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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

or

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

For the transition period from________ to ___________

Commission File Number: **000-56004**

ONDAS HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Nevada	**47-2615102**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

411 Waverley Oaks Road, Suite 114, Waltham, MA 02452
(Address of principal executive offices) (Zip Code)

(888) 350-9994
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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	ONDS	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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

The number of shares outstanding of the issuer's Common Stock as of May 11, 2023, was 51,081,384.

ONDAS HOLDINGS INC.
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ONDAS HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 14,115,989	$ 29,775,096
Restricted cash	41,465	-
Accounts receivable, net	1,118,116	104,276
Inventory, net	3,762,780	2,173,017
Note receivable	-	2,000,000
Other current assets	2,183,512	1,749,613
Total current assets	21,221,862	35,802,002
Property and equipment, net	5,990,050	3,023,285
Other Assets:		
Goodwill	27,603,438	25,606,983
Intangible assets, net	34,172,393	28,863,773
Long-term equity investment	1,500,000	1,500,000
Deposits and other assets	357,005	218,206
Operating lease right of use assets	2,926,886	2,930,996
Total other assets	66,559,722	59,119,958
Total assets	$ 93,771,634	$ 97,945,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 5,165,544	$ 2,965,829
Operating lease liabilities	694,640	580,593
Accrued expenses and other current liabilities	2,467,532	3,092,364
Convertible note payable, net of unamortized debt discount and issuance cost of $1,808,780 and $3,251,865, respectively	15,745,110	14,901,244
Government grant liability	236,766	-
Deferred revenue	412,408	61,508
Total current liabilities	24,722,000	21,601,538
Long-Term Liabilities:		
Notes payable	300,000	300,000
Convertible notes payable, net of current	10,243,776	15,146,891
Accrued interest	438,973	217,594
Government grant liability, net of current	1,576,138	-
Operating lease liabilities, net of current	2,406,813	2,456,315
Total long-term liabilities	14,965,700	18,120,800
Total liabilities	39,687,700	39,722,338
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Preferred stock - par value $0.0001; 5,000,000 shares authorized at March 31, 2023 and December 31, 2022, respectively, and none issued or outstanding at March 31, 2023 and December 31, 2022, respectively	-	-
Preferred stock, Series A - par value $0.0001; 5,000,000 shares authorized at March 31, 2023 and December 31, 2022, respectively, and none issued or outstanding at March 31, 2023 and December 31, 2022, respectively	-	-
Common Stock - par value $0.0001; 116,666,667 shares authorized; 49,108,159 and 44,108,661 issued and outstanding, respectively March 31, 2023 and December 31, 2022, respectively	4,911	4,411
Additional paid in capital	222,049,768	211,733,690
Accumulated deficit	(167,970,745)	(153,515,194)
Total stockholders' equity	54,083,934	58,222,907
Total liabilities and stockholders' equity	$ 93,771,634	$ 97,945,245

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

ONDAS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenues, net	$ 2,595,991	$ 410,198
Cost of goods sold	1,569,095	287,932
Gross profit	1,026,896	122,266
Operating expenses:		
General and administration	5,467,111	5,524,717
Sales and marketing	1,237,485	681,663
Research and development	6,974,979	3,907,219
Total operating expenses	13,679,575	10,113,599
Operating loss	(12,652,679)	(9,991,333)
Other income (expense)	(8,846)	(4,392)
Interest income	7,345	-
Interest expense	(1,795,473)	(14,674)
Foreign exchange gain (loss), net	(5,898)	-
Total other income (expense)	(1,802,872)	(19,066)
Loss before provision for income taxes	(14,455,551)	(10,010,399)
Provision for income taxes	-	-
Net loss	$ (14,455,551)	(10,010,399)
Net loss per share - basic and diluted	$ (0.30)	$ (0.24)
Weighted average number of common shares outstanding, basic and diluted	47,697,767	40,990,604

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

ONDAS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, January 1, 2022	40,990,604	$ 4,099	$ 192,502,122	$ (80,273,389)	$ 112,232,832
Stock-based compensation	-	-	1,328,395	-	1,328,395
Net loss	-	-	-	(10,010,399)	(10,010,399)
Balance, March 31, 2022	40,990,604	$ 4,099	$ 193,830,517	$ (90,283,788)	$ 103,550,828
Balance, January 1, 2023	44,108,661	$ 4,411	$ 211,733,690	$ (153,515,194)	$ 58,222,907
Issuance of shares in connection with acquisition of Airobotics, Ltd.	2,844,291	284	5,261,654	-	5,261,938
Issuance of shares in connection with acquisition of the assets of Iron Drone, Ltd.	46,129	5	85,795	-	85,800
Assumption of vested stock options in connection with acquisition of Airobotics, Ltd.	-	-	700,690	-	700,690
Delivery of shares for restricted stock units	4,090	-	-	-	-
Issuance of shares for payment on convertible debt	2,104,988	211	3,004,583	-	3,004,794
Stock-based compensation	-	-	1,263,356	-	1,263,356
Net loss	-	-	-	(14,455,551)	(14,455,551)
Balance, March 31, 2023	49,108,159	$ 4,911	$ 222,049,768	$ (167,970,745)	$ 54,083,934

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

ONDAS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (14,455,551)	$ (10,010,399)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	252,544	39,634
Amortization of debt discount	1,500,641	-
Amortization of intangible assets	978,838	855,326
Amortization of right of use asset	343,214	168,895
Stock-based compensation	1,263,356	1,328,395
Changes in operating assets and liabilities:		
Accounts receivable	(901,595)	738,724
Inventory	(95,056)	(127,258)
Other current assets	368,890	(377,284)
Deposits and other assets	(75,948)	-
Accounts payable	1,230,473	(13,187)
Deferred revenue	(1,251,635)	(170,928)
Operating lease liability	(320,905)	(126,155)
Accrued expenses and other current liabilities	(1,576,101)	592,307
Net cash flows used in operating activities	(12,738,835)	(7,101,930)
CASH FLOWS FROM INVESTING ACTIVITIES		
Patent costs	(8,732)	(9,083)
Purchase of equipment	(135,224)	(1,553,212)
Cash acquired on the acquisition of Airobotics Ltd.	1,049,454	-
Cash paid for Field of View LLC asset acquisition	(41,667)	-
Net cash flows provided by (used in) investing activities	863,831	(1,562,295)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for deferred offering costs	-	(90,237)
Payments on convertible notes payable	(2,502,333)	-
Payments on government grant liability	(100,004)	-
Payments on loan acquired from Airobotics Ltd.	(1,140,301)	-
Net cash flows used in financing activities	(3,742,638)	(90,237)
Decrease in cash, cash equivalents, and restricted cash	(15,617,642)	(8,754,462)
Cash, cash equivalents, and restricted cash, beginning of period	29,775,096	40,815,123
Cash, cash equivalents, and restricted cash, end of period	$ 14,157,454	$ 32,060,661
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 5,258	$ 4,003
Cash paid for income taxes	$ -	$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Common Stock and warrants in relation to acquisition of Airobotics, Ltd.	$ 5,962,628	$ -
Common Stock in relation to acquisition of the assets of Iron Drone, Ltd.	$ 85,800	$ -
Common Stock exchanged for debt repayment	$ 3,004,794	$ -
Operating leases right-of-use assets obtained in exchange of lease liabilities	$ -	$ 2,928,911

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

ONDAS HOLDINGS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The Company

Ondas Holdings Inc. ("Ondas Holdings", "Ondas", the "Company," "we," or "our") was originally incorporated in Nevada on December 22, 2014, under the name of Zev Ventures Incorporated. On September 28, 2018, we acquired Ondas Networks Inc., a Delaware corporation ("Ondas Networks"), and changed our name to Ondas Holdings Inc. On August 5, 2021, we acquired American Robotics, Inc. ("American Robotics" or "AR"), a Delaware corporation. On January 23, 2023, we acquired Airobotics, Ltd. ("Airobotics"), an Israeli-based developer of autonomous drone systems. See Note 5 – Goodwill and Business Acquisition.

As a result of these acquisitions, Ondas Networks, American Robotics and Airobotics became our wholly owned subsidiaries. These three wholly owned subsidiaries are now Ondas' primary focus. Ondas' corporate headquarters are located in Waltham, Massachusetts. Ondas Networks has offices and facilities in Sunnyvale, California, American Robotics' offices and facilities are located in Waltham, Massachusetts and Marlborough, Massachusetts, and Airobotics' offices and facilities are located in Petah Tikva, Israel.

Business Activity

Ondas is a leading provider of private wireless, drone, and automated data solutions through its wholly owned subsidiaries Ondas Networks, American Robotics, and Airobotics.

On February 14, 2023, the Company announced the formation of Ondas Autonomous Systems, a new business unit to manage the combined drone operations of wholly owned subsidiaries American Robotics and Airobotics. Ondas Networks and Ondas Autonomous Systems together provide users in rail, energy, mining, agriculture, public safety and critical infrastructure and government markets with improved connectivity, data collection capabilities, and data collection and information processing capabilities. We operate Ondas Networks and Ondas Autonomous Systems as separate business segments.

Ondas Networks

Ondas Networks provides wireless connectivity solutions enabling mission-critical Industrial Internet applications and services. We refer to these applications as the Mission-Critical Internet of Things ("MC-IoT"). Our wireless networking products are applicable to a wide range of MC-IoT applications, which are most often located at the very edge of large industrial networks. These applications require secure, real-time connectivity with the ability to process large amounts of data at the edge of large industrial networks. Such applications are required in all of the major critical infrastructure markets, including rail, electric grids, drones, oil and gas, and public safety, homeland security and government, where secure, reliable and fast operational decisions are required in order to improve efficiency and ensure a high degree of safety and security.

We design, develop, manufacture, sell and support FullMAX, our patented, Software Defined Radio ("SDR") platform for secure, licensed, private, wide-area broadband networks. Our customers install FullMAX systems in order to upgrade and expand their legacy wide-area network infrastructure. Our MC-IoT intellectual property has been adopted by the Institute of Electrical and Electronics Engineers ("IEEE"), the leading worldwide standards body in data networking protocols, and forms the core of the IEEE 802.16s standard. Because standards-based communications solutions are preferred by our mission-critical customers and ecosystem partners, we have taken a leadership position in IEEE as it relates to wireless networking for industrial markets. As such, management believes this standards-based approach supports the adoption of our technology across a burgeoning ecosystem of global partners and end markets.

Our software-based FullMAX platform is an important and timely upgrade solution for privately-owned and operated wireless wide-area networks, leveraging Internet Protocol-based communications to provide more reliability and data capacity for our mission-critical infrastructure customers. We believe industrial and critical infrastructure markets throughout the globe have reached an inflection point where legacy serial and analog based protocols and network transport systems no longer meet industry needs. In addition to offering enhanced data throughput, FullMAX is an intelligent networking platform enabling the adoption of sophisticated operating systems and equipment supporting next-generation MC-IoT applications over wide field areas. These new MC-IoT applications and related equipment require more processing power at the edge of large industrial networks and the efficient utilization of network capacity and scarce bandwidth resources which can be supported by the "Fog-computing" capability integrated in our end-to-end network platform. Fog-computing utilizes management software to enable edge compute processing and data and application prioritization in the field enabling our customers more reliable, real-time operating control of these new, intelligent MC-IoT equipment and applications at the edge.

Ondas Autonomous Systems

Our Ondas Autonomous Systems business unit designs, develops, and markets commercial drone solutions via the Optimus System™ and Scout System™ (the "Autonomous Drone Platforms").

The Autonomous Drone Platforms are highly automated, AI-powered drone systems capable of continuous, remote operation and are marketed as "drone-in-a-box" turnkey data solution services. They are deployed for critical industrial and government applications where data and information collection and processing are required. These use cases include public safety, security and smart city deployments where routine, high-resolution automated emergency response, mapping, surveying, and inspection services are highly valued, in addition to industrial markets such as oil & gas, rail and ports which emphasize security and inspection solutions. The Autonomous Drone Platforms are typically provided to customers under a Data-as-a-Service (DaaS) business model, while some customers will choose to purchase and own and operate an Optimus Systems™.

American Robotics and Airobotics have industry leading regulatory successes which include having the first drone system approved by the Federal Aviation Administration ("FAA") for automated operation beyond-visual-line-of-sight (BVLOS) without a human operator on-site.

In addition to the Autonomous Drone Platforms, Ondas Autonomous Systems offers a counter-drone system called the Raider™. The Raider™ was developed by Iron Drone and is deployed by government and enterprise customers to provide security and protect critical infrastructure, assets and people from the threat of hostile drones. Airobotics acquired the assets of Iron Drone on March 6, 2023.

Autonomous Drone Platforms

We design, develop and manufacture autonomous drone systems, providing high-fidelity, ultra-high-resolution aerial data to enterprise and government customers. We currently prioritize the marketing of our Optimus System™ which provides customers with a turnkey data and information solution and the ability to continuously digitize, analyze, and monitor their assets and field operations in real-time or near real-time. We believe the market opportunity for our Scout System™ remains significant. As we drive market adoption with the Optimus platform, we anticipate re-introducing the Scout platform including newly enhanced versions to help segment the market for different use cases and price points.

The Optimus System™ has been designed from the ground up as an end-to-end product capable of continuous unattended operations in the real world. Powered by innovations in robotics automation, machine vision, edge computing, and AI, the Optimus System™ provides efficiencies as a drone solution for commercial use. Once installed in the field at customer locations, a fleet of connected Optimus Systems™, which are often deployed as networked drone infrastructure, which we refer to as Urban Drone Infrastructure, remains indefinitely in an area of operation, automatically collecting and seamlessly delivering data and information regularly and reliably.

We market the Optimus System™ under a DaaS business model, whereby our drone platform aggregates customer data and provides the data analytics meeting customer requirements in return for an annual subscription fee. Some customers purchase Optimus Systems™ to own and operate themselves. We also engage distributors to assist in the sales and marketing of our Optimus System™ in geographic markets where its more cost effective to identify and service potential customers by engaging local third parties. These distribution agreements can include joint ventures, where Ondas Autonomous Systems will provide technical expertise to support the joint venture partner in the provision of aerial data services to customers.

