first-in, first-out method. Inventory also includes a fleet of internally manufactured vehicles that serve demonstration and other purposes, the balance of which is being depreciated over their useful lives. Management compares the cost of inventory with the net realizable value and, if applicable, an allowance is made for writing down the inventory to its net realizable value, if lower than cost. On an ongoing basis, inventory is reviewed for potential write-down for estimated obsolescence or unmarketable inventory based upon forecasts for future demand and market conditions.

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: the 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, a 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 been transferred to the customer as an operating expense. The Company has reported shipping expenses of \$0 and \$15,148 for the three months ended September 30, 2024, and 2023, respectively, and \$21,699 and \$56,482 for the nine months ended September 30, 2024, and 2023, 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.

Basic and Diluted Net Loss Per Share

Basic earnings per share excludes dilution for common stock equivalents and is computed by dividing net income or loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted EPS is calculated based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period. Potentially dilutive securities consist of common stock options, restricted stock units, contingently issuable shares, and convertible preferred securities. The dilutive effect of stock options, restricted stock units and contingently issuable shares is reflected in diluted EPS by application of the treasury stock method. The dilutive effect of convertible preferred securities is reflected in the diluted EPS by application of the "if-converted" method. The "if-converted" method is only assumed in periods where such application would be dilutive. Basic and diluted net income (loss) per share is determined by dividing income (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. For all periods presented with a net loss, the shares underlying the common stock options and warrants have been excluded from the calculation because their effect would be anti-dilutive. Therefore, the weighted-average shares outstanding used to calculate both basic and diluted loss per share are the same for periods with a net loss.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Options to purchase common stock	9,213	38,696	9,213	38,696
Restricted stock unvested	—	116,293	—	116,293
Warrants outstanding	11,586,075	11,605,759	11,586,075	11,605,759
Preferred stock outstanding	8,429,738	11,122,696	8,429,738	11,122,696
Totals	<u>20,025,026</u>	<u>22,883,444</u>	<u>20,025,026</u>	<u>22,883,444</u>

Recently Adopted Accounting Pronouncements

In June 2022, the FASB issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (“ASU 2022-03”), which clarifies the guidance in Accounting Standards Codification Topic 820, Fair Value Measurement (“Topic 820”), when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security and introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. ASU 2022-03 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, and early adoption is permitted. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company’s unaudited condensed consolidated financial statements.

Recent Accounting Pronouncements

In November 2023, the FASB issued Update 2023-07-Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures which requires disclosure of the title and position of the Chief Operating Decision Maker (“CODM”), an explanation of how the CODM uses the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources, and disclosure of significant expenses regularly provided to the CODM that are included within the reported measure of segment profit or loss. The amendments of ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted and should be applied retrospectively to all periods presented. The Company is currently evaluating the impact of this standard.

In December 2023, the FASB issued Update 2023-09-Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which enhances the disclosure requirements for income tax rate reconciliation, domestic and foreign income taxes paid, and unrecognized tax benefits. The amendments of ASU 2023-09 are effective for annual periods beginning after December 15, 2024. Early adoption is permitted and should be applied prospectively. The Company is currently evaluating the impact of this standard, including timing of adoption.

In March 2024, the FASB issued ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements, to remove references to various FASB Concepts Statements based on suggestions received from stakeholders on the Accounting Standards Codification and other incremental improvements to GAAP. ASU 2024-02 is effective for fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact that adopting this new accounting standard would have on the Company’s unaudited condensed consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses to disclose additional information about specific expense categories. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, with early adoption permitted and should be applied either prospectively or retroactively. The Company is currently evaluating the impact of this standard.

NOTE 4. REVENUES

Disaggregation of Revenue

Revenue by type was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue type:				
Product revenue	\$ 5,426	\$ 80,475	\$ 43,200	\$ 327,863
Service revenue	—	—	19,511	—
Miscellaneous income	—	—	—	9,390
Shipping revenue	—	7,920	1,066	3,770
Total revenue	<u>\$ 5,426</u>	<u>\$ 88,395</u>	<u>\$ 63,777</u>	<u>\$ 341,023</u>

Warranty Reserve

The Company records a reserve for warranty repairs upon the initial delivery of vehicles to its dealer network. The Company provides a product warranty on each vehicle including powertrain, battery pack and electronics package. Such warranty matches the product warranty provided by its supply chain for warranty parts for all unaltered vehicles and is not considered a separate performance obligation. The supply chain warranty does not cover warranty-based labor needed to replace a part under warranty. Warranty reserves include management’s best estimate of the projected cost of labor to repair/replace all items under warranty. The Company reserves a percentage of all dealer-based sales to cover an industry-standard warranty fund to support dealer labor warranty repairs. The warranty reserve is recorded as a component of cost of revenues in the statement of operations. As of September 30, 2024, and December 31, 2023, warranty reserves were recorded within accrued expenses of \$403,778 and \$401,440, respectively.

NOTE 5. INVENTORY

Inventory, net of any inventory allowances, consisted of the following:

	September 30, 2024	December 31, 2023
Raw materials	\$ 2,808,219	\$ 3,252,280
Work-in-progress	251,583	179,702
Finished goods	150,090	—
Total inventory, net	<u>\$ 3,209,892</u>	<u>\$ 3,431,982</u>

During the three and nine months ended September 30, 2024, depreciation for fleet inventory was \$50,030 and \$250,151, respectively. There were no vehicles in fleet inventory during the three and nine months ended September 30, 2023.