The Optimus System™ consists of (i) Optimus™, a highly automated, AI-powered drone with advanced imaging payloads (ii) the Airbase™, a ruggedized weatherproof base station for housing, battery swapping, battery charging, payload swapping, data processing, and cloud transfer, and (iii) Insightful™, a secure web portal and API which enables remote interaction with the system, data, and resulting analytics anywhere in the world. These major subsystems are connected via a host of supporting technologies. Airbase™ has internal robotic systems that enable the automated swapping of batteries and payloads. Automated battery swapping allows for 24/7 operation of the Optimus as the Optimus drone can immediately be redeployed after returning to the dock for a battery swap. Similarly, the ability to autonomously swap sensors and advanced payloads without human intervention allows for the Optimus System™ to provide multiple applications and use cases from a single location.

American Robotics and Airobotics have industry leading regulatory successes which include having the first drone system approved by the FAA for automated operation BVLOS without a human operator or visual observer on-site. American Robotics' FAA approvals were enabled by integrating a suite of proprietary technologies, including Detect-and-Avoid ("DAA") and other proprietary intelligent safety systems into its autonomous drone platform, which we plan to integrate into the Optimus System™. Airobotics is in the advanced stages of receiving approval for Type Certification ("TC") from the FAA for the Optimus UAV. TC approval will enable expanded operation for the Optimus System™ in the United States including flight operations in populated areas.

The Raider™

The Raider™ is a counter-drone system, which was designed and developed by Iron Drone, that we are marketing to government and enterprise customers who can utilize the system for security and the protection of critical infrastructure, assets and people from the threat of hostile drones. A typical Raider™ deployment location would include sensitive locations such as borders, stadiums or schools, or near critical assets such as power plants and military bases, and for high profile locations such as amusement parks or where public events are held.

The Raider™ is designed to detect, track and intercept unauthorized, or hostile unmanned aircraft and is most often sold with three small UAVs that are housed in a docking station. The Raider UAV has live video capability and a payload containing a net that can be deployed to intercept a hostile drone. Upon detection of an unauthorized drone, one or more Raider™ UAVs can be autonomously deployed at high speeds to track the unauthorized aircraft. If the unauthorized aircraft is deemed hostile, the Raider™ UAV can deploy the netting to physically intercept the aircraft. A parachute integrated with the netting allows the intercepted drone to safely fall to the ground for collection by our customer.

Liquidity

We have incurred losses since inception and have funded our operations primarily through debt and the sale of capital stock. On March 31, 2023, we had stockholders' equity of approximately $54,084,000. On March 31, 2023, we had net long-term borrowings outstanding of approximately $12,120,000 and short-term borrowings outstanding of approximately $15,982,000, net of debt discount and issuance costs of approximately $1,809,000. On March 31, 2023, we had total cash and restricted cash of approximately $14,157,000 and working capital deficit of approximately $3,500,000.

In October 2022, the Company entered into a convertible debt agreement, which provided cash proceeds of approximately $27,660,000. Also in 2022, the Company raised approximately $6,090,000 through the ATM Offering. We expect to fund our operations for the next twelve months from the filing date of this Form 10-Q from cash on hand, gross profits generated from revenue growth, and additional funds that we may seek through equity or debt offerings and/or borrowings under additional notes payable, lines of credit or other sources.

Our future capital requirements will depend upon many factors, including progress with developing, manufacturing and marketing our technologies, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, our ability to establish collaborative arrangements, marketing activities and competing technological and market developments, including regulatory changes and overall economic conditions in our target markets. Our ability to generate revenue and achieve profitability requires us to successfully market and secure purchase orders for our products and services from customers currently identified in our sales pipeline as well as new customers. We also will be required to efficiently manufacture and deliver equipment on those purchase orders. These activities, including our planned research and development efforts, will require significant uses of working capital. There can be no assurance that we will generate revenue and cash as expected in our current business plan. We may seek additional funds through equity or debt offerings and/or borrowings under additional notes payable, lines of credit or other sources. We do not know whether additional financing will be available on commercially acceptable terms or at all, when needed. If adequate funds are not available or are not available on commercially acceptable terms, our ability to fund our operations, support the growth of our business or otherwise respond to competitive pressures could be significantly delayed or limited, which could materially adversely affect our business, financial conditions, or results of operations.

Inflation Reduction Act of 2022 and Tax Cuts and Jobs Act of 2017

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was signed into law. The IRA includes a 15% Corporate Alternative Minimum Tax (“Corporate AMT”) for tax years beginning after December 31, 2022. We do not expect the Corporate AMT to have a material impact on our consolidated financial statements. Additionally, the IRA imposes a 1% excise tax on net repurchases of stock by certain publicly traded corporations. The excise tax is imposed on the value of the net stock repurchased or treated as repurchased. The new law will apply to stock repurchases occurring after December 31, 2022.

Under the Tax Cuts and Jobs Act of 2017, we are required to capitalize R&D expenses for tax purposes and amortize over five years for domestic based expenses and fifteen years for foreign expenses. Given our tax net operating loss carryforward position we do not expect this change to have a material impact on our financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company’s financial statements for interim periods in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (“2022 Form 10-K”). The Company’s accounting policies are described in the “*Notes to Consolidated Financial Statements*” in the 2022 Form 10-K and are updated, as necessary, in this Form 10-Q. The December 31, 2022 condensed consolidated balance sheet data presented for comparative purposes was derived from the audited financial statements but does not include all disclosures required by U.S. GAAP. The results of operations for the three months ended March 31, 2023, are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

The condensed consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries, Ondas Networks, American Robotics, and Airobotics. All inter-company accounts and transactions between these entities have been eliminated in these unaudited condensed consolidated financial statements. The functional currency of the Company and all of our subsidiaries is the U.S. dollar.

Business Combinations

We utilize the purchase method of accounting for business combinations. This method requires, among other things, that results of operations of acquired companies are included in Ondas’ results of operations beginning on the respective acquisition dates and that assets acquired, and liabilities assumed are recognized at fair value as of the acquisition date. Any excess of the fair value of consideration transferred over the fair values of the net assets acquired is recognized as goodwill. Contingent consideration liabilities are recognized at the estimated fair value on the acquisition date; these are recorded in either other accruals within current liabilities (for expected payments in less than a year) or other non-current liabilities (for expected payments in greater than a year), both on our consolidated balance sheets. Subsequent changes to the fair value of contingent consideration liabilities are recognized in other income (expense) in the Consolidated Statements of Operations. Contingent consideration payments made soon after the acquisition date are classified as investing activities in the consolidated statements of cash flows. Contingent consideration payments not made soon after the acquisition date that are related to the acquisition date fair value are reported as financing activities in the consolidated statements of cash flows, and amounts paid in excess of the original acquisition date fair value are reported as operating activities in the consolidated statements of cash flows. The fair value of assets acquired, and liabilities assumed in certain cases, may be subject to revision based on the final determination of fair value during a period of time not to exceed 12 months from the acquisition date. Legal costs, due diligence costs, business valuation costs and all other business acquisition costs are expensed when incurred.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair values of the underlying net assets of an acquired business. The Company tests goodwill for impairment on an annual basis during the fourth quarter of its fiscal year, or immediately if conditions indicate that such impairment could exist. The Company evaluates qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value and whether it is necessary to perform goodwill impairment process. The impairment of Goodwill was $19,419,600 for the year ended December 31, 2022, see Note 5 – Goodwill and Business Acquisition, for further details.

Intangible assets represent patents, licenses, software and allocation of purchase price to identifiable intangible assets of an acquired business. The Company estimates the fair value of its reporting units using the fair market value measurement requirement. Intangible assets are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable.

We amortize our intangible assets with a finite life on a straight-line basis, over 3 years for software; 10 years for patents; 3-10 years for developed technology, 10 years for licenses, trademarks, marketing-related assets and the FAA waiver; 5 years for customer relationships; and 1 year for non-compete agreements.

Segment Information

Operating segments are defined as components of an entity for which discrete financial information is available and is regularly reviewed by the Chief Operating Decision Maker ("CODM") in making decisions regarding resource allocation and performance assessment. The Company's CODM is its Chief Executive Officer. The Company determined it has two reportable segments: Ondas Networks and Ondas Autonomous Systems as the CODM reviews financial information for these two businesses separately. The Company has no inter-segment sales.

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements. Such management estimates include those relating to allocation of consideration for business combinations to identifiable tangible and intangible assets, revenue recognition, inventory write-downs to reflect net realizable value, assumptions used in the valuation of stock-based awards and valuation allowances against deferred tax assets. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. On March 31, 2023 and December 31, 2022, we had no cash equivalents. Restricted cash includes cash that is not readily available for use in the Company's operating activities. Restricted cash is attributable to minimum cash reserve requirements for Airobotics' credit cards. The Company periodically monitors its positions with, and the credit quality of, the financial institutions with which it invests. Periodically, throughout the three months ended, and as of March 31, 2023, the Company has maintained balances in excess of federally insured limits. As of March 31, 2023, the Company was $12,894,930 in excess of federally insured limits.

Accounts Receivable

Accounts receivable are stated at a gross invoice amount less an allowance for credit losses as well as net of any discounts or other forms of variable consideration. We estimate allowance for credit losses by evaluating specific accounts where information indicates our customers may have an inability to meet financial obligations, such as customer payment history, credit worthiness and receivable amounts outstanding for an extended period beyond contractual terms. We use assumptions and judgment, based on the best available facts and circumstances, to record an allowance to reduce the receivable to the amount expected to be collected. These allowances are evaluated and adjusted as additional information is received. We had no allowance for credit losses as of March 31, 2023 and December 31, 2022.

Inventory

Inventories, which consist solely of raw materials, work in process and finished goods, are stated at the lower of cost (first-in, first-out) or net realizable value, net of reserves for obsolete inventory. We continually analyze our slow-moving and excess inventories. Based on historical and projected sales volumes and anticipated selling prices, we established reserves. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates its estimate of future demand. Products that are determined to be obsolete are written down to net realizable value.

Inventory consists of the following:

	March 31, 2023	December 31, 2022
Raw Material	$ 2,475,695	$ 2,041,776
Work in Process	319,470	89,080
Finished Goods	1,067,869	142,415
Less Inventory Reserves	(100,254)	(100,254)
Total Inventory, Net	$ 3,762,780	$ 2,173,017

Property and Equipment

All additions, including improvements to existing facilities, are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation of property and equipment is principally recorded using the straight-line method over the estimated useful lives of the assets. The estimated useful lives typically are (i) 3 to 7 years for computer equipment, (ii) 5 years for vehicles and docking stations and drones, (iii) 7 years for furniture and fixtures, (iv) 5 to 7 years for development equipment, and (v) 3 years for machinery and equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset. Upon the disposal of property, the asset and related accumulated depreciation accounts are relieved of the amounts recorded therein for such items, and any resulting gain or loss is recorded in operating expenses in the year of disposition.

Software

Costs incurred internally in researching and developing a software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to production. The amortization of these costs is included in cost of revenue over the estimated life of the products. As of March 31, 2023, and December 31, 2022, the Company had no internally developed software.

Impairment of Long-Lived Assets

Long-lived assets are evaluated whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. Such indicators include significant technological changes, adverse changes in market conditions and/or poor operating results. The carrying value of a long-lived asset group is considered impaired when the projected undiscounted future cash flows are less than its carrying value. The amount of impairment loss recognized is the difference between the estimated fair value and the carrying value of the asset or asset group. Fair market value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved. The impairments of long-lived assets were $0 and $0 for the three months ended March 31, 2023, and 2022, respectively.

Research and Development

Costs for research and development are expensed as incurred except for research and development equipment with alternative future use. Research and development expenses consist primarily of salaries, salary related expenses and costs of contractors and materials.

Fair Value of Financial Instruments

Our financial assets and liabilities measured at fair value on a recurring basis consist primarily of receivables, accounts payable, accrued expenses and short- and long-term debt. The carrying amount of receivables, accounts payable and accrued expenses approximate our fair value because of the short-term maturity of such instruments. Our financial assets measured at fair value on a nonrecurring basis include goodwill and intangibles, which are adjusted to fair value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed.

We have categorized our assets and liabilities that are valued at fair value on a recurring basis into a three-level fair value hierarchy in accordance with U.S. GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded in the balance sheets at fair value are categorized based on a hierarchy of inputs, as follows:

Level 1 -- Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 -- Quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 -- Unobservable inputs for the asset or liability.

The Company had no financial instruments that are required to be valued at fair value as of March 31, 2023 and December 31, 2022.

Deferred Offering Costs

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financing as deferred offering costs until such financing is consummated. After consummation of equity financing, these costs are recorded in stockholders' equity as a reduction of additional paid-in capital generated as a result of the offering. Should the planned equity financing be abandoned, the deferred offering costs are expensed immediately as a charge to other income (expense) in the consolidated statement of operations. The deferred offering costs outstanding as of March 31, 2023 and December 31, 2022, were $151,431 and $145,293, respectively.

Government Grants

Government grants are recognized when there is reasonable assurance that the grants will be received, and the Company will comply with the attached conditions. Government grants received from the Israel Innovation Authority (formerly: the Office of the Chief Scientist in Israel, "the IIA") are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

A liability for grants received is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses.

At each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses. Amounts paid as royalties are recognized as settlement of the liability.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized when the rate change is enacted. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. In accordance with U.S. GAAP, we recognize the effect of uncertain income tax positions only if the positions are more likely than not of being sustained in an audit, based on the technical merits of the position. Recognized uncertain income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which those changes in judgment occur. We recognize both interest and penalties related to uncertain tax positions as part of the income tax provision.

Share-Based Compensation

We calculate share-based compensation expense for option awards ("Share-based Award(s)") based on the estimated grant/issue date fair value using the Black-Scholes-Merton option pricing model ("Black-Scholes Model") and recognize the expense on a straight-line basis over the vesting period. We account for forfeitures as they occur. The Black-Scholes Model requires the use of a number of assumptions including volatility of the stock price, the weighted average risk-free interest rate, and the vesting period in determining the fair value of Share-based Awards. The expected term is based on the "simplified method", due to the Company's limited option exercise history. Under this method, the term is estimated using the weighted average of the service vesting period and contractual term of the option award. As the Company does not yet have sufficient history of its own volatility, the Company has identified several public entities of similar size, complexities and industry and calculates historical volatility based on the volatilities of these companies. Although we believe our assumptions used to calculate share-based compensation expense are reasonable, these assumptions can involve complex judgments about future events, which are open to interpretation and inherent uncertainty. In addition, significant changes to our assumptions could significantly impact the amount of expense recorded in a given period.

We recognize restricted stock unit expense over the period of vesting or period that services will be provided. Compensation associated with shares of Common Stock issued or to be issued to consultants and other non-employees is recognized over the expected service period beginning on the measurement date, which is generally the time the Company and the service provider enter into a commitment whereby the Company agrees to grant shares in exchange for the services to be provided.

Shipping and Handling

We expense all shipping and handling costs as incurred. These costs are included in Cost of goods sold on the accompanying Consolidated Statements of Operations.

Advertising and Promotional Expenses

We expense advertising and promotional costs as incurred. We recognized expense of $40,945 and $16,164 for the three months ended March 31, 2023, and 2022, respectively. These costs are included in Sales and marketing on the accompanying Consolidated Statements of Operations.

Post-Retirement Benefits:

We have one 401(k) Savings Plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under this 401(k) Plan, matching contributions are based upon the amount of the employees' contributions subject to certain limitations. We recognized expense of $100,874 and $19,316 for the three months ended March 31, 2023, and 2022, respectively.

Revenue Recognition

Ondas has two business segments that generate revenue: Ondas Networks and Ondas Autonomous Systems. Ondas Networks generates revenue from product sales, services, and development projects. Ondas Autonomous Systems, which includes American Robotics and Airobotics, generates revenue from product sales, services, and data subscription services.

Ondas Networks is engaged in the development, marketing, and sale of wireless radio systems for secure, wide area mission-critical, business-to-business networks. Ondas Networks generates revenue primarily from the sale of our FullMAX System and the delivery of related services, along with non-recurring engineering ("NRE") development projects with certain customers.

American Robotics generates revenue by selling a data subscription service to its customers based on the information collected by their autonomous systems. The customer pays for a monthly, annual, or multi-annual subscription service to remotely access the data collected by their autonomous systems.

Airobotics generates revenue through the sales of their Optimus system and separately priced support, maintenance and ancillary services directly related to the sale of the Airobotics' Optimus system. Airobotics also generates service revenue by selling a data subscription service to its customers based on the information collected by their autonomous systems.

Revenue for development projects is typically recognized over time using a percentage of completion input method, whereby revenues are recorded on the basis of the Company's estimates of satisfaction of the performance obligation based on the ratio of actual costs incurred to total estimated costs. The input method is utilized because management considers it to be the best available measure of progress as the performance obligations are completed.

Revenue and cost estimates are regularly monitored and revised based on changes in circumstances. Impacts from changes in estimates of revenue and cost of revenue are recognized on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods base in the performance completed to date.

Subscription revenue is recognized on straight line basis over the length of the customer subscription agreement. If a subscription payment is received prior to installation and operation of their autonomous systems, it is held in deferred revenue and recognized after operation commences over the length of the subscription service.

Collaboration Arrangements Within the Scope of ASC 808, Collaborative Arrangements

The Company's development revenue includes contracts where the Company and the customer work cooperatively to develop software and hardware applications. The Company analyzes these contracts to assess whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and exposed to significant risks and rewards dependent on the commercial success of such activities and are therefore within the scope of ASC Topic 808, Collaborative Arrangements ("ASC 808"). This assessment is performed throughout the life of the arrangement based on changes in the responsibilities of all parties in the arrangement. For collaboration arrangements that are deemed to be within the scope of ASC 808, the Company first determines which elements of the collaboration are deemed to be within the scope of ASC 808 and those that are more reflective of a vendor-customer relationship and therefore within the scope of ASC 606, Revenue from Contracts with Customers ("ASC 606"). The Company's policy is generally to recognize amounts received from collaborators in connection with joint operating activities that are within the scope of ASC 808 as a reduction in research and development expense. As of March 31, 2023, the Company has not identified any contracts with its customers that meet the criteria of ASC 808.

Arrangements Within the Scope of ASC 606, Revenue from Contracts with Customers

Under ASC 606, the Company recognizes revenue when the customer obtains control of promised products or services, in an amount that reflects the consideration which is expected to be received in exchange for those products or services. The Company recognizes revenue following the five-step model prescribed under ASC 606: (i) identify contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the products or services it transfers to the customer.

At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the products or services promised within each contract and determines those that are performance obligations and assesses whether each promised product or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing the expected value method. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available. Sales and other taxes collected on behalf of third parties are excluded from revenue. For the three months ended March 31, 2023 and 2022, none of our contracts with customers included variable consideration.

Contracts that are modified to account for changes in contract specifications and requirements are assessed to determine if the modification either creates new or changes the existing enforceable rights and obligations. Generally, contract modifications are for products or services that are not distinct from the existing contract due to the inability to use, consume or sell the products or services on their own to generate economic benefits and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis. For the three months ended March 31, 2023 and 2022, there were no modifications to contract specifications.

Product revenue is comprised of sales of the Ondas Networks' software defined base station and remote radios, its network management and monitoring system, and accessories. Ondas Networks' software and hardware is sold with a limited one-year basic warranty included in the price. The limited one-year basic warranty is an assurance-type warranty, is not a separate performance obligation, and thus no transaction price is allocated to it. The nature of tasks under the limited one-year basic warranty only provides for remedying defective product(s) covered by the warranty. Product revenue is generally recognized when the customer obtains control of our product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract, or upon installation when the combined performance obligation is not distinct within the context of the contract.

Service revenue is comprised of separately priced extended warranty sales, network support and maintenance, remote monitoring, as well as ancillary services directly related to the sale of the Ondas Networks' wireless communications products including wireless network design, systems engineering, radio frequency planning, software configuration, product training, installation, and onsite support. The extended warranty Ondas Networks sells provides a level of assurance beyond the coverage for defects that existed at the time of a sale or against certain types of covered damage. The extended warranty includes 1) factory hardware repair or replacement of the base station and remote radios, at our election, 2) software upgrades, bug fixes and new features of the radio software and network management systems ("NMS"), 3) deployment and network architecture support, and 4) technical support by phone and email. Ancillary service revenues are recognized at the point in time when those services have been provided to the customer and the performance obligation has been satisfied. The Company allocates the transaction price to the service and extended warranty based on the stand-alone selling prices of these performance obligations, which are stated in our contracts. Revenue for the extended warranty is recognized over time.

Development revenue is comprised primarily of non-recurring engineering service contracts to develop software and hardware applications for various customers. For Ondas Networks, in 2022, a significant portion of this revenue is generated from one parent customer whereby Ondas Networks is to develop such applications to interoperate within the customers infrastructure. For these contracts, Ondas Networks and the customers work cooperatively, whereby the customers' involvement is to provide technical specifications for the product design, as well as, to review and approve the project progress at various markers based on predetermined milestones. The products developed are not able to be sold to any other customer and are based in part upon existing Ondas Networks and customer technology. Development revenue is either recognized at the point in time when those services have been provided to the customer and the performance obligation has been satisfied recognized, or as services are provided over the life of the contract as Ondas Networks has an enforceable right to payment for services completed to date and there is no alternative use of the product, depending on the contract.

If the customer contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. We enter into certain contracts within our service revenues that have multiple performance obligations, one or more of which may be delivered subsequent to the delivery of other performance obligations. We allocate the transaction price based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. We determine standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price considering available information such as market conditions and internally approved pricing guidelines related to the performance obligations. Revenue is then allocated to the performance obligations using the relative selling prices of each of the performance obligations in the contract.

Ondas Networks' payment terms vary and range from Net 15 to Net 30 days from the date of the invoices for product and services related revenue. Ondas Networks' payment terms for the majority of their development related revenue carry milestone-related payment obligations which span the contract life. For milestone-based contracts, the customer reviews the completed milestone and once approved, makes payment pursuant to the applicable contract.

American Robotics generates revenue by selling a data subscription service to its customers based on the information collected by their autonomous systems. The customer pays for a monthly, annual, or multi-annual subscription service to remotely access the data collected by their autonomous systems. American Robotics' payment terms vary and range from Net 30 to Net 60 days from the date of the invoices for product and services related revenue.

Airobotics' product revenue is comprised of sales of the Airobotics' Optimus system which includes a drone, docking station, different flown sensors (payloads), communications system, batteries, and others. Airobotics' Optimus system is sold with a limited one-year basic warranty included in the price. The limited one-year basic warranty is an assurance-type warranty, is not a separate performance obligation, and thus no transaction price is allocated to it. The nature of tasks under the limited one-year basic warranty only provides for remedying defective product(s) covered by the warranty. Product revenue is generally recognized when the customer obtains control of our product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract, or upon installation when the combined performance obligation is not distinct within the context of the contract.

Airobotics' service revenue is comprised of separately priced support and maintenance sales, as well as ancillary services directly related to the sale of the Airobotics' Optimus system including product training, installation, and onsite support. Airobotics also generates service revenue by selling a data subscription service to its customers based on the information collected by their autonomous systems. The customer pays for a monthly, annual, or multi-annual subscription service to remotely access the data collected by their autonomous systems. Ancillary service revenues are recognized at the point in time when those services have been provided to the customer and the performance obligation has been satisfied. The Company allocates the transaction price to the service based on the stand-alone selling prices of these performance obligations, which are stated in our contracts.

Airobotics' payment terms vary and range from Net 30 days to Net 60 days from the date of the invoices for product and services related revenue. Airobotics' payment terms for the majority of their development related revenue carry milestone-related payment obligations which span the contract life. For milestone-based contracts, the customer reviews the completed milestone and once approved, makes payment pursuant to the applicable contract.

Disaggregation of Revenue

The following tables present our disaggregated revenues by type of revenue, timing of revenue, and revenue by country:

	Three months ended March 31,	
	2023	2022
Type of Revenue		
Product revenue	$ 2,355,781	$ 149,270
Service and subscription revenue	79,938	60,117
Development revenue	160,272	200,811
Total revenue	$ 2,595,991	$ 410,198

	Three months ended March 31,	
	2023	2022
Timing of Revenue		
Revenue recognized point in time	$ 2,435,719	$ 149,270
Revenue recognized over time	160,272	260,928
Total revenue	$ 2,595,991	$ 410,198

	Three months ended March 31,	
	2023	2022
Country of Revenue, based on location services were provided or product was shipped to:		
United States	$ 1,130,202	$ 410,198
United Arab Emirates	1,398,651	-
Israel	67,138	-
Total revenue	$ 2,595,991	$ 410,198

Contract Assets and Liabilities

We recognize a receivable or contract asset when we perform a service or transfer a good in advance of receiving consideration. A receivable is recorded when our right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. A contract asset is recorded when our right to consideration in exchange for goods or services that we have transferred or provided to a customer is conditional on something other than the passage of time. We did not have any contract assets recorded at March 31, 2023 and December 31, 2022.

We recognize a contract liability when we receive consideration, or if we have the unconditional right to receive consideration, in advance of satisfying the performance obligation. A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration, or an amount of consideration is due from the customer. The table below details the activity in our contract liabilities during the three months ended March 31, 2023, and the year ended December 31, 2022.

	Three Months Ended March 31, 2023	Year Ended December 31, 2022
Balance at beginning of period	$ 61,508	$ 512,397
Additions, net	1,761,010	527,268
Transfer to revenue	(1,410,110)	(978,157)
Balance at end of period	$ 412,408	$ 61,508

Warranty Reserve

For our software and hardware products, we provide a limited one-year assurance-type warranty and for our development service, we provide no warranties. The assurance-type warranty covers defects in material and workmanship only. If a software or hardware component is determined to be defective after being tested by the Company within the one-year, the Company will repair, replace or refund the price of the covered hardware and/or software to the customer (not including any shipping, handling, delivery or installation charges). We estimate, based upon a review of historical warranty claim experience, the costs that may be incurred under our warranties and record a liability in the amount of such estimate at the time a product is sold. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our recorded warranty liability and adjust the accrual as claims data and historical experience warrants. The Company has assessed the costs of fulfilling its existing assurance-type warranties and has determined that the estimated outstanding warranty obligation on March 31, 2023, or December 31, 2022 are immaterial to the Company's condensed consolidated financial statements.

Leases

Under Topic 842, operating lease expense is generally recognized evenly over the term of the lease. During the three months ended March 31, 2023, the Company's operating leases consisted of office space in Sunnyvale, CA (the "Gibraltar Lease"), Marlborough, MA (the "American Robotics Lease"), Waltham, MA (the "Waltham Lease"), and Petah Tikva, Israel (the "Airobotics Leases").

On January 22, 2021, we entered into a 24-month lease (effective April 1, 2021) with the owner and landlord (the "2021 Gibraltar Lease"), wherein the base rate is $45,000 per month, with a security deposit in the amount of $90,000. On April 1, 2023, the Company amended their lease to extend the lease through September 30, 2023, wherein the base rate is $65,676 per month.

On August 5, 2021, the Company acquired American Robotics and the American Robotics Lease, wherein the base rate is $15,469 per month, with an annual increase of 3% through January 2024, with a security deposit of $24,166. On August 19, 2021, American Robotics amended their lease to reduce their space to approximately 10,450 square feet. The amendment reduced their annual base rent to $8,802 per month, with an annual increase of 3% through January 2024.

On October 8, 2021, American Robotics entered into an 86-month operating lease for space in Waltham, Massachusetts. The Waltham Lease commenced on March 1, 2022, and is scheduled to terminate on April 30, 2029, wherein the base rate is $39,375 per month, increasing 3% annually, with a security deposit due in the amount of $104,040. These facilities also serve as Ondas' corporate headquarters.

On January 23, 2023, the Company acquired Airobotics and the Airobotics Leases, which includes office space in Petah Tikva, Israel leased according to three different lease agreements. Each agreement is with respect to different sections of the entire leased area and are in effect through December 31, 2023, February 28, 2024, and November 30, 2024 wherein the base rate of the entire leased area is approximately $20,500 per month.