During the three and nine months ended September 30, 2024, \$86,840 and \$1,709,449 impairment of inventory adjustment was recorded in cost of goods sold, related to the Vanish product. Included in the impairment of inventory adjustment during the three and nine months ended September 30, 2024, is \$0 and \$476,340, respectively, related to physical inventory stock adjustments. No such adjustments were recognized during the three and nine months ended September 30, 2023.

NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	September 30, 2024	December 31, 2023
Prepayments for inventory	\$ 878,814	\$ 1,524,831
Prepayments for insurance	219,546	227,945
Prepayments for software	115,402	37,203
Prepaid other	73,791	97,803
Total prepaid expenses and other current assets	<u>\$ 1,287,553</u>	<u>\$ 1,887,782</u>

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	September 30, 2024	December 31, 2023
Computer and equipment	\$ 3,677,124	\$ 3,619,041
Lease improvements	1,094,025	1,094,025
Computer software	112,365	495,295
Furniture and fixtures	357,280	395,703
	<u>5,240,794</u>	<u>5,604,064</u>
Less: Accumulated depreciation	(3,267,329)	(2,486,900)
Total property and equipment, net	<u>\$ 1,973,465</u>	<u>\$ 3,117,164</u>

Depreciation expense for the three months ended September 30, 2024, and 2023 was \$347,787 and \$324,052, respectively, and for the nine months ended September 30, 2024, and 2023 was \$1,030,324 and \$769,108, respectively.

During the three and nine months ended September 30, 2024, the Company disposed of certain fixed assets, net of accumulated depreciation, of \$29,809 and \$337,846, respectively. For the three and nine months ended September 30, 2023, \$0 and \$0 net fixed assets were disposed, respectively.

NOTE 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	September 30, 2024	December 31, 2023
Accrued professional and consulting fees	\$ 293,387	\$ 497,719
Accrued payroll	356,406	575,111
Accrued warranty reserve	403,778	401,440
Accrued expenses other	15,683	77,802
Accrued current liabilities	263,737	104,469
Total accrued expenses and other current liabilities	<u>\$ 1,332,991</u>	<u>\$ 1,656,541</u>

NOTE 9. STOCKHOLDERS' EQUITY***Common Stock***

For the three months ended September 30, 2024, and 2023, the Company issued 432,334 shares and 197,505 shares of common stock respectively, upon the preferred stock redemptions and conversions and the vesting of restricted stock.

For the nine months ended September 30, 2024, and 2023, the Company issued 2,091,045 shares and 234,932 shares of common stock respectively, upon the preferred stock redemptions and conversions and the vesting of restricted stock.

Series H-7 Preferred Stock

On August 7, 2023, the Company entered into the Series H-7 Purchase Agreement with the Series H-7 Investors, pursuant to which it agreed to sell to the Series H 7 Investors (i) an aggregate of 22,000 Series H-7 Preferred Shares with a stated value of \$1,000 per share, initially convertible into up to 2,750,000 shares of the Company's common stock at a conversion price of \$8.00 per share, and (ii) Warrants initially exercisable for up to an aggregate of 2,750,000 shares of common stock in the Series H-7 Private Placement.

The Series H-7 Preferred Shares are convertible into common stock (the "Conversion Shares") at the election of the holder at any time at an initial conversion price of \$8.00 (the "Conversion Price"), which, following the Company's one-for-eight reverse stock split effected on September 15, 2023 ("Reverse Stock Split") and pursuant to the stock combination event adjustment provisions in the Series H-7 Certificate of Designations, was subsequently reduced to \$2.00. The Conversion Price is subject to 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). The Company is required to redeem the Series H-7 Preferred Shares in 12 equal monthly installments from, and including, the applicable Installment Date (as defined in the Series H-7 Certificate of Designations). On February 9, 2024, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment of Certificate of Designations of Series H-7 Convertible Preferred Stock, which became effective upon filing, which amended the commencement of the monthly installment dates, to be between May 7, 2024, and August 7, 2025. The first such installment date was May 7, 2024 and August 7, 2024, as elected by the applicable investor.

The amortization payments due upon redemption of the Series H-7 Preferred Shares are payable, at the Company's election, in cash at 105% of the Installment Redemption Amount (as defined in the Series H-7 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 Company's common stock during the thirty consecutive trading day period immediately prior to the date the amortization payment is due and (B) \$0.744 (as adjusted for the Company's Reverse Stock Split and 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. The holders of the Series H-7 Preferred Shares have the option to defer amortization payments or, subject to certain limitations as specified in the Series H-7 Certificate of Designations, can elect to accelerate installment conversion amounts.

The holders of the Series H-7 Preferred Shares are entitled to dividends of 8.0% per annum, compounded monthly, which are payable in cash or shares of common stock at the Company's option, in accordance with the terms of the Series H-7 Certificate of Designations. Upon the occurrence and during the continuance of a Triggering Event (as defined in the Series H-7 Certificate of Designations), the Series H-7 Preferred Shares will accrue dividends at the rate of 15% per annum. Upon conversion or redemption, the holders of the Series H-7 Preferred Shares are also entitled to receive a dividend make-whole payment.