We determine if an arrangement is a lease, or contains a lease, at the inception of the arrangement. If we determine the arrangement is a lease, or contains a lease, at lease inception, we then determine whether the lease is an operating lease or finance lease. Operating and finance leases result in recording a right-of-use ("ROU") asset and lease liability on our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For purposes of calculating operating lease ROU assets and operating lease liabilities, we use the non-cancellable lease term plus options to extend that we are reasonably certain to take. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Our leases generally do not provide an implicit rate. As such, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. This rate is generally consistent with the interest rate we pay on borrowings under our credit facilities, as this rate approximates our collateralized borrowing capabilities over a similar term of the lease payments. We have elected not to recognize ROU assets and lease liabilities that arise from short-term (12 months or less) leases for any class of underlying assets. We have elected not to separate lease and non-lease components for any class of underlying asset.

Lease Costs

	Three Months ended March 31,	
	2023	**2022**
Components of total lease costs:		
Operating lease expense	$ 339,282	$ 204,147
Common area maintenance expense	43,335	22,714
Short-term lease costs (1)	46,952	26,840
Total lease costs	$ 429,569	$ 253,701

(1) Represents short-term leases with an initial term of 12 months or less, which are immaterial.

Lease Positions as of March 31, 2023, and December 31, 2022

ROU lease assets and lease liabilities for our operating leases were recorded in the unaudited condensed consolidated balance sheet as follows:

	March 31, 2023	December 31, 2022
Assets:		
Operating lease assets	$ 2,926,886	$ 2,930,996
Total lease assets	$ 2,926,886	$ 2,930,996
Liabilities:		
Operating lease liabilities, current	$ 694,640	$ 580,593
Operating lease liabilities, net of current	2,406,813	2,456,315
Total lease liabilities	$ 3,101,453	$ 3,036,908

Future lease payments included in the measurement of lease liabilities on the unaudited condensed consolidated balance sheet as of March 31, 2023, for the following five years and thereafter are as follows:

Years ending December 31,		
2023(9 months)	$	678,387
2024		595,842
2025		513,900
2026		529,320
2027		545,250
Thereafter		752,490
Total future minimum lease payments	$	3,615,189
Lease imputed interest		(513,736)
Total	$	3,101,453

Other Leases Information

	Three Months Ended March 31,	
	2023	2022
Operating cash flows for operating leases	$ 342,206	$ 160,500
Weighted average remaining lease term (in years) – operating lease	5.43	6.03
Weighted average discount rate – operating lease	5.53%	6.40%

Net Loss Per Common Share

Basic net loss per share is computed by dividing net loss by the weighted average shares of Common Stock outstanding for each period. Diluted net loss per share is the same as basic net loss per share since we have net losses for each period presented.

The following potentially dilutive securities for the three months ended March 31, 2023 and 2022 have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

	Three months ended March 31,	
	2023	2022
Warrants to purchase Common Stock	2,366,092	3,258,961
Options to purchase Common Stock	5,465,398	1,514,941
Potential shares issuable under 2022 Convertible Promissory Notes	29,195,675	-
Restricted stock purchase offers	1,121,187	1,391,150
Total potentially dilutive securities	38,148,352	6,165,052

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and accounts receivable. Cash is deposited with a limited number of financial institutions. The balances held at any one financial institution may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. As of March 31, 2023, the Company was $12,894,930 in excess of federally insured limits.

Credit is extended to customers based on an evaluation of their financial condition and other factors. We generally do not require collateral or other security to support accounts receivable. We perform ongoing credit evaluations of our customers and maintains an allowance for credit losses.

Concentration of Customers

Because we have only recently invested in our customer service and support organization, a small number of customers have accounted for a substantial amount of our revenue. Revenue from significant customers, those representing 10% or more of total revenue, was composed of two customers accounting for 54% and 43% of the Company's revenue for the three-month period ended March 31, 2023, respectively. One customer accounted for 84% of the Company's revenue for the three-month period ended March 31, 2022.

Accounts receivable from significant customers, those representing 10% or more of the total accounts receivable, were composed of three customers accounting for 71%, 13%, and 12%, respectively, of the Company's accounts receivable balance as of March 31, 2023. Two customers accounted for 67% and 33%, respectively, of the Company's accounts receivable balance as of December 31, 2022.

Recently Adopted Accounting Pronouncements

In May 2021, the Financial Accounting Standards Board ("FASB") issued accounting standards update ("ASU") 2021-04—Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options, to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The amendments in this ASU are effective for public and nonpublic entities for fiscal years beginning after December 15, 2021, and interim periods with fiscal years beginning after December 15, 2021. Early adoption was permitted, including adoption in an interim period. The adoption of this pronouncement during the year ended December 31, 2022 had no impact on our accompanying condensed consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"), which simplifies an issuer's accounting for convertible instruments by reducing the number of accounting models that require separate accounting for embedded conversion features. ASU 2020-06 also simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification and makes targeted improvements to the disclosures for convertible instruments and earnings-per-share (EPS) guidance. This update will be effective for the Company's fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Entities can elect to adopt the new guidance through either a modified retrospective method of transition or a fully retrospective method of transition. The Company has elected to adopt the standard early using the modified retrospective method of transition with effect from January 1, 2022. At the time of adoption this did not have a material impact on the consolidated financial statements. However, ASU 2020-06 precluded the Company from having to record a derivative liability for convertible notes entered into during the year ended December 31, 2022.

During the three-month period ended March 31, 2023, the Company adopted the following ASUs, and the adoption had no impact on our accompanying condensed consolidated financial statements:

1. ASU 2022-02, Financial Instruments—Credit Losses: Troubled Debt Restructurings and Vintage Disclosures, as an amendment to ASU No. 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

2. ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers; and

3. ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

On September 29, 2022, FASB issued Accounting Standards Update (ASU) No. 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations, which enhances the transparency about the use of supplier finance programs for investors and other allocators of capital. Under the new ASU, a company that uses a supplier finance program in connection with the purchase of goods or services will be required to disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. ASU No. 2022-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the roll forward of the supplier finance program obligations, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The adoption of this pronouncement during the three-month period ended March 31, 2023 did not have a material impact on our accompanying condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

On June 30, 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-03, which (1) clarifies existing guidance when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security and (2) introduces new disclosure requirements for equity securities subject to contractual sale restrictions. The ASU clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security. Instead, the contractual sale restriction is a characteristic of the reporting entity. Accordingly, an entity should not consider the contractual sale restriction when measuring the equity security's fair value. Additionally, the ASU clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The Company has evaluated the effects of the adoption of ASU No. 2022-03, and it will have no impact on its consolidated financial statements.

Reclassification

Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year's presentation.

NOTE 3 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	March 31, 2023	December 31, 2022
Prepaid insurance	$ 611,830	$ 782,538
Advance to vendors	271,526	323,698
Deferred offering costs	151,431	145,293
Other receivables	15,608	9,687
Other prepaid expenses and current assets	1,133,117	488,397
Total other current assets	$ 2,183,512	$ 1,749,613

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31, 2023	December 31, 2022
Vehicles	$ 149,916	$ 149,916
Computer equipment	490,521	348,408
Furniture and fixtures	758,578	461,352
Leasehold improvements	3,299,828	2,093,812
Development equipment	342,142	342,142
Docking stations and drones	978,161	-
Machinery and equipment	95,053	-
Construction in progress	2,389,352	330,541
Total property and equipment	8,503,551	3,726,171
Less: accumulated depreciation	(2,513,501)	(702,886)
Net property and equipment	$ 5,990,050	$ 3,023,285

Depreciation expenses for the three months ended March 31, 2023, and 2022 was $252,544 and $39,634, respectively. As of March 31, 2023, there was $3,037,555 of net property and equipment located in Israel.

NOTE 5 – GOODWILL AND BUSINESS ACQUISITION

We account for acquisitions in accordance with FASB ASC 805, "Business Combinations" ("ASC 805"), and goodwill in accordance with ASC 350, "Intangibles — Goodwill and Other" ("ASC 350"). The excess of the purchase price over the estimated fair value of net assets acquired in a business combination is recorded as goodwill.

Airobotics Transaction

On January 23, 2023, the Company, completed the acquisition of Airobotics, pursuant to the Agreement of Merger, dated as of August 4, 2022 (the "Original Airobotics Agreement"), and that certain Amendment to Agreement of Merger, dated November 13, 2022 (the "Airobotics Amendment," and together with the Original Airobotics Agreement, the "Airobotics Agreement"), by and among the Company, Talos Sub Ltd., an Israeli company and a wholly owned subsidiary of the Company ("Merger Sub"), and Airobotics. In accordance with the terms of the Airobotics Agreement, Merger Sub merged with and into Airobotics (the "Merger"), with Airobotics continuing as the surviving company of the Merger and as a wholly owned subsidiary of the Company.

At the effective time of the Merger (the "Effective Time"), each ordinary share of Airobotics, par value NIS 0.01 per share (the "Airobotics Ordinary Shares"), issued and outstanding (other than shares owned by Airobotics or its subsidiaries (dormant or otherwise) or by the Company or Merger Sub) was converted into, and exchanged for 0.16806 (the "Exchange Ratio") fully paid and nonassessable shares of Common Stock of the Company Common Stock, without interest and subject to applicable tax withholdings ("Merger Consideration"). All fractional shares of the Company Common Stock that would have otherwise been issued to a holder of Airobotics Ordinary Shares as part of the Merger Consideration were rounded up to the nearest whole share based on the total number of shares of the Company's Common Stock issued to such holder of Airobotics Ordinary Shares. Holders of Airobotics Ordinary Shares received approximately 2.8 million shares as consideration (excluding approximately 1.7 million shares underlying equity awards to be outstanding following the Merger).

As provided in the Airobotics Agreement, each outstanding option, warrant or other right, whether vested or unvested, to purchase Airobotics Ordinary Shares (each, an "Airobotics Stock Option," and collectively, the "Airobotics Stock Options") issued pursuant to the Airobotics Ltd. 2015 Israeli Share Option Plan and 2020 Incentive Equity Plan (the "Airobotics Plans"), was assumed by Ondas and converted as of the Effective Time into an option, warrant or right, as applicable, to purchase shares of Company Common Stock. Subject to the terms of the relevant Airobotics Stock Option, each Airobotics Stock Option is deemed to constitute an option, warrant, or other right, as applicable, to purchase, on substantially the same terms and conditions as were applicable under such Airobotics Stock Option, a number of shares of Company Common Stock equal to the number of shares of Company Common Stock (rounded up to the nearest whole share) that the holder of such Airobotics Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such option, warrant, or right to purchase full Airobotics Ordinary Shares immediately prior to the Effective Time at a price per share of Company Common Stock (rounded down to the nearest whole cent) equal to (i) the former per share exercise price for Airobotics Ordinary Shares otherwise purchasable pursuant to such Airobotics Stock Option, divided by (ii) the Exchange Ratio.

As a result of the Merger, the Company is dual listed on The Nasdaq Stock Market and the Tel Aviv Stock Exchange ("TASE"). The first trading day of the Company's shares on TASE was January 26, 2023.

The following table summarizes the consideration paid for Airobotics and the preliminary allocation of the purchase consideration to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

Purchase price consideration		
Common Stock – 2,844,291 Shares	$	5,261,938
Vested Stock Options – 605,349 Shares		700,690
Warrants – 586,440 Shares		-
Total purchase price consideration	$	5,962,628
Estimated fair value of assets:		
Cash and cash equivalents and restricted cash	$	1,049,454
Accounts receivable		112,245
Inventory		1,494,707
Other current assets		835,664
Property and equipment		3,492,070
Right of use asset		339,104
Intangible assets		6,057,926
Other long-term assets		62,851
		13,036,036
Estimated fair value of liabilities assumed:		
Accounts payable		969,242
Customer Prepayments		1,602,535
Government grant liability		1,783,403
Other loans		1,140,301
Other payables		1,156,057
Lease liabilities		385,450
Loan from related party		2,032,875
		9,069,863
Net Assets Acquired	$	3,996,173
Goodwill	$	1,996,455

The intangible assets acquired include the developed technology, marketing-related assets, and customer relationships (see Note 6 – Intangible Assets). The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. The final allocation could differ materially from the preliminary allocation. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in valuation of intangible assets such as developed technology, marketing-related assets, and customer relationships, as well as goodwill and (3) other changes to assets and liabilities.

The goodwill represents the assembled workforce, acquired capabilities, and future economic benefits resulting from the acquisition. No portion of the goodwill is deductible for tax purposes.

Our results for the three months ended March 31, 2023 include results from Airobotics between January 24, 2023 and March 31, 2023. The following unaudited pro forma information presents the Company's results of operations as if the acquisition of Airobotics had occurred on January 1, 2022. The pro forma results do not purport to represent what the Company's results of operations actually would have been if the transactions had occurred on January 1, 2022 or what the Company's operating results will be in future periods.

	(Unaudited) Three months ended March 31,			
		2023		2022
Revenue, net	$	2,628,027	$	825,198
Net loss	$	(14,883,364)	$	(12,564,439)
Basic Earnings Per Share	$	(0.30)	$	(0.29)
Diluted Earnings Per Share	$	(0.30)	$	(0.29)

Goodwill Impairment

The Company has goodwill acquired as part of the American Robotics acquisition in 2021 and Airobotics acquisition in 2023. The changes in the carrying amount of goodwill for the three months ended March 31, 2023 and year ended December 31, 2022, are as follows:

	American Robotics
Balance as of January 1, 2022	$ 45,026,583
Impairment loss	(19,419,600)
Balance as of December 31, 2022	25,606,983
Goodwill acquired	1,996,455
Balance as of March 31, 2023	$ 27,603,438

Goodwill is tested for impairment in the fourth quarter after the annual forecasting process. The Company initially carried out a qualitative analysis and determined that because of changes in market conditions as well as a slower increase in revenue than previously forecast, it was more likely than not that goodwill was impaired. The Company engaged a third-party service provider to carry out a valuation of the American Robotics entity. Using a discounted cash flow analysis and revised forecasts for revenue and cash flows that are lower than the previous valuation, it was determined that the fair value of the entity was lower than the carrying value as of December 31, 2022, and an impairment of $19,419,600 was recognized in operating expenses in the Consolidated Statements of Operations for the year ending December 31, 2022, included in our 2022 Form 10-K.

NOTE 6 – INTANGIBLE ASSETS

The components of intangible assets, all of which are finite lived, were as follows:

	March 31, 2023			December 31, 2022			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Life
Patents	$ 100,767	$ (29,103)	$ 71,664	$ 82,431	$ (27,331)	$ 55,100	10
Patents in process	110,156	-	110,156	119,760	-	119,760	N/A
Licenses	241,909	(71,713)	170,196	241,909	(65,665)	176,244	10
Software	211,411	(137,528)	73,883	161,284	(84,682)	76,602	3
Trademarks	3,230,000	(533,992)	2,696,008	3,230,000	(453,242)	2,776,758	10
FAA waiver	5,930,000	(980,363)	4,949,637	5,930,000	(832,113)	5,097,887	10
Developed technology	27,621,414	(3,428,388)	24,193,026	23,270,614	(2,752,353)	20,518,261	3 - 10
Non-compete agreements	840,000	(840,000)	-	840,000	(840,000)	-	1
Marketing-related assets	890,000	(15,790)	874,210	-	-	-	10
Customer relationships	1,090,000	(56,837)	1,033,613	60,000	(16,839)	43,161	5
	$ 40,265,657	$ (6,093,264)	$ 34,172,393	$ 33,774,714	$ (5,072,225)	$ 28,863,773	

Amortization expenses for the three months ended March 31, 2023, and 2022 were $978,838 and $855,326, respectively.

On March 20, 2022, the Company entered into a Purchase Agreement to acquire the assets of Ardenna, Inc., a leading provider of image processing and machine learning software solutions for rail infrastructure monitoring and inspections. The consideration for the acquisition was $900,000 in cash and 780,000 shares of the Company’s Common Stock (the “Ardenna Consideration Shares”). In connection of the acquisition, the parties entered into a Registration Rights and Lock-Up Agreement, which required the Company to file a resale registration statement covering the resale of the Ardenna Consideration Shares no later than ninety (90) days after the closing date and restricted the holder from transferring the Ardenna Consideration Shares for 180 days from the closing date, subject to certain exceptions. On April 5, 2022, the Company completed the acquisition. As a result of this transaction, the Company recognized developed technology in the amount of $6,843,600. The Company filed the registration statement Form S-3 on July 1, 2022, and it was declared effective on July 15, 2022.

On August 31, 2022, the Company entered into an asset purchase agreement with Field of View LLC, a North Dakota limited liability company. The total purchase consideration consisted of $250,000 of cash payable in monthly instalments over twelve months, and $75,520 of shares of the Company's Common Stock, representing 16,000 shares ("FOV Consideration Shares"). The asset purchase agreement restricted the holder from transferring the FOV Consideration Shares for 180 days from the closing date, subject to certain exceptions. The Company acquired computer and research and development equipment amounting to $18,506 and intangibles for developed technology for $307,014. As of March 31, 2023, the equity was issued in full, and cash paid amounted to $41,667 for the three-months ended March 31, 2023 and $104,167 for the twelve months ended December 31, 2022. The balance payable of $103,666 is accounted for as accrued purchase consideration included in accrued expenses and other current liabilities payable over the next five months.

On October 19, 2022, Airobotics entered into an Asset Purchase Agreement, as amended, to acquire all of the intellectual property, technical systems, and operations of Iron Drone Ltd. ("Iron Drone"), an Israeli-based company specializing in the development of autonomous counter-drone systems (the "Iron Drone Transaction"). The consideration for the Iron Drone Transaction was (i) $135,000 in cash, (ii) 46,129 shares of the Company's Common Stock, (iii) warrants exercisable for 26,553 shares of the Company's commons stock with an exercise price of $11.95, which shall be exercisable if, during the 48 month period following the closing, the average price per share of the Company's Common Stock exceeds $52.38 for a period of at least 90 consecutive trading days, (iv) a right to acquire 35,377 shares of the Company's Common Stock if during the 48 month period after the closing, the average price per share of the Company's Common Stock exceeds $18.25 for a period of at least 90 consecutive trading days, and (v) a right to acquire 70,753 shares of the Company's Common Stock if during the 48 month period after the closing, the average price per share of Company's Common Stock exceeds $20.27 for a period of at least 90 consecutive trading days. On March 6, 2023, the Company completed the Iron Drone Transaction. The Company acquired intangibles for developed technology for $220,800. As of March 31, 2023, the equity was issued in full, and cash paid amounted to $28,564. The balance payable of $106,436 is accounted for as accrued purchase consideration included in accrued expenses and other current liabilities.

Estimated amortization expense for the next five years for the intangible assets currently being amortized is as follows:

Year Ending December 31,	Estimated Amortization
2023 (9 months)	$ 3,111,886
2024	$ 4,148,300
2025	$ 4,086,953
2026	$ 4,004,518
2027	$ 3,997,357
Thereafter	$ 14,823,379
Total	$ 34,172,393

NOTE 7 – LONG-TERM EQUITY INVESTMENT

On October 5, 2021, Ondas Holdings irrevocably subscribed and agreed to purchase 3,141,098 shares of Series A-1 Preferred Stock of Dynam.AI, Inc. ("Dynam"), a tech-enabled services provider for critical or complex artificial intelligence and machine learning projects, par value $0.00001 for the aggregate price of $500,000 representing subscription price of $0.15918 per share by way of a non-brokered private placement for approximately 11% ownership in Dynam. In addition to the equity investment, Ondas Holdings' wholly owned subsidiary, American Robotics, entered into a development, services and marketing agreement with Dynam on October 1, 2021. The agreement allows American Robotics to expand and enhance its IP library and analytics capabilities with artificial intelligence using physics-based algorithms and allows Dynam to further the development of Vizlab™, Dynam's proprietary AI/ML platform, an advanced developer toolkit for data scientists.

On July 15, 2022, Ondas Holdings irrevocably subscribed and agreed to purchase 3,357,958 shares of Series Seed Preferred Stock of Dynam for the aggregate price of $1,000,000 representing a subscription price of $0.2978 per share by way of a non-brokered private placement for approximately 8% ownership in Dynam. This brings Ondas Holdings investment in Dynam to 6,499,056 shares or approximately 19% ownership.

This long-term equity investment consists of an equity investment in a private company through preferred shares, which are not considered in-substance Common Stock, that is accounted for at cost, with adjustments for observable changes in prices or impairments, and is classified as long-term equity investment on our consolidated balance sheets with adjustments recognized in other (expense) income, net on our consolidated statements of operations. The Company has determined that the equity investment does not have a readily determinable fair value and elected the measurement alternative. Therefore, the equity investment's carrying amount will be adjusted to fair value at the time of the next observable price change for the identical or similar investment of the same issuer or when an impairment is recognized. Each reporting period, the Company performs a qualitative assessment to evaluate whether the investment is impaired. The assessment includes a review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. If the investment is impaired, the Company writes it down to its estimated fair value. As of March 31, 2023 and December 31, 2022 the long-term equity investment had a carrying value of $1,500,000 and $1,500,000, respectively.

Our CEO Eric Brock is a director of Dynam. An officer and a director of the Company have invested an aggregate of $35,000 in Dynam as of March 31, 2023.

NOTE 8 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	March 31, 2023	December 31, 2022
Accrued payroll and other benefits	$ 1,564,944	$ 390,698
D&O insurance financing payable	378,513	516,619
Accrued professional fees	91,238	792,367
Accrued purchase consideration	210,603	145,833
Other accrued expenses and payables	222,234	1,246,847
Total accrued expenses and other current liabilities	$ 2,467,532	$ 3,092,364

NOTE 9 – LONG-TERM NOTES PAYABLE

2017 Convertible Promissory Note

On September 14, 2017, the Company and an individual entered into a convertible promissory note with unilateral conversion preferences by the individual (the "2017 Convertible Promissory Note"). On July 11, 2018, the Company's Board approved certain changes to the 2017 Convertible Promissory Note wherein the conversion feature was changed from unilateral to mutual between the individual and the Company.

The Company may at any time on or after a qualified public offering convert any unpaid repayment at the IPO conversion price. The conversion price is the lesser of the (i) price per share of Common Stock sold in the Qualified Public Offering, discounted by 20%, and (ii) the price per share of Common Stock based on a pre-money Company valuation of $50 million on a Fully Diluted Basis.

On both March 31, 2023, and December 31, 2022, the total outstanding balance of the 2017 Convertible Promissory Note was $300,000. The maturity date of the 2017 Convertible Promissory Note is based on the payment of 0.6% of quarterly gross revenue until 1.5 times the amount of the 2017 Convertible Promissory Note is paid. Accrued interest on March 31, 2023, and December 31, 2022 was $39,457 and $40,965, respectively. Interest expense for the three months ended March 31, 2023 and 2022 was $3,750.

2022 Convertible Exchange Notes

On October 28, 2022, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain investors pursuant to which we issued convertible notes ("2022 Convertible Promissory Notes") in the principal amount of $34.5 million, with a debt discount of $4.5 million and issuance costs of $2.3 million. The net amount of proceeds to us from the 2022 Convertible Promissory Notes after deducting the placement agent's fees and transaction expenses (issuance costs) were approximately $27,703,000. The Company intends to use the net proceeds of the 2022 Convertible Promissory Notes for general corporate purposes, including funding capital, expenditures, or the expansion of its business and providing working capital.

On January 20, 2023, the Company entered into an Amendment No. 1 to Securities Purchase Agreement ("Amended SPA") to that certain Purchase Agreement. The Amended SPA amends the notes attached as exhibits to the Purchase Agreement.

Pursuant to the terms of the Purchase Agreement, on January 20, 2023, the Company exchanged the 2022 Convertible Promissory Notes, on a dollar-for-dollar basis, into 3% Senior Convertible Notes Due 2024 (the "2022 Convertible Exchange Notes").

The 2022 Convertible Exchange Notes are identical in all material respects to the 2022 Convertible Promissory Notes, except that they (i) are issued pursuant to the Base Indenture (as defined below) and the First Supplemental Indenture (as defined below); (ii) have a maturity date of October 28, 2024; (iii) allow for the Acceleration of Installment Amounts (as defined in the 2022 Convertible Exchange Notes) not to exceed eight (8) times the Installment Amount (as defined in the 2022 Convertible Exchange Notes) with respect to the Installment Date (as defined in the 2022 Convertible Exchange Notes) related to the Current Acceleration (as defined in the 2022 Convertible Exchange Notes); and (iv) modify the Acceleration Conversion Price (as defined in the 2022 Convertible Exchange Notes).

The 2022 Convertible Exchange Notes were issued pursuant to the first supplemental indenture (the “First Supplemental Indenture”), dated as of January 20, 2023, between the Company and Wilmington Savings Fund Society, FSB, as trustee (the “Trustee”). The First Supplemental Indenture supplements the indenture entered into by and between the Company and the Trustee, dated as of January 20, 2023 (the “Base Indenture” and, together with the First Supplemental Indenture, the “Indenture”). The Indenture has been qualified under the Trust Indenture Act of 1939, and the terms of the 2022 Convertible Exchange Notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act.

As of March 31, 2023, the total outstanding principal on the 2022 Convertible Exchange Notes was $25,988,886, net of debt discount and issuance costs of $1,808,780. As of December 31, 2022, the total outstanding principal on the 2022 Convertible Promissory Notes was $30,048,135, net of debt discount and issuance costs of $3,251,865. Accrued interest on March 31, 2023, and December 31, 2022 was $399,516 and $176,629, respectively

For the three months ended March 31, 2023, we recognized interest expense of $302,750, amortization expense of $1,002,907 related to the debt discount, and amortization expense of $497,734 related to the issuance costs. The remaining unamortized debt discount of $1,138,222 and issuance costs of $670,558 as of March 31, 2023 will be amortized via the straight-line method through the maturity date. This method is materially consistent with the interest method under ASC 835. Interest expense and amortization expense of the debt discount and issuance costs are included in Interest expense on the Consolidated Statements of Operations.

The 2022 Convertible Exchange Notes bear interest at the rate of 3% per annum. The 2022 Convertible Exchange Notes are payable in monthly installments beginning on November 1, 2022 through the maturity date of October 28, 2024 (each such date, an “Installment Date”). On each Installment Date, we will make monthly payments by converting the applicable “Installment Amount” (as defined below) into shares of our Common Stock (an “Installment Conversion”), subject to satisfaction of certain equity conditions, including a minimum $1.50 share price, $500,000 minimum daily volume, and maintaining continued Nasdaq listing requirements among other conditions. If these conditions are not met, installments can be requested in cash. For the three months ended March 31, 2023, we issued 2,104,988 common shares as a result of Installment Conversion. At each Installment Date the note holder may defer some or all of the amount due until the subsequent Installment Date. In between Installment Dates, the note holder also has the option to accelerate certain portions of principal due. At each Installment Date the price used to exchange outstanding notes into Common Stock is based on an 8% discount to the lowest volume weighted average price (“VWAP”) of the respective previous five trading days. The maximum conversion price is $4.25 per share.

The “Installment Amount” will equal:

(i) for all Installment Dates other than the maturity date, the lesser of (x) the Holder Pro Rata Amount of $1,437,500 and (y) the principal amount then outstanding under the Note; and

(ii) on the maturity date, the principal amount then outstanding under the Note.

Each month, the note holders may accelerate a portion of the note due up to eight times the minimum Installment Amount of $1,437,500.

Government Grant Liability

Airobotics has received grants from the Israel Innovation Authority (“IIA”) to finance its research and development programs in Israel, through which Airobotics received IIA participation payments in the aggregate amount of $2.6 million through March 31, 2023. All of these are royalty-bearing grants. In return, Airobotics is committed to pay IIA royalties at a rate of 3-3.5% of future sales of the developed products, up to 100% of the amounts of grants received plus interest at LIBOR. Through March 31, 2023, approximately $449,000 in royalties have been paid to the IIA. The Company’s royalty liability to the IIA as of March 31, 2023, including grants received by Airobotics and the associated LIBOR interest on all such grants was $1,812,904. Interest expense for January 23, 2023 - March 31, 2023 was $33,217.

NOTE 10 – STOCKHOLDERS’ EQUITY

Common Stock

On March 31, 2023 and December 31, 2022, the Company had 116,666,667 shares of Common Stock, par value $0.0001 (the “Common Stock”), authorized for issuance, of which 49,108,159 and 44,108,661 shares of our Common Stock were issued and outstanding, respectively.