The Series H-7 Certificate of Designations provides that, except as required by applicable law, the holders of the Series H-7 Preferred Shares will be entitled to vote with holders of the Common Stock on an as converted basis, with the number of votes to which each holder of Series H-7 Preferred Shares is entitled to be determined by dividing the Stated Value by a conversion price equal to \$5.76 per share (as adjusted for the Reverse Stock Split), which was the “Minimum Price” (as defined in Nasdaq Listing Rule 5635(d)) applicable immediately before the execution and delivery of the Series H-7 Purchase Agreement, subject to certain beneficial ownership limitations and adjustments for any stock splits, stock dividends, stock combinations, recapitalizations or other similar transactions, as set forth in the Certificate of Designations.

Notwithstanding the foregoing, the Company’s 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 Series H-7 Certificate of Designations. Further, the Series H-7 Certificate of Designations 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 payment or dividend make-whole payment under, the Series H-7 Certificate of Designations or Series H-7 Warrants.

The Series H-7 Certificate of Designations includes certain triggering events 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, the Company’s failure to pay any amounts due to the holders of the Series H-7 Preferred Shares when due. In connection with a triggering event, each holder of Series H-7 Preferred Shares will be able to require the Company to redeem in cash any or all of the holder’s Series H-7 Preferred Shares at a premium set forth in the Series H-7 Certificate of Designations.

The Series H-7 Preferred Shares were determined to be more akin to a debt-like host than an equity-like host. The Company identified the following embedded features that are not clearly and closely related to the debt host instrument: 1) make-whole interest upon a contingent redemption event, 2) make-whole interest upon a conversion event, 3) an installment redemption upon an Equity Conditions Failure (as defined in the Series H-7 Certificate of Designations), and 4) variable share-settled installment conversion see Note 13. These features were bundled together, assigned probabilities of being affected and measured at fair value. Subsequent changes in fair value of these features are recognized in the Unaudited Condensed Consolidated Statement of Operations.

As of September 30, 2024, the Company has notified the investors of its intention to redeem the upcoming installments due in cash and recorded a liability of \$2,166,268 representing the cash payable to investors which includes \$1,771,185 of the stated value of the Series H-7 Preferred Shares, \$291,927 of accrued dividends payable, and \$103,156 for the cash premium which was recognized as a deemed dividend. During the nine months ended September 30, 2024, the Company redeemed a total of 7,500 Series H-7 Preferred Shares for cash equal to \$5,104,889 and issued 2,067,274 shares of Common Stock, elected pursuant to the terms of the Series H-7 Certificate of Designations, worth \$1,779,154. During the three and nine months ended September 30, 2024, the Company recognized \$741,172 and \$1,739,906 respectively, of net preferred dividends which is comprised of \$475,479 and \$1,393,660 respectively, of preferred dividends at the stated dividend rate, respectively, and \$265,693 and \$346,246 respectively, of accrued deemed dividends for cash premium for installment redemptions ultimately settled in shares of Common Stock.

Common Stock 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, 2023	11,605,758	\$ 3.42	4.42
Granted	—	—	—
Expired	(19,683)	\$ 58.68	—
Outstanding at September 30, 2024	<u>11,586,075</u>	<u>\$ 3.29</u>	<u>3.68</u>

NOTE 10. STOCK-BASED COMPENSATION

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Research and development	\$ —	\$ 6,219	\$ 3,810	\$ 18,017
Sales and marketing	—	1,999	453	7,488
General and administrative	81	214,681	52,209	706,263
Total	\$ 81	\$ 222,899	\$ 56,472	\$ 731,768

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, 2023	38,696	\$ 90.99	6.53
Forfeitures	(29,483)	\$ 15.64	—
Outstanding at September 30, 2024	9,213	\$ 318.20	4.39

Of the outstanding options, stock options to purchase up to 9,213 were vested and exercisable as of September 30, 2024. At September 30, 2024, the aggregate intrinsic value of stock options vested and exercisable was \$0.

The Company recognized \$81 and \$15,165 of stock option expense for the three months ended September 30, 2024, and 2023, respectively, and \$8,158 and \$46,698 of stock option expense for the nine months ended September 30, 2024, and 2023, respectively.

Restricted Stock

	Number of Shares	Weighted Average Grant Price
Outstanding at December 31, 2023	36,235	\$ 4.01
Vested	(23,771)	\$ 6.00
Forfeited	(12,464)	\$ —
Outstanding at September 30, 2024	—	\$ —

The Company recognized compensation expense related to all restricted stock during the three months ended September 30, 2024, and 2023 of \$0 and \$207,716, respectively, and for the nine months ended September 30, 2024, and 2023 of \$48,314 and \$686,869, respectively.

NOTE 11. CONCENTRATIONS AND CREDIT RISK

Revenues

There were no significant revenue concentrations for the three and nine months ended September 30, 2024.

Two customers accounted for approximately 65% and 12% of the Company's revenues for the three months ended September 30, 2023. Three customers accounted for approximately 36%, 31%, and 12% of the Company's revenues for the nine months ended September 30, 2023.

Accounts Receivable

There were no significant accounts receivable concentrations as of September 30, 2024. As of December 31, 2023, the Company's accounts receivable for four significant customers were approximately 32%, 27%, 12%, and 11%, respectively.

Purchasing

There were no significant supplier concentrations for the three and nine months ended September 30, 2024. During the three months ended September 30, 2023, four suppliers accounted for 16%, 14%, 12%, and 10% of the Company's raw materials, respectively. For the nine months ended September 30, 2023, no supplier accounted for more than 10% of the Company's purchased raw materials.

NOTE 12. 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. On June 21, 2024, the Company notified Linamar of its intention not to renew the Linamar MLA. As a result, the Linamar MLA will terminate in accordance with its terms on July 28, 2025.

On August 27, 2024, the Company partnered with Lithion Battery Inc. ("Lithion"), a manufacturer of certain iron phosphate and lithium-ion battery cells, modules and battery packs, and entered into a purchase agreement with Lithion, pursuant to which, the Company agreed to purchase batteries from Lithion for an aggregate of \$1,211,150 through 2025.

Supply Chain Agreements

On November 2, 2023, the Company entered into a supply agreement with Sarris Inc. ("Sarris"), a provider of motor vehicle parts for innovative vehicle types. Sarris has agreed to supply rear and front shocks to support the manufacturing of the Company's electric vehicle fleet. Sarris is committed to meeting the Company's upside demand for these products in the event production increases.

On December 21, 2023, the Company entered into a supply agreement with Athena Manufacturing, LP, a provider of customizable sophisticated metal products. As part of the agreement, the Company is able to submit requests for devices, component, component assembly, material part, or piece that is custom to AYRO. This is a non-exclusive agreement in which the Company is able to engage other suppliers for these products.

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 (the "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.

On October 20, 2023, Club Car filed a complaint against the Company in the Superior Court of Columbia County, Georgia (Civil Action File No.2023ECV0838) (the "Club Car Complaint"), alleging that the Company had breached its contractual obligations to Club Car under a master procurement agreement (the "MPA") entered into by and among AYRO Operating Company, Inc., the Company's subsidiary ("AYRO Operating"), and Club Car on March 5, 2019 due to alleged defects in the vehicles sold to Club Car and the Company's termination of warranty support following termination of the MPA. Club Car seeks unspecified damages and indemnification for past and future customer claims with respect to the vehicles sold to Club Car under the MPA. The Company intends to vigorously contest these allegations.

In February of 2024, Inventus Power, Inc. sued AYRO in the Circuit Court of the Eighteenth Judicial Circuit, County of DuPage, Illinois, alleging that AYRO failed to pay invoices for certain battery packs and related equipment. In April of 2024, AYRO filed counterclaims asserting that the battery packs in question were defective and not in compliance with contractual specifications. In August of 2024, the parties entered into a confidential settlement agreement, pursuant to which they agreed to dismiss with prejudice the claims and counterclaims in this lawsuit. The settlement agreement did not have a material impact on the company's results of operations or financial condition.

NOTE 13. FAIR VALUE MEASUREMENTS

Fair value measurements discussed herein are based upon certain market assumptions and pertinent information available to management as of and during the nine months ended September 30, 2024. The carrying amounts of cash equivalents, accounts receivable, other current assets, other assets, accounts payable, and accrued expenses approximated their fair values as of the nine months ended September 30, 2024, due to their short-term nature. The fair value of the bifurcated embedded derivative related to the convertible preferred stock was estimated using a Monte Carlo simulation model, which uses as inputs the fair value of the Company's common stock and estimates for the equity volatility and traded volume volatility of the Company's common stock, the time to maturity of the convertible preferred stock, the risk-free interest rate for a period that approximates the time to maturity, dividend rate, a penalty dividend rate, and the Company's probability of default. The fair value of the warrant liability was estimated using the Black Scholes Model which uses as inputs the following weighted average assumptions, as noted above: dividend yield, expected term in years, equity volatility, and risk-free interest rate.

Fair Value on a Recurring Basis

The Company follows the guidance in ASC 820 for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. The estimated fair value of marketable securities and money market accounts represents a Level 1 measurement. The estimated fair value of the warrant liability and bifurcated embedded derivatives represent Level 3 measurements. The following table presents information about the Company's liabilities that are measured at fair value on a recurring basis as of September 30, 2024, and December 31, 2023, and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

The following table sets forth a summary of the Company's assets and liabilities that are measured at fair value on a recurring basis:

Description	Level	September 30, 2024	December 31, 2023
Assets:			
Marketable securities	1	\$ 16,127,434	\$ -
Cash and cash equivalent - money market account	1	\$ 53,665	\$ 1,805,597
Liabilities:			
Warrant liability	3	\$ 4,182,900	\$ 13,319,800
Derivative liability	3	\$ 4,365,000	\$ 9,400,000

The following table sets forth a summary of the change in the fair value of the warrant liability, which is considered a Level 3 investment, which is measured at fair value on a recurring basis:

	September 30, 2024
Balance on December 31, 2023	\$ 13,319,800
Change in fair value of warrant liability	(9,136,900)
Balance on September 30, 2024	\$ 4,182,900

During the three months and nine months ended September 30, 2024, the Company recorded income of \$126,600 and \$9,136,900, respectively, related to the change in fair value of the H-7 Warrant liability which is recorded in other income (expense) on the Unaudited Condensed Consolidated Statements of Operations. The fair value of the H-7 Warrants of \$4,182,900 was estimated at September 30, 2024, utilizing the Black Scholes Model using a stock price of \$0.84, an exercise price of \$2.00, and the following weighted average assumptions: (i) dividend yield 0%; (ii) remaining term of 3.86 years; (iii) equity volatility of 85.00%; and (iv) a risk-free interest rate of 3.58%.