Preferred Stock

At March 31, 2023 and December 31, 2022, the Company had 10,000,000 shares of preferred stock, par value $0.0001, authorized, of which 5,000,000 shares are designated as Series A Convertible Preferred Stock (“Series A Preferred”) and 5,000,000 shares are non-designated (“blank check”) shares. As of March 31, 2023, and December 31, 2023, the Company had no preferred stock outstanding.

The Company evaluated its Series A Preferred to determine if those instruments or embedded components of those instruments qualify as derivatives to be accounted for separately. The Preferred Shares include an embedded contingent automatic conversion option which is bifurcated from the Preferred Shares and recorded separately as a derivative liability, creating a discount to the Preferred Shares. The fair value of the embedded derivative is recorded as a liability and marked-to-market each balance sheet date, with the change in fair value recorded as other income (expense) in the Company's accompanying consolidated statement of operations. The discount arising from the identification of the embedded conversion feature will not be accreted or amortized as the Series A Preferred has been classified in equity.

Form S-3

On January 29, 2021, the Company filed a shelf Registration Statement on Form S-3 for up to $150,000,000 with the SEC (the "Form S-3") for shares of its Common Stock; shares of its preferred stock, which the Company may issue in one or more series or classes; debt securities, which the company may issue in one or more series; warrants to purchase its Common Stock, preferred stock or debt securities; and units. The Form S-3 was declared effective by the SEC on February 5, 2021. In connection with the 2022 Convertible Promissory Notes, on October 26, 2022, the Company filed a Registration Statement on Form S-3MEF to register $11,696,000, the aggregate maximum amount, of the Company's securities. This registration statement became effective upon filing.

ATM Offering

On March 22, 2022, the Company, entered into an Equity Distribution Agreement (the "ATM Agreement") with Oppenheimer. (the "Sales Agent"). Pursuant to the terms of the ATM Agreement, the Company may offer and sell (the "ATM Offering") from time to time through the Sales Agent, as the Company's sales agent, up to $50 million of shares of Common Stock, (the "ATM Shares"). Sales of the ATM Shares, if any, may be made in sales deemed to be "at the market offerings" as defined in Rule 415 promulgated under the Securities Act. The Sales Agent is not required to sell any specific number or dollar amount of ATM Shares but will act as a sales agent using commercially reasonable efforts consistent with its normal trading and sales practices and applicable state and federal laws, rules, and regulations and the rules of the Nasdaq Stock Market, on mutually agreed terms between the Sales Agent and the Company. The Sales Agent will receive from the Company a commission of 3.0% of the gross proceeds from the sales of ATM Shares by the Sales Agent pursuant to the terms of the ATM Agreement. Net proceeds from the sale of the ATM Shares will be used for general corporate purposes.

On October 26, 2022, Ondas entered into Amendment No. 1 to the Equity Distribution Agreement with the Sales Agent ("Amendment No. 1"). Amendment No. 1 provides for the reduction of the aggregate offering price from up to $50 million to up to $40 million of shares of its Common Stock.

The offering of ATM Shares pursuant to the ATM Agreement will terminate upon the earliest of (i) the sale of all ATM Shares subject to the ATM Agreement, and (ii) the termination of the ATM Agreement pursuant to its terms.

The ATM Shares are issued pursuant to the Form S-3 and the prospectus supplement thereto dated March 22, 2022.

There were no shares sold during the three months ended March 31, 2023 and 2022.

Stock Issued for Convertible Debt

On January 1, 2023, January 26, 2023, January 31, 2023 and March 1, 2023, the Company issued 361,115, 361,808, 1,085,874 and 296,191 shares of its Common Stock, respectively, to the lenders in lieu of cash payments for $4,794 of outstanding interest and $3,000,000 of outstanding principal on the 2022 Convertible Exchange Notes (See Note 9 – Long-term Notes Payable for further details).

Warrants to Purchase Common Stock

We use the Black-Scholes-Merton option model (the "Black-Scholes Model") to determine the fair value of warrants to purchase Common Stock of the Company. The Black-Scholes Model is an acceptable model in accordance with U.S GAAP. The Black-Scholes Model requires the use of a number of assumptions including volatility of the stock price, the weighted average risk-free interest rate, and the weighted average term of the warrant.

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the warrants. Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Our estimated volatility is an average of the historical volatility of peer entities whose stock prices were publicly available over a period equal to the expected life of the awards. We used the historical volatility of peer entities due to the lack of sufficient historical data of our stock price.

As of March 31, 2023, we had warrants outstanding to purchase an aggregate of 2,366,092 shares of Common Stock with a weighted average contractual remaining life of approximately 6.03 years, and exercise prices ranging from $0.03 to $12.35 per share, resulting in a weighted average exercise price of $7.96 per share.

Warrants Granted During 2023

As of December 31, 2022, we had Warrants outstanding to purchase an aggregate of 1,901,802 shares of Common Stock with a weighted-average contractual remaining life of approximately 7.47 years, and exercise prices ranging from $0.03 to $7.89 per share, resulting in a weighted average exercise price of $7.63 per share.

On January 23, 2023, the Company issued warrants to purchase an aggregate of 586,440 shares of Common Stock with exercise prices ranging from $9.26 to $12.35 per share, resulting in a weighted average exercise price of $9.95 per share, as consideration in the acquisition of Airobotics.

The assumptions used in the Black-Scholes Model are set forth in the table below.

	Three months ended, March 31, 2023
Stock price	$ 1.85
Risk-free interest rate	4.21-4.70%
Volatility	50.64-55.34%
Expected life in years	0.12-1.63
Dividend yield	0.00%

A summary of our Warrants activity for the three months ended March 31, 2023 and related information follows:

	Number of Shares Under Warrant	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance on January 1, 2023	1,901,802	$ 7.63	7.47
Issued	586,440	$ 9.95	1.06
Expired	(122,150)	$ 2.57	
Balance on March 31, 2023	2,366,092	$ 7.96	6.03

<u>Equity Incentive Plan</u>

In 2018, our stockholders adopted the 2018 Equity Incentive Plan (the “2018 Plan”) pursuant to which 3,333,334 shares of our Common Stock has been reserved for issuance to employees, including officers, directors and consultants. The 2018 Plan shall be administered by the Board, provided however, that the Board may delegate such administration to the compensation committee (the “Committee”). Subject to the provisions of the 2018 Plan, the Board and/or the Committee shall have authority to grant, in its discretion, incentive stock options, or non-statutory options, stock awards or restricted stock purchase offers (“Equity Awards”).

At the 2021 Annual Meeting of Stockholders of the Company held on November 5, 2021, stockholders of the Company approved, among other matters, the Ondas Holdings Inc. 2021 Stock Incentive Plan (the “Plan”). The Committee adopted the Plan on September 30, 2021, subject to stockholder approval. The purpose of the Plan is to enable the Company to attract, retain, reward, and motivate eligible individuals by providing them with an opportunity to acquire or increase a proprietary interest in the Company and to incentivize them to expend maximum efforts for the growth and success of the Company, so as to strengthen the mutuality of the interests between the eligible individuals and the shareholders of the Company. The Plan provides for the issuance of awards including stock options, stock appreciation rights, restricted stock, restricted stock units, and performance awards. The Plan provides for a reserve of 6,000,000 shares of the Company’s Common Stock.

Stock Options to Purchase Common Stock

The Company awards stock options to certain employees, directors, and consultants, which represent the right to purchase common shares on the date of exercise at a stated exercise price. Stock options granted to employees generally vest over a two to four-year period and are contingent on ongoing employment. Compensation expenses related to these awards is recognized straight-line over the applicable vesting period. Stock options granted to consultants are subject to the attainment of pre-established performance conditions. The actual number of shares subject to the award is determined at the end of the performance period and may range from zero to 100% of the target shares granted depending upon the terms of the award. Compensation expenses related to these awards is recognized when the performance conditions are satisfied.

On January 23, 2023, in connection with the acquisition of Airobotics, the Company granted stock options to purchase 1,064,946 shares of Common Stock, of which 773,244 options were vested and the remaining 291,702 vest monthly through November 13, 2025. The vested options have a weighted average contractual remaining life of approximately 6.08 years, an exercise price ranging from $0.49 to $12.35 per share, resulting in a weighted average exercise price of $5.43 per share, and a grant date fair value ranging from $0 to $1.48 per share. The unvested options have a weighted average contractual remaining life of approximately 7.52 years, an exercise price ranging from $0.49 to $24.70 per share, resulting in a weighted average exercise price of $15.80 per share, and a grant date fair value ranging from $0 to $1.45 per share.

On February 9, 2023, the Committee of the Board granted an aggregate of 317,625 stock options to purchase shares of the Company's Common Stock to certain employees. The stock options vest over a four-year period and are contingent on ongoing employment. They are included in compensation expenses.

On March 16, 2023, the Committee of the Board granted an aggregate of 1,793,000 stock options to purchase shares of the Company's Common Stock to certain employees. The stock options vest over a four-year period and are contingent on ongoing employment. They are included in compensation expenses.

On March 16, 2023, the Committee of the Board also granted an aggregate of 31,250 stock options to purchase shares of the Company's Common Stock to certain non-employees. 6,250 stock options vested on the grant date, and 25,000 vest on December 31, 2023. They are included in compensation expenses.

The assumptions used in the Black-Scholes Model are set forth in the table below.

	Three months ended, March 31, 2023
Stock price	$ 1.46-2.06
Risk-free interest rate	3.61-4.82%
Volatility	49.83-58.92%
Expected life in years	0.12-6.25
Dividend yield	0.00%

A summary of our Option activity for the three months ended March 31, 2023 and related information follows:

	Number of Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance on January 1, 2023	2,412,286	$ 5.77	7.58
Granted	3,206,821	$ 3.80	
Forfeited	(153,709)	$ 5.01	
Balance on March 31, 2023	5,465,398	$ 4.64	8.47
Vested and Exercisable at March 31, 2023	2,143,939	$ 6.13	2.73

As of March 31, 2023, total unrecognized compensation expense related to non-vested stock options was $3,527,915 which is expected to be recognized over a weighted average period of 3.17 years.

Total stock-based compensation expense for stock options for the three months ended March 31, 2023 and 2022 is as follows:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
General and administrative	$ 119,199	$ 80,480
Sales and marketing	129,747	135,983
Research and development	53,291	116,179
Cost of goods sold	2,692	-
Total stock-based expense related to options	$ 304,929	$ 332,642

Restricted Stock Units

On February 9, 2023, the Committee approved the grant of 3,000 restricted stock units to an employee. The restricted stock units vest in two successive equal annual installments with the first vesting date commencing on the first anniversary of the award date and are contingent on continuing employment.

On February 9, 2023, the Committee also approved the grant of 66,000 restricted stock units to two employees. The restricted stock units vest as follows: 20% on September 13, 2023, 40% on January 10, 2024, and 40% on February 21, 2024 and are contingent on continuing employment.

The Company recognizes restricted stock unit expense over the period of vesting or period that services will be provided. Compensation associated with shares of Common Stock issued or to be issued to consultants and other non-employees is recognized over the expected service period beginning on the measurement date, which is generally the time the Company and the service provider enter into a commitment whereby the Company agrees to grant shares in exchange for the services to be provided.

The following is a summary of restricted stock unit activity for the three months ended March 31, 2023:

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Vesting Period (Years)
Unvested balance at January 1, 2023	1,110,027	$ 6.89	1.52
Granted	69,000	$ 2.06	
Vested	(43,040)	$ 2.45	
Cancelled	(14,800)	$ 7.19	
Unvested balance at March 31, 2023	1,121,187	$ 6.76	1.25

Total stock-based compensation expense for restricted stock units for the three months ended March 31, 2023 and 2022 is as follows:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
General and administrative	$ 617,839	$ 646,852
Sales and marketing	9,395	-
Research and development	331,193	348,901
Total stock-based expense related to restricted stock units	$ 958,427	$ 995,753

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. There are no such loss contingencies that are included in the financial statements as of March 31, 2023.

NOTE 12 – SEGMENT INFORMATION

Operating segments are defined as components of an entity for which discrete financial information is available and is regularly reviewed by the Chief Operating Decision Maker ("CODM") in making decisions regarding resource allocation and performance assessment. The Company's CODM is its Chief Executive Officer. The Company determined it has two reportable segments: Ondas Networks and Ondas Autonomous Systems as the CODM reviews financial information for these two businesses separately. The Company has no inter-segment sales. The following table presents segment information for three months ended March 31, 2023:

	Three Months Ended March 31, 2023		
	Ondas Networks	Ondas Autonomous Systems	Total
Revenue, net	$ 1,130,202	$ 1,465,789	$ 2,595,991
Depreciation and amortization	35,744	1,195,638	1,231,382
Interest income	3,679	3,666	7,345
Interest expense	908,964	886,509	1,795,473
Stock based compensation	267,531	995,825	1,263,356
Net loss	(4,225,243)	(10,230,308)	(14,455,551)
Goodwill	-	27,603,438	27,603,438
Capital expenditures	-	135,224	135,224
Total assets	$ 18,879,201	$ 74,892,433	$ 93,771,634

NOTE 13 – INCOME TAXES

The Company had a net deferred tax asset of $35.9 million as of December 31, 2022, including a tax benefit from approximately $79 million of net operating loss carry-forwards of $27.5 million. A valuation allowance of $35.9 million was provided against this asset resulting in deferred assets, net of valuation allowance of $0.

Airobotics Limited had a tax benefit of approximately $23.1 million as of December 31, 2022, resulting from Israeli tax loss carry-forwards of $110.0 million. These losses are available to offset future profits of Airobotics Limited. As of the acquisition date of January 23, 2023, the Company estimated that Airobotics had a deferred tax liability of $1.4 million resulting from the acquisition accounting of amortizable intangibles assets. This liability together with a valuation allowance of $21.7 million result in deferred assets, net of valuation allowance of $0, relating to Airobotics.

In assessing the realizability of deferred tax assets, including the net operating loss carry forwards, the Company assesses the positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize its existing deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period when those temporary differences become deductible. Based on its assessment, the Company has provided a full valuation allowance against its deferred tax assets since their future utilization remains uncertain at this time.