The following table sets forth a summary of the change in the fair value of the derivative liability, which is considered a Level 3 investment, that is measured at fair value on a recurring basis:

	September 30, 2024
Balance on December 31, 2023	\$ 9,400,000
Issuance of warrants	-
Change in fair value of derivative liability	(5,035,000)
Balance on September 30, 2024	\$ 4,365,000

During the three and nine months ended September 30, 2024, the Company recorded income of approximately \$2,408,000 and \$5,035,000, respectively, related to the change in fair value of the derivative liability which is recorded in other income (expense) on the Unaudited Condensed Consolidated Statements of Operations. The Company estimated the \$4,365,000 fair value of the bifurcated embedded derivative at September 30, 2024, using a Monte Carlo simulation model, with the following inputs: (i) estimated equity volatility of 60.0%, (ii) the time to maturity of 0.83 years, (iii) a discounted market interest rate of 5.6%, (iv) dividend rate of 8.0%, (v) a penalty dividend rate of 15.0%, and (vi) probability of default of 4.8%. As of September 30, 2024, the Series H-7 Preferred Shares are convertible into 8,428,983 shares of the Company's common stock.

NOTE 14. SUBSEQUENT EVENTS

On October 29, 2024, the Company entered into a Stock Repurchase Agreement with a certain beneficial owner (the "Seller") to repurchase a total of 418,478 shares of Common Stock from the Seller, at a purchase price of \$0.90 per share, for an aggregate cash purchase price of \$376,630.

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 consolidated 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 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, and 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 ("Nasdaq") could result in a delisting of our common stock;
- 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 (the "Certificate of Designations") and the warrants issued concurrently therewith contain anti-dilution provisions and other adjustment provisions that have resulted in the reduction of the conversion price of the Series H-7 Preferred Stock and the exercise price of such warrants and may do so again in the future. These features may increase the number of shares of common stock issuable upon conversion of the Series H-7 Preferred Stock or upon the exercise of the warrants;

- under the Purchase Agreement (defined herein) we are subject to certain restrictive covenants that may make it difficult to procure additional financing;
- a significant portion of our revenues has historically been derived from Club Car pursuant to the MPA (as defined herein). 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;
- 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; and
- 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 April 1, 2024, as amended on April 26, 2024 (the “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.

Nasdaq Deficiency

On July 18, 2024, the Company received a letter from the Listing Qualifications Department of the Nasdaq Stock Market indicating that, based upon the closing bid price of the Company’s common stock for the 30 consecutive business days between June 3, 2024, to July 17, 2024, 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 letter also indicated that the Company will be provided with a compliance period of 180 calendar days, or until January 14, 2025, in which to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A).

There is no assurance that we will maintain compliance with such minimum listing requirements. If Nasdaq delists our common stock from trading on its exchange for failure to meet the listing standards, an investor would likely find it significantly more difficult to dispose of or obtain our shares, and our ability raise future capital through the sale of our shares could be severely limited. Delisting could also have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

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 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. On June 21, 2024, the Company notified Linamar of its intention not to renew the Linamar MLA. As a result, the Linamar MLA will terminate in accordance with its terms on July 28, 2025.

Supply Agreement

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.

On November 2, 2023, we entered into a supply agreement with Sirris Inc., (“Sirris”) a provider in motor vehicle parts for innovative vehicle types. Sirris has agreed to supply rear and front shocks to support the manufacturing of our electric vehicle fleet. Sirris is committed to meeting our upside demand for these products in the event production increases.

On December 21, 2023, we entered into a supply agreement with Athena Manufacturing, LP, a provider of customizable sophisticated metal products. As part of the agreement, we are able to submit devices, component, component assembly, material part, or piece that is custom to AYRO. This is a non-exclusive agreement in which we are able to engage other suppliers for these products.

Factors Affecting Results of Operations

Internal Restructuring

On January 31, 2024, the Company began implementing an internal restructuring to achieve greater efficiency in pursuit of its strategic goals. As part of the Company’s internal restructuring, among other things, the Company eliminated a substantial number of positions at the Company, which may impact its financial position and results of operations, as the Company re-evaluates its sales, marketing, and manufacturing functions. In connection with the restructuring, the Company began working closely with consultants to complete a thorough review of its new 411 fleet vehicle model year 2023 refresh, the Vanish (the “Vanish”), to achieve the Company’s objective of lowering the bill of materials (“BOM”) and overall manufacturing expenses, which in turn will reduce the Manufacturer’s Suggested Retail Price (“MSRP”) of the Vanish.

As part of this effort, in August 2024, Gilbert Villarreal was appointed as President of the Company’s subsidiary, Ayro Operating Company, Inc., and is expected to lead the review of the Vanish, including working with the Company’s vendors and partners in connection with the Vanish.

Inventory Obsolescence

During the three and nine months ended September 30, 2024, \$86,840 and \$1,709,449 impairment of inventory adjustment was recorded in cost of goods sold, related to the Vanish product. Included in the impairment of inventory adjustment during the three and nine months ended September 30, 2024, \$0 and \$476,340, respectively, related to physical inventory stock adjustments. No such adjustments were recognized during the three and nine months ended September 30, 2023.

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 have 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, 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. The Company continues to work on the engineering of the Vanish, while the Company evaluates the commercialization of the product during the internal restructuring.

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. The 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.

During the three and nine months ended September 30, 2024, \$86,840 and \$1,709,449 of impairment of inventory adjustment was recorded in cost of goods sold, related to the Vanish product. Included in the impairment of inventory adjustment during the three and nine months ended September 30, 2024, \$0 and \$476,340, respectively, related to physical inventory stock adjustments. No such adjustments were recognized during the three and nine months ended September 30, 2023.

Operating Expenses

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

Research and Development Expense

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

Sales and Marketing Expense

Sales and marketing 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, trade shows, 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) income consists primarily of interest expense, unrealized gain/loss on marketable securities, the changes in fair value of the warrant and the derivative liability.

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 September 30, 2024, compared to three months ended September 30, 2023

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

	For the Three Months Ended September 30,		
	2024	2023	Change
Revenue	\$ 5,426	\$ 88,395	\$ (82,969)
Cost of goods sold	286,028	231,837	54,191
Gross loss	(280,602)	(143,442)	(137,160)
Operating expenses:			
Research and development	14,776	1,335,167	(1,320,391)
Sales and marketing	216,605	390,684	(174,079)
General and administrative	1,414,026	4,370,684	(2,956,658)
Total operating expenses	1,645,407	6,096,535	(4,451,128)
Loss from operations	(1,926,009)	(6,239,977)	4,313,968
Other income (expense):			
Interest income	89,060	35,557	53,503
Change in fair value - warrant liability	126,600	(10,095,960)	10,222,560
Change in fair value - derivative liability	2,408,000	3,216,000	(808,000)
Unrealized gain (loss) on marketable securities	(240,743)	403,996	(644,739)
Realized gain on marketable securities	562,627	90,812	471,815
Other income (expense), net	(468,978)	—	(468,978)
Net income (loss)	\$ 550,557	\$ (12,589,572)	\$ 13,140,129

Revenue

Revenue was \$0.01 million for the three months ended September 30, 2024, as compared to \$0.09 million for the same period in 2023, a decrease of 94% or \$0.08 million. The decrease in revenue was primarily due to a reduction of \$0.07 million in product sales and \$0.01 million decrease in shipping revenue.

Cost of goods sold and gross loss

Cost of goods increased by \$0.05 million, or 23% for the three months ended September 30, 2024, as compared to the same period in 2023. The increase in cost of goods sold was mainly due to an increase of \$0.09 million in inventory adjustments and allowances related to the impairment of 411x vehicles, and overhead allocations to better reflect current inventory, offset by a decrease of \$0.09 million in materials due to decrease in sales.

Research and development expense

Research and development (“R&D”) expense was \$0.01 million for the three months ended September 30, 2024, as compared to \$1.33 million for the same period in 2023, a decrease of \$1.32 million, or 99%. The Company had a decrease of \$0.56 million and \$0.71 million in R&D design costs, and salaries and related personnel costs, respectively. The decrease was primarily due to the Company being substantially complete with the R&D on the Vanish at the end of 2023, offset by the re-engineering work and design changes in the current year associated with the internal restructuring.

Sales and marketing expense

Sales and marketing expense was \$0.22 million for the three months ended September 30, 2024, as compared to \$0.39 million for the same period in 2023, a decrease of \$0.17 million, or 45%. The Company had a decrease of \$0.26 million in salaries and related expenses primarily due to decreased headcount associated with the internal restructuring.

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 \$1.41 million for the three months ended September 30, 2024, compared to \$4.37 million for the same period in 2023, a decrease of \$2.96 million, or 68%. Salaries and related expenses decreased by \$1.0 million, office expenses decreased by \$0.26 million, and consultants services decreased by \$0.18 million, primarily due to the decrease in headcount and expenses associated with the internal restructuring. Cost and associated expenses related to the issuance of Series H-7 Preferred Stock decreased by \$1.24 million for the three months ended September 30, 2024 compared to the same period in 2023.

Other income and expense

We recorded a \$8.83 million increase of net other income from a \$0.05 million increase in interest income on cash accounts, an increase in realized gains of \$0.47 million on marketable securities, offset by a decrease of \$0.64 million in the unrealized gain on marketable securities, and an increase in other (income) expense of \$0.47 million mainly due to settlements with vendors.

For the three months ended September 30, 2024 and 2023, the Company recognized a gain of \$2.41 million and \$3.22 million, respectively, for the change in fair value - derivative liability, a decrease of \$0.81 million mainly due to the decrease in the Company’s stock price. The gain for the change in fair value – derivative liability was due to the decrease in the fair value of the derivative liability associated with the Series H-7 Preferred Shares that were issued in 2023.

The Company recognized a gain of \$0.13 million and a loss of \$10.10 million for the three months ended September 30, 2024 and 2023, respectively, for the change in fair value - warrant liability, an increase of \$10.23 million primarily due to the decrease in stock price and the increase in the risk-free rate.