In accordance with Section 382 of the Internal Revenue Code, the usage of the Company's net operating loss carry forwards could be limited in the event a change of control has occurred. As of December 31, 2021, the Company completed an analysis and determined that there were multiple ownership changes. Provided sufficient taxable income is generated the annual base limitation plus increased limitation calculated pursuant to IRS Notice 2003-65 will allow the Company to utilize all existing losses within the carryover periods.

As of March 31, 2023 and December 31, 2022, management does not believe the Company has any material uncertain tax positions that would require it to measure and reflect the potential lack of sustainability of a position on audit in its financial statements. The Company will continue to evaluate its uncertain tax positions in future periods to determine if measurement and recognition in its financial statements is necessary. The Company does not believe there will be any material changes in its unrecognized tax positions over the next year.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company has a long-term equity investment in Dynam with a carrying value of $1,500,000 as of March 31, 2023 and December 31, 2022. See Note 7 – Long-Term Equity Investment. In addition to the equity investment, the Company paid Dynam for services of $0 and $515,680 during the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023 and December 31, 2022, amounts owed to Dynam were $140,800 and $0, respectively, which are included in Accounts payable.

As of March 31, 2023 and December 31, 2022, the Company owed $0 and $359,159 to independent directors, respectively, which is included in Accrued expenses and other current liabilities.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events as of May 15, 2023, the date the condensed consolidated financial statements were available to be issued according to the requirements of ASC topic 855.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion and analysis provide information which our management believes to be relevant to an assessment and understanding of the results of operations and financial condition of Ondas Holdings Inc. ("Ondas," "we" or the "Company"). This discussion should be read together with our condensed consolidated financial statements and the notes included therein, which are included in this Quarterly Report on Form 10-Q (the "Report"). This information should also be read in conjunction with the information contained in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (the "SEC") on March 14, 2023, including the audited consolidated financial statements and notes included therein as of and for the year ended December 31, 2022 ("2022 Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. For a description of factors that may cause our actual results to differ materially from those anticipated in these forward-looking statements, please refer to the below section of this Report titled "Cautionary Note Regarding Forward-Looking Statements." The reported results will not necessarily reflect future results of operations or financial condition.

Overview

Ondas Holdings is a leading provider of private wireless, drone, and automated data solutions through its wholly owned subsidiaries Ondas Networks Inc. ("Ondas Networks"), American Robotics, Inc. ("American Robotics" or "AR") and Airobotics, Ltd. ("Airobotics"). Ondas Holdings acquired Airobotics, an Israeli-based developer of autonomous drone systems on January 23, 2023. American Robotics and Airobotics are operated together, under a separate business unit called Ondas Autonomous Systems. Ondas Networks and Ondas Autonomous Systems together provide users in rail, energy, mining, agriculture, public safety and critical infrastructure and government markets with improved connectivity, data collection capabilities, and data collection and information processing capabilities. We operate Ondas Networks and Ondas Autonomous Systems as separate business segments, and the following is a discussion of each segment. See Note 1 and Note 2 of the accompanying Consolidated Financial Statements for further information regarding our segments.

Ondas Networks Segment

Ondas Networks provides wireless connectivity solutions enabling mission-critical Industrial Internet applications and services. We refer to these applications as the Mission-Critical Internet of Things ("MC-IoT"). Our wireless networking products are applicable to a wide range of MC-IoT applications, which are most often located at the very edge of large industrial networks. These applications require secure, real-time connectivity with the ability to process large amounts of data at the edge of large industrial networks. Such applications are required in all of the major critical infrastructure markets, including rail, electric grids, drones, oil and gas, and public safety, homeland security and government, where secure, reliable and fast operational decisions are required in order to improve efficiency and ensure a high degree of safety and security.

We design, develop, manufacture, sell and support FullMAX, our patented, Software Defined Radio ("SDR") platform for secure, licensed, private, wide-area broadband networks. Our customers install FullMAX systems in order to upgrade and expand their legacy wide-area network infrastructure. Our MC-IoT intellectual property has been adopted by the Institute of Electrical and Electronics Engineers ("IEEE"), the leading worldwide standards body in data networking protocols, and forms the core of the IEEE 802.16s standard. Because standards-based communications solutions are preferred by our mission-critical customers and ecosystem partners, we have taken a leadership position in IEEE as it relates to wireless networking for industrial markets. As such, management believes this standards-based approach supports the adoption of our technology across a burgeoning ecosystem of global partners and end markets.

Our software-based FullMAX platform is an important and timely upgrade solution for privately-owned and operated wireless wide-area networks, leveraging Internet Protocol-based communications to provide more reliability and data capacity for our mission-critical infrastructure customers. We believe industrial and critical infrastructure markets throughout the globe have reached an inflection point where legacy serial and analog based protocols and network transport systems no longer meet industry needs. In addition to offering enhanced data throughput, FullMAX is an intelligent networking platform enabling the adoption of sophisticated operating systems and equipment supporting next-generation MC-IoT applications over wide field areas. These new MC-IoT applications and related equipment require more processing power at the edge of large industrial networks and the efficient utilization of network capacity and scarce bandwidth resources which can be supported by the "Fog-computing" capability integrated in our end-to-end network platform. Fog-computing utilizes management software to enable edge compute processing and data and application prioritization in the field enabling our customers more reliable, real-time operating control of these new, intelligent MC-IoT equipment and applications at the edge.

Our Partnership with Siemens Mobility

In April 2020, Ondas Networks entered into a strategic partnership with Siemens Mobility ("Siemens"), a worldwide leader in seamless, sustainable, reliable and secure transportation solutions for more than 160 years, to both market our FullMAX-based networking technology and services and to jointly develop wireless communications products for the North American Rail Industry based on Siemens' Advanced Train Control System ("ATCS") protocol and our FullMAX MC-IoT platform.

We believe Siemens has both the sales and marketing reach and support to drive our technology to wide scale acceptance across the global rail market beginning with the North American Class I Railroad market. In the third quarter of 2021 we completed the development of our first jointly-developed product with Siemens – the dual-mode ATCS/MC-IoT radio systems. Siemens is now marketing and selling these proprietary systems under the brand name *Airlink* to our railroad customers. The dual-mode ATCS radio systems support Siemens' extensive installed base of ATCS radios as well as offer Siemens' customers the ability to support a host of new advanced rail applications utilizing our MC-IoT wireless system. These new applications, including Advanced Grade Crossing Activation and Monitoring, Wayside Inspection, Railcar Monitoring and next generation signaling and train control systems, are designed to increase railroad productivity, reduce costs and improve safety. In addition, Siemens markets and sells Ondas Networks' standalone MC-IoT 802.16 products under the Siemens *Airlink brand.*

Our relationship with Siemens has expanded significantly since entering into the partnership both with (i) the wider marketing of our wireless technology platform and (ii) multiple additional joint-product programs. Siemens has expanded its marketing reach of Ondas Networks products with identified opportunities in North American Passenger and Transit Rail as well as in European and Asian Rail markets. We believe our technology has broad potential in these large, newly targeted markets.

In November 2021, Siemens secured its first commercial 900 MHz rail order for a major Class I Railroad in the United States which was delivered in December 2021. In August 2022, we announced that we had secured an initial volume order from Siemens for the Class I Rail 900 MHz Network consisting of both ATCS compatible products along with Ondas' catalog products. In September 2022, we received government authorization to sell ATCS radios in Canada. In March 2023 the Association of American Railroads ("AAR") formally announced that IEEE 80216 standard would be the wireless platform for the greenfield 900 MHz network. The AAR also confirmed they have agreed with the Federal Communications Committee to retire the legacy 900 MHs band by September 2025 and that the wireless network in the new 900 MHz band would be substantially built by April 2026.

Additional Critical Markets

We have launched additional initiatives to take our MC-IoT connectivity and ecosystem partnering strategy into other critical infrastructure markets. In June 2022, we announced the first successful installation of our technology into an Integrated Coastal Surveillance System (ICSS) in the Caribbean with a global defense contractor. In the fourth quarter of 2022, we received and delivered on a new ICSS order for the defense contractor to be deployed in India. We expect additional orders from this defense vendor for the ICSS application in 2023. We believe our FullMAX technology's licensed frequency flexibility, reliability, and long communications range over ocean surfaces, is broadening the scale of our technology in this emerging market for homeland security.

Ondas Autonomous Systems Segment

Our Ondas Autonomous Systems business unit designs, develops, and markets commercial drone solutions via the Optimus System™ and Scout System™ (the "Autonomous Drone Platforms").

The Autonomous Drone Platforms are highly automated, AI-powered drone systems capable of continuous, remote operation and are marketed as "drone-in-a-box" turnkey data solution services. They are deployed for critical industrial and government applications where data and information collection and processing are required. These use cases include public safety, security and smart city deployments where routine, high-resolution automated emergency response, mapping, surveying, and inspection services are highly valued, in addition to industrial markets such as oil & gas, rail and ports which emphasize security and inspection solutions. The Autonomous Drone Platforms are typically provided to customers under a Data-as-a-Service (DaaS) business model, while some customers will choose to purchase and own and operate an Optimus Systems™.

American Robotics and Airobotics have industry leading regulatory successes which include having the first drone system approved by the Federal Aviation Administration ("FAA") for automated operation beyond-visual-line-of-sight (BVLOS) without a human operator on-site.

In addition to the Autonomous Drone Platforms, we also offer a counter-drone system called the Raider™. The Raider™ was developed by Iron Drone Ltd. ("Iron Drone"), an Israeli-based company specializing in the development of autonomous counter-drone systems, and is deployed by government and enterprise customers to provide security and protect critical infrastructure, assets and people from the threat of hostile drones. Ondas Holdings acquired Iron Drone on March 6, 2023.

Autonomous Drone Platforms

We design, develop and manufacture autonomous drone systems, providing high-fidelity, ultra-high-resolution aerial data to enterprise and government customers. We currently prioritize the marketing of our Optimus System™ which provides customers with a turnkey data and information solution and the ability to continuously digitize, analyze, and monitor their assets and field operations in real-time or near real-time. We believe the market opportunity for our Scout System™ remains significant. As we drive market adoption with the Optimus platform, we anticipate re-introducing the Scout platform including newly enhanced versions to help segment the market for different use cases and price points.

The Optimus System™ has been designed from the ground up as an end-to-end product capable of continuous unattended operations in the real world. Powered by innovations in robotics automation, machine vision, edge computing, and AI. Once installed in the field at customer locations, a fleet of connected Optimus Systems™, which are often deployed as networked drone infrastructure, which we refer to as Urban Drone Infrastructure, remains indefinitely positioned in an area of operation, automatically collecting and seamlessly delivering data and information regularly and reliably.

We market the Optimus System™ under a DaaS business model, whereby our drone platform aggregates customer data and provides the data analytics meeting customer requirements in return for an annual subscription fee. Some customers purchase Optimus Systems™ to own and operate themselves. We also engage distributors to assist in the sales and marketing of our Optimus System™ in geographic markets where its more cost effective to identify and service potential customers by engaging local third parties. These distribution agreements can include joint ventures, where Ondas Autonomous Systems will provide technical expertise to support the joint venture partner in the provision of aerial data services to customers.

The Optimus System™ consists of (i) Optimus™, a highly automated, AI-powered drone with advanced imaging payloads, (ii) the Airbase™, a ruggedized weatherproof base station for housing, battery swapping, battery charging, payload swapping, data processing, and cloud transfer, and (iii) Insightful™, a secure web portal and API which enables remote interaction with the system, data, and resulting analytics anywhere in the world. These major subsystems are connected via a host of supporting technologies. Airbase™ has internal robotic systems that enable the automated swapping of batteries and payloads. Automated battery swapping allows for 24/7 operation of Optimus as the Optimus drone can immediately be redeployed after returning to the dock for a battery swap. Similarly, the ability to autonomously swap sensors and advanced payloads without human intervention allows for the Optimus System to provide multiple applications and use cases from a single location.

American Robotics and Airobotics have industry leading regulatory successes which include having the first drone system approved by the FAA for automated operation BVLOS without a human operator or visual observer on-site. American Robotics' FAA approvals were enabled by integrating a suite of proprietary technologies, including Detect-and-Avoid ("DAA") and other proprietary intelligent safety systems into its autonomous drone platform, which we plan to integrate into the Optimus System™. Airobotics is in the advanced stages of receiving approval for Type Certification ("TC") from the FAA for the Optimus UAV. TC approval will enable expanded operation for the Optimus System™ in the United States including flight operations in populated areas.

The Raider™

The Raider™ is a counter-drone system, which was designed and developed by Iron Drone, that we are marketing to government and enterprise customers who can utilize the system for security and the protection of critical infrastructure, assets and people from the threat of hostile drones. A typical Raider™ deployment location would include sensitive locations such as borders, stadiums or schools, or near critical assets such as power plants and military bases, and for high profile locations such as amusement parks or where public events are held.

The Raider™ is designed to detect, track and intercept unauthorized, or hostile unmanned aircraft and is most often sold with three small UAVs that are housed in a docking station. The Raider UAV has live video capability and a payload containing a net that can be deployed to intercept a hostile drone. Upon detection of an unauthorized drone, one or more Raider™ UAVs can be autonomously deployed at high speeds to track the unauthorized aircraft. If the unauthorized aircraft is deemed hostile, the Raider™ UAV can deploy the netting to physically intercept the aircraft. A parachute integrated with the netting allows the intercepted drone to safely fall to the ground for collection by our customer.

<u>COVID-19</u>

The Company expects its business, financial condition and results of operations will be impacted from the COVID-19 pandemic during 2023, primarily due to supply chain disruptions due to pandemic-related plant and port shutdowns, transportation delays, government actions and other factors, which may be beyond our control. The global shortage of certain components such as semiconductor chips, strains on production or extraction of raw materials, cost inflation, and labor and equipment shortages, could escalate in future quarters. Labor shortages have led and may continue to lead to difficult conditions for hiring and retention of employees, and increased labor costs. Further, the COVID-19 pandemic is ongoing and remains an unknown risk for the foreseeable future. The extent to which the coronavirus may impact our business will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus. As a result, the Company is unable to reasonably estimate the full extent of the impact from the COVID-19 pandemic on its future business, financial condition and results of operations. In addition, if the Company were to experience any new impact to its operations or incur additional unanticipated costs and expenses as a result of the COVID-19 pandemic, such operational delays and unanticipated costs and expenses there could be a further adverse impact on the Company's business, financial condition and results of operations during the year ended December 31, 2023.

<u>Inflation Reduction Act of 2022 and Tax Cuts and Jobs Act of 2017</u>

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into law. The IRA includes a 15% Corporate Alternative Minimum Tax ("Corporate AMT") for tax years beginning after December 31, 2022. We do not expect the Corporate AMT to have a material impact on our consolidated financial statements. Additionally, the IRA imposes a 1% excise tax on net repurchases of stock by certain publicly traded corporations. The excise tax is imposed on the value of the net stock repurchased or treated as repurchased. The new law will apply to stock repurchases occurring after December 31, 2022.

Under the Tax Cuts and Jobs Act of 2017, we are required to capitalize R&D expenses for tax purposes and amortize over five years for domestic based expenses and fifteen years for foreign expenses. Given our tax net operating loss carryforward position we do not expect this change to have a material impact on our financial statements.

Results of Operations

Three months ended March 31, 2023 compared to three months ended March 31, 2022

	Three Months Ended March 31,		
	2023	2022	Increase (Decrease)
Revenue, net	$ 2,595,991	$ 410,198	$ 2,185,793
Cost of goods sold	1,569,095	287,932	1,281,163
Gross profit	1,026,896	122,266	904,630
Operating expenses:			
General and administrative	5,467,111	5,524,717	(57,606)
Sales and marketing	1,237,485	681,663	555,822
Research and development	6,974,979	3,907,219	3,067,760
Total operating expense	13,679,575	10,113,599	3,565,976
Operating loss	(12,652,679)	(9,991,333)	2,661,346
Other income (expense)	(1,802,872)	(19,066)	1,783,806
Net loss	$ (14,455,551)	$ (10,010,399)	$ 4,445,152

Revenues

	Three Months Ended March 31,		
	2023	2022	Increase
Revenue, net			
Ondas Networks	$ 1,130,202	$ 350,081	$ 780,121
Ondas Autonomous Systems	1,465,789	60,117	1,405,672
Total	$ 2,595,991	$ 410,198	$ 2,185,793

Our revenues increased by $2,185,793 to $2,595,991 for the three months ended March 31, 2023, compared to $410,198 for the three months ended March 31, 2022. Revenues during the three months ended March 31, 2023, included $2,355,781 for products, $79,938 for maintenance, service, support, and subscriptions, and $160,272 for development agreements with Siemens. Revenues during the three months ended March 31, 2022, included $149,270 for products, $60,117 for maintenance, service and support and $200,811 for development agreements with Siemens and AURA. The increase in our revenues were primarily the result of acquiring Airobotics, which had $1,465,789 of revenue during the three months ended March 31, 2023, and increased product sales to Siemens.

Cost of goods sold

Our cost of goods sold was $1,569,095 for the three months ended March 31, 2023, compared to $287,932 for the three months ended March 31, 2022. The increase in cost of goods sold was primarily a result of acquiring Airobotics and increases in Ondas Networks' product revenue.

Gross profit

Our gross profit increased by $904,630 for the three months ended March 31, 2023 compared to the three months ended March 31, 2022, based on the changes in revenues and costs of goods sold as discussed above. Gross margin for the three months ended March 31, 2023 and 2022 was 40% and 30%, respectively. This increase in gross margin is due to an increase of approximately $808,000 in Ondas Networks' product sales, which have higher margins, as compared to the prior period, which had a higher mix of development project revenue with lower margins.

Operating Expenses

	Three Months Ended March 31,		
	2023	2022	Increase (Decrease)
Operating expenses:			
General and administrative	$ 5,467,111	$ 5,524,717	$ (57,606)
Sales and marketing	1,237,485	681,663	555,822
Research and development	6,974,979	3,907,219	3,067,760
Total	$ 13,679,575	$ 10,113,599	$ 3,565,976

Our principal operating costs include the following items as a percentage of total expense.

	Three Months Ended March 31,	
	2023	2022
Human resource costs, including benefits	41%	43%
Travel and entertainment	2%	2%
Other general and administration costs:		
Professional fees and consulting expenses	5%	14%
Other expense	10%	16%
Depreciation and amortization	9%	9%
Other research and deployment costs, excluding human resources and travel and entertainment	31%	15%
Other sales and marketing costs, excluding human resources and travel and entertainment	2%	1%

Operating expenses increased by $3,565,976, or 35%, as a result of the following items:

	Three Months Ended March 31, 2023
Human resource costs, including benefits	$ 1,210,886
Travel and entertainment	36,059
Other general and administration costs:	
Professional fees and consulting costs	241,933
Other expense	(163,536)
Depreciation and amortization	288,558
Other research and development costs, excluding human resources and travel and entertainment	1,838,654
Other sales and marketing costs, excluding human resources and travel and entertainment	113,422
	$ 3,565,976

The increase in operating expenses was primarily due to: (i) an increase of approximately $1,211,000 in human resource costs, of which approximately $861,000 relates to the added head count from the Airobotics acquisition, and the remaining increase of $350,000 is due to increased headcount at Ondas Networks; (ii) an increase of approximately $1,839,000 in other research and development costs, of which approximately $471,000 relates to the acquisition of Airobotics, and the remaining increase of $1,368,000 relates to costs associated with terminating a development contract at American Robotics, as a result of restructuring actions related to the integration of American Robotics and Airobotics; (iii) the remaining increase of approximately $516,000 relates to the acquisition of Airobotics.

Operating Loss

	Three Months Ended March 31,		
	2023	2022	Increase
Operating loss	$ (12,652,679)	$ (9,991,333)	$ 2,661,346

As a result of the foregoing, our operating loss increased by $2,661,346, or 27%, to $12,652,679 for the three months ended March 31, 2023, compared with $9,991,333 for the three months ended March 31, 2022. Operating loss increased primarily as a result of higher human resource costs and research and development expenses for the three months ended March 31, 2023.

Total other Income (Expense), net

	Three Months Ended March 31,		
	2023	2022	Increase
Other income (expense), net	$ (1,802,872)	$ (19,066)	$ 1,783,806

Other expense, net increased by $1,783,806, to $1,802,872 for the three months ended March 31, 2023, compared with the other expense of $19,066 for the three months ended March 31, 2022. During the three months ended March 31, 2023, we reported an increase in interest expense of approximately $303,000, amortization of debt discount of approximately $1,003,000, and amortization debt issuance costs of approximately $498,000 for the 2022 Convertible Exchange Notes.

Net Loss

	Three Months Ended March 31,		
	2023	2022	Increase
Net Loss	$ (14,455,551)	$ (10,010,399)	$ 4,445,152

As a result of the net effects of the foregoing, net loss increased by $4,445,152, or 44%, to $14,455,551 for the three months ended March 31, 2023, compared with $10,010,399 for the three months ended March 31, 2022. Net loss per share of Common Stock, basic and diluted, was $(0.30) for the three months ended March 31, 2023, compared with $(0.24) for the three months ended March 31, 2022.

Summary of (Uses) and Sources of Cash

	Three Months Ended March 31,	
	2023	2022
Net cash flows used in operating activities	$ (12,738,835)	$ (7,101,930)
Net cash flows provided by (used in) investing activities	863,831	(1,562,295)
Net cash flows used in financing activities	(3,742,638)	(90,237)
Decrease in cash and cash equivalents	(15,617,642)	(8,754,462)
Cash and cash equivalents, beginning of period	29,775,096	40,815,123
Cash and cash equivalents, end of period	$ 14,157,454	$ 32,060,661

The principal use of cash in operating activities for the three months ended March 31, 2023, was to fund the Company's current expenses primarily related to operating activities necessary to allow us to service and support customers. The increase in cash flows used in operating activities of $5,636,905 was primarily due to the increase in operating expenses of approximately $3,566,000, combined with an increase in depreciation and amortization of approximately $2,011,000 related to the acquired fixed assets and intangibles of Airobotics and the amortization of debt discount and issuance costs for the 2022 Convertible Exchange Notes.

The increase in cash flows provided by investing activities of $2,426,126, relates to $1,049,454 cash acquired with Airobotics acquisition, combined with decrease of approximately $1,418,000 in payments made for purchase of equipment and patent costs.

The cash flows used in financing activities increased $3,652,401 primarily due to cash payments of $2,502,333 on the 2022 Convertible Exchange Notes, and payments of $1,240,305 for Airobotics related debt. For a summary of our outstanding Long-Term Notes Payable, see Note 9 in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

We have incurred losses since inception and have funded our operations primarily through debt and the sale of capital stock. On March 31, 2023, we had stockholders' equity of approximately $54,084,000. On March 31, 2023, we had net long-term borrowings outstanding of approximately $12,120,000 and short-term borrowings outstanding of approximately $15,982,000, net of debt discount and issuance costs of approximately $1,809,000. On March 31, 2023, we had total cash, cash equivalents, and restricted cash of approximately $14,157,000 and working capital deficit of approximately $3,500,000.

In October 2022, the Company entered into a convertible debt agreement, which provided cash proceeds of approximately $27,660,000. Also in 2022, the Company raised approximately $6,090,000 through the ATM Offering. We expect to fund our operations for the next twelve months from the filing date of this Form 10-Q from cash on hand, gross profits generated from revenue growth, and additional funds that we may seek through equity or debt offerings and/or borrowings under additional notes payable, lines of credit or other sources.

Our future capital requirements will depend upon many factors, including progress with developing, manufacturing and marketing our technologies, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, our ability to establish collaborative arrangements, marketing activities and competing technological and market developments, including regulatory changes and overall economic conditions in our target markets. Our ability to generate revenue and achieve profitability requires us to successfully market and secure purchase orders for our products from customers currently identified in our sales pipeline as well as new customers. We also will be required to efficiently manufacture and deliver equipment on those purchase orders. These activities, including our planned research and development efforts, will require significant uses of working capital. There can be no assurances that we will generate revenue and cash flow as expected in our current business plan. We may seek additional funds through equity or debt offerings and/or borrowings under additional notes payable, lines of credit or other sources. We do not know whether additional financing will be available on commercially acceptable terms or at all, when needed. If adequate funds are not available or are not available on commercially acceptable terms, our ability to fund our operations, support the growth of our business or otherwise respond to competitive pressures could be significantly delayed or limited, which could materially adversely affect our business, financial condition or results of operations.

Off-Balance Sheet Arrangements

As of March 31, 2023, we had no off-balance sheet arrangements.

Contractual Obligations

We are a smaller reporting company as defined by Rule 229.10(f)(1) and are not required to provide information under this item.

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses, as well as related disclosures. We base our estimates and judgments on historical experience and other assumptions that we believe to be reasonable at the time and under the circumstances, and we evaluate these estimates and judgments on an ongoing basis. Information concerning our critical accounting policies with respect to these items is available in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2022 Form 10-K. There have been no significant changes in our critical accounting policies since the filing of the 2022 Form 10-K.

Recent Accounting Pronouncements

There have been no material changes to our significant accounting policies as summarized in Note 2 of our 2022 Form 10-K. We do not expect that the adoption of any recent accounting pronouncements will have a material impact on our accompanying condensed consolidated financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q, as well as information included in oral statements or other written statements made or to be made by us, contain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are neither historical facts nor assurances of future performance. These forward-looking statements are based on our current, reasonable expectations and assumptions, which expectations and assumptions are subject to risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on 2022 Form 10-K, which was filed with the SEC on March 14, 2023, and the risks discussed under the caption "Risk Factors" included in this Quarterly Report on Form 10-Q. Given these risks and uncertainties, readers are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 229.10(f)(1) and are not required to provide information under this item.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's 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") as of March 31, 2023. Based on that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of March 31, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently involved in any legal proceeding or investigation by a governmental agency that we believe will have a material adverse effect on our business, financial condition or operating results.

Item 1A. Risk Factors.

Our business, financial condition, operating results, and cash flows may be impacted by a number of factors, many of which are beyond our control, including those set forth in our Annual Report on Form 10-K for the year ended December 31, 2022, the occurrence of any one of which could have a material adverse effect on our actual results.

There have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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.	Name of Document
4.1	Form of 3% Series B-1 Senior Convertible Note (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed by the Company with the SEC January 23, 2023).
4.2	Form of 3% Series B-2 Senior Convertible Note (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed by the Company with the SEC January 23, 2023).
4.3	Base Indenture, dated January 20, 2023, between Ondas Holdings Inc. and Wilmington Savings Fund Society, FSB (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed by the Company with the SEC on January 23, 2023).
4.4	Supplemental Indenture, dated January 20, 2023, between Ondas Holdings Inc. and Wilmington Savings Fund Society, FSB (incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K, filed by the Company with the SEC January 23, 2023).
10.1	Ondas Holdings, Inc. 2021 Incentive Stock Israeli Appendix (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 13, 2023).
10.2+	Employment Agreement, dated August 5, 2021, between Ondas Holdings Inc. and Reese Mozer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2023).
10.3	Form of Amendment No. 1 to Securities Purchase Agreement, dated January 20, 2023, between Ondas Holdings Inc. and the Investors (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed by the Company with the SEC on January 23, 2023).
31.1	Certification of Chief Executive Officer of Periodic Report pursuant to Rule 13a-14a and Rule 15d-14(a) dated May 15, 2023*
31.2	Certification of Chief Financial Officer of Periodic Report pursuant to Rule 13a-14a and Rule 15d-14(a) dated May 15, 2023*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 dated May 15, 2023**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 dated May 15, 2023**
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

\+ Management contract or compensatory plan or arrangement.

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.

DATE: May 15, 2023

ONDAS HOLDINGS INC.

By: /s/ Eric A. Brock
Eric A. Brock
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Derek Reisfield
Derek Reisfield
Chief Financial Officer
(Principal Financial Officer
Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Eric A. Brock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ondas Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

/s/ Eric Brock

Eric Brock
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Derek Reisfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ondas Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

/s/ Derek Reisfield

Derek Reisfield
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ondas Holdings Inc. (the "Company") on Form 10-Q for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric A. Brock, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirement of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2023

/s/ Eric A. Brock
Eric A. Brock
Chairman and Chief Executive Officer
(Principal Executive Officer)

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ondas Holdings Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Derek Reisfield, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirement of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2023

/s/ Derek Reisfield
Derek Reisfield
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.