Nine months ended September 30, 2024, compared to nine months ended September 30, 2023

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

	For the Nine Months Ended September 30,		
	2024	2023	Change
Revenue	\$ 63,777	\$ 341,023	\$ (277,246)
Cost of goods sold	2,544,131	783,656	1,760,475
Gross loss	<u>(2,480,354)</u>	<u>(442,633)</u>	<u>(2,037,721)</u>
Operating expenses:			
Research and development	1,397,760	5,870,555	(4,472,795)
Sales and marketing	769,995	1,529,637	(759,642)
General and administrative	6,453,710	10,461,733	(4,008,023)
Total operating expenses	<u>8,621,465</u>	<u>17,861,925</u>	<u>(9,240,460)</u>
Loss from operations	<u>(11,101,819)</u>	<u>(18,304,558)</u>	<u>7,202,739</u>
Other income (expense):			
Interest income	382,925	370,387	12,538
Change in fair value - warrant liability	9,136,900	(10,095,960)	19,232,860
Change in fair value - derivative liability	5,035,000	3,216,000	1,819,000
Unrealized gain (loss) on marketable securities	26,159	602,211	(576,052)
Realized gain on marketable securities	1,014,748	143,344	871,404
Other income (expense), net	(667,488)	—	(667,488)
Net income (loss)	<u>\$ 3,826,425</u>	<u>\$ (24,068,576)</u>	<u>\$ 27,895,001</u>

Revenue

Revenue was \$0.06 million for the nine months ended September 30, 2024, as compared to \$0.34 million for the same period in 2023, a decrease of 81%, or \$0.28 million. The decrease in revenue was primarily due to the reduction in product sales of \$0.28 million.

Cost of goods sold and gross loss

Cost of goods increased by \$1.76 million, or 225% for the nine months ended September 30, 2024, as compared to the same period in 2023, primarily due to an increase of \$1.71 million in inventory adjustments to more accurately reflect current inventory, and an increase in freight charges of \$0.30 million bringing inventory materials into the Company's warehouse from outside vendors, offset by a decrease in materials of \$0.25 million due to a decrease in sales.

Research and development expense

Research and development ("R&D") expense was \$1.40 million for the nine months ended September 30, 2024, as compared to \$5.87 million for the same period in 2023, a decrease of \$4.47 million, or 76%. The Company had a decrease of \$2.53 million and \$1.15 million in R&D design costs, and salaries and related personnel costs, respectively. The decrease was primarily due to the Company being substantially complete with the R&D on the Vanish at the end of 2023, offset by the re-engineering work and design changes in the current year associated with the internal restructuring.

Sales and marketing expense

Sales and marketing expense was \$0.77 million for the nine months ended September 30, 2024, as compared to \$1.53 million for the same period in 2023, a decrease of \$0.76 million, or 50%. Salaries and related expenses decreased by \$0.58 million due to the reduction of our sales and marketing resources.

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 \$6.45 million for the nine months ended September 30, 2024, compared to \$10.46 million for the same period in 2023, a decrease of \$4.01 million, or 38%. Salaries and related expenses decreased by \$2.6 million, with office expenses decreased by \$0.50 million, primarily due to decreased headcount and expenses associated with the internal restructuring. Cost and associated expenses related to the issuance of Series H-7 Preferred Stock decreased by \$1.21 million for the nine months ended September 30, 2024, compared to the same period in 2023.

Other income and expense

We recorded a \$20.69 million increase of net other income from a \$0.01 million increase in interest income on cash accounts, an increase in realized gains of \$0.87 million on marketable securities, offset by a decrease of \$0.58 million in the unrealized gain on marketable securities, and an increase in other income (expense) of \$0.67 million mainly due to settlements with vendors.

For the nine months ended September 30, 2024 and 2023, the Company recognized a gain of \$5.04 million and \$3.22 million, respectively, for the change in fair value - derivative liability, an increase of \$1.82 million mainly due to the decrease in the Company's stock price. The gain for the change in fair value - derivative liability was due to the decrease in the fair value of the derivative liability associated with the Series H-7 Preferred Shares that were issued in 2023.

The Company recognized a gain of \$9.14 million and a loss of \$10.10 million for the nine months ended September 30, 2024 and 2023, respectively, for the change in fair value - warrant liability, an increase of \$19.24 million primarily due to the decrease in stock price and the increase in the risk-free rate.

Liquidity and Capital Resources

As of September 30, 2024, we had \$2.73 million in cash and cash equivalents, \$10.02 million in restricted cash, \$16.13 million in marketable securities and working capital of \$28.28 million. As of December 31, 2023, we had \$33.44 million in cash and cash equivalents and working capital of \$44.67 million, including \$10 million in restricted cash. The decrease in cash and cash equivalents and working capital was primarily a result of our operating loss and the Company's internal restructuring. 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 and cash equivalents and marketable securities at September 30, 2024 will be sufficient to fund operations for at least the next twelve months following the date of this report.

Summary of Cash Flows

The following table summarizes our cash flows:

	For the Nine Months Ended September 30,	
	2024	2023
Cash Flows:		
Net cash used in operating activities	\$ (10,334,014)	\$ (21,302,120)
Net cash used in investing activities	\$ (15,249,360)	\$ (26,138,696)
Net cash provided (used) by financing activities	\$ (5,104,889)	\$ 21,632,156

Operating Activities

During the nine months ended September 30, 2024, we used \$10.33 million in cash in operating activities, a decrease in use of \$10.97 million compared to the cash used in operating activities of \$21.30 million during the same period in 2023. The decrease in cash used in operating activities was primarily a result of the decrease in our operating loss as the Company proceeds with the internal restructuring.

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 turnovers and our ability to manage other areas of working capital.

Investing Activities

During the nine months ended September 30, 2024, we used cash of \$15.25 million from investing activities as compared to \$26.14 million of cash used in investing activities during 2023, a decrease of \$10.89 million. We used \$15.08 million to invest in marketable securities during the nine months ended September 30, 2024 as compared to \$24.03 million during the nine months ended September 30, 2023, a decrease of \$8.95 million and purchased \$0.17 million in property plant and equipment during the nine months ended September 30, 2024 as compared to \$2.08 million during the nine months ended September 30, 2023, a decrease of \$1.91 million.

Financing Activities

During the nine months ended September 30, 2024, we used cash of \$5.10 million from financing activities as compared to \$21.63 million of cash provided in financing activities during 2023, a decrease of \$26.73 million. The decrease in cash used was due to cash redemptions of the Series H-7 preferred stock of \$5.10 million, and no proceeds from private placement of preferred stock, as compared to \$21.63 million of proceeds from the private placement of preferred stock and no cash used in redemptions for the nine months ended September 30, 2023.

Known Trends, Events, and Uncertainties

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. Additionally, the emergence and effects of public health crises, such as pandemics and epidemics and the consequences of the ongoing war between Russia and Ukraine and between Israel and various factors in the Middle East, including related sanctions and countermeasures, are difficult to predict, and could adversely impact geopolitical and macroeconomic conditions, the global economy, and contribute to increased market volatility, which may in turn adversely affect our business and operations.

Other than as discussed above and elsewhere in this report, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of our unaudited condensed 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 unaudited condensed 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.

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 September 30, 2024. 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 September 30, 2024, 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, 2023, management identified a material weakness. In the Company’s assessment the material weakness was related to the Company’s lack of a sufficient number of accounting personnel with the appropriate level of technical knowledge, experience and training in GAAP and SEC reporting requirements and in addition, 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.

Changes in Internal Control over Financial Reporting

Except as disclosed below, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Resignation of David E. Hollingsworth

On March 1, 2024, David E. Hollingsworth, who served as Chief Financial Officer of the Company, tendered his resignation from his roles as an officer and employee of the Company, effective as of March 1, 2024. Mr. Hollingsworth’s resignation from the Company was not in connection with any disagreement between Mr. Hollingsworth and the Company, its management, the Board, or any committee of the Board on any matter relating to the Company’s operations, policies or practices, or any other matter.

The Appointment of Joseph Ramelli

On August 21, 2024, the Company appointed Joseph Ramelli to the position of Chief Financial Officer of the Company.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if it considers that it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated, provisions for loss are made based on management's assessment of the most likely outcome.

The information set forth in Note 12 Commitments and Contingencies of the Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference herein.

There are no other material proceedings in which any of our directors, officers, affiliates, any registered or beneficial stockholder of more than 5% of our Common Stock, or any associate of any of the foregoing is an adverse party or has a material interest adverse to our interest.

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.

The following description of risk factors includes any material changes to risk factors associated with our business, financial condition and results of operations previously disclosed in "Item 1A. Risk Factors" of the Form 10-K. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition, and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results, and stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-Q. The following information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes in Part I, Item 1, "Financial Statements" and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q.

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

Our common stock is listed on Nasdaq. We must satisfy Nasdaq's continued listing requirements, including, among other things, a minimum closing bid price of \$1.00 per share or risk delisting, which would have a material adverse effect on our business. A delisting of our common stock from The Nasdaq Capital Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities.

On July 18, 2024, the Company received a letter from the Listing Qualifications Department of the Nasdaq Stock Market indicating that, based upon the closing bid price of the Company's common stock for the 30 consecutive business days between June 3, 2024, to July 17, 2024, 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 letter also indicated that the Company will be provided with a compliance period of 180 calendar days, or until January 14, 2025, in which to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A).

There is no assurance that we will maintain compliance with such minimum listing requirements. If Nasdaq delists our common stock from trading on its exchange for failure to meet the listing standards, an investor would likely find it significantly more difficult to dispose of or obtain our shares, and our ability raise future capital through the sale of our shares could be severely limited. Delisting could also have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

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

Exhibit No.	Description
10.1	Stock Repurchase Agreement, dated as of October 29, 2024 (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 October 29, 2024).
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 Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Executive 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: November 14, 2024

By: /s/ Joshua Silverman
Joshua Silverman
Executive Chairman
(Principal Executive Officer)

Dated: November 14, 2024

By: /s/ Joseph Ramelli
Joseph Ramelli
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS UNDER SECTION 302

I, Joshua Silverman, 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: November 14, 2024

/s/ Joshua Silverman

Joshua Silverman
Executive Chairman
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 302

I, Joseph Ramelli, 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: November 14, 2024

/s/ Joseph Ramelli

Joseph Ramelli

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS UNDER SECTION 906

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

The Quarterly Report for the quarter ended September 30, 2024 (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: November 14, 2024

By: /s/ Joseph Ramelli

Joseph Ramelli

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS UNDER SECTION 906

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

The Quarterly Report for the quarter ended September 30, 2024 (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: November 14, 2024

By: /s/ Joshua Silverman
Joshua Silverman
Executive Chairman
(Principal Executive Officer)
