UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2026

OR

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

For the transition period from _____ to _____

Commission File Number: 001-39897

Palladyne AI Corp.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**85-2838301**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
650 South 500 West, Suite 150	
Salt Lake City, Utah	**84101**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (888) 927-7296

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, $0.0001 par value per share	PDYN	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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of October 28, 2026 the registrant had 51,381,117 shares of Common Stock, $0.0001 par value per share, outstanding.

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Summary Risk Factors.

Our business is subject to numerous risks and uncertainties, including those highlighted in Part II, Item 1A Risk Factors of this report. The following is a summary of the principal risks we face:

- We are an early stage company with a history of losses, and expect to incur significant losses for the foreseeable future.
- Our operating and financial projections rely on management assumptions and analyses. If these assumptions or analyses prove to be incorrect, as they often have in the past, our actual operating results may be materially different from our expected or forecasted results.
- We have yet to achieve positive operating cash flow and our ability to generate positive cash flow is uncertain.
- We have no or limited previous history or experience with commercializing our products and may not be able to do so efficiently, effectively or at all. We were unsuccessful in our efforts to commercialize our legacy hardware technologies that we and our predecessor companies developed over the past several decades.
- Any issues in the development and use of our AI/ML Foundational Technology or AI-enabled products, or issues in products developed by others, may result in reputational harm or liability.
- Our AI/ML Foundational Technology and other technologies and products are new and customer trials and discussions may not result in purchases.
- If we are unable to successfully introduce and implement enhancements, new features or modifications to our technologies and products, our business will be harmed.
- We may fail to attract or retain customers at sufficient rates or in sufficient numbers or at all.
- We have no previous history with our licensing sales model for our software products.
- Important assumptions about market demand, pricing, adoption rates and sales cycles for our products and services may be inaccurate.
- Some of our products require hardware components, and we are dependent on our suppliers, some of which are currently single, sole or limited source suppliers. Any inability of these suppliers to deliver necessary components of our products at prices, volumes, performance, timing and specifications acceptable to us, could have a material adverse effect on our business, prospects, financial condition and operating results.
- We operate in a competitive industry that is subject to rapid technological change, and we expect competition to increase. Our products may not be competitive with other alternatives.
- We may not be able to successfully enhance our product offerings through our research and development efforts.
- Real or perceived design flaws, errors, defects, glitches, bugs or malfunctions in our technologies, products and services, failure of our products to perform as expected, connectivity issues or user errors can result in lower than expected return on investment for customers, personal injury or property damage and significant security or safety concerns, each of which could materially and adversely affect our results of operations, financial condition or reputation.
- We use "open source" software, which could negatively affect our ability to offer our technologies and products and subject us to possible litigation.
- Our business and prospects depend significantly on our ability to build our brands. We may not succeed in establishing, maintaining and strengthening effective brands, and our brands and reputation could be harmed by negative publicity regarding us or our technologies, products or services.
- Our management team has broad discretion in making strategic decisions to execute our growth plans, and our management's decisions have not always led to the desired result. Current and future decisions may not be successful in achieving our business objectives or may have unintended consequences that negatively impact our growth prospects.
- If we fail to effectively manage our business, we may not be able to develop, market and commercialize our technologies and products successfully.
- We may be unable to adequately control the costs associated with our operations in order to achieve profitability.
- We expect to incur substantial research and development costs and devote significant resources to developing and commercializing our AI/ML Foundational Technology, other technologies and products, and we may never reach profitability and/or achieve significant or any revenue.

•Our business plans require a significant amount of capital. We may sell additional equity or debt securities to meet capital needs or as we may otherwise determine to be advisable that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends. If we require additional capital and are not able to secure new funding, we may not be able to continue our business operations.

•Our financial results may vary significantly from period to period due to fluctuations in our operating costs, revenues, product demand and other factors.

•We are highly dependent on the services of our senior management and other key employees and, if we are unable to attract, integrate and retain a sufficient number of qualified employees, our ability to design and commercialize our technologies and products, offer our services, operate our business and compete could be harmed.

•If we fail to maintain and strengthen effective systems of disclosure controls and procedures and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be adversely affected.

•We have been and may in the future be subject to risks associated with strategic relationships, acquisitions or transactions and may not identify or form desired strategic relationships in the future.

•If our manufacturing or engineering processes and services do not comply with applicable regulatory requirements, or if we manufacture or design products containing defects, demand for our services may decline and we may be subject to product or other liability claims.

•Our business involves significant risks and uncertainties that may not be covered by indemnity or insurance.

•We may become subject to new or changing governmental regulations relating to the design, manufacturing, development, marketing, licensing, distribution or use of our technology and products or to the providing of customer service or in connection with the entry into certain transactions with foreign entities, and a failure to comply with such regulations could lead to delays in launching our products and/or withdrawal of our products from the market, delay our projected revenues, increase costs and/or make our business unviable.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PALLADYNE AI CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(*in thousands, except share data*)

	As of September 30, 2026	As of December 31, 2025
Assets		
Current assets:		
Cash and cash equivalents	$ 27,169	$ 18,219
Marketable securities	19,792	28,836
Accounts receivable	4,090	1,055
Unbilled receivables	2,513	2,455
Inventories	1,444	339
Prepaid expenses and other current assets	1,314	1,653
Total current assets	56,322	52,557
Property and equipment, net	9,385	8,889
Intangible assets, net	9,364	10,430
Goodwill	14,731	14,731
Operating lease assets	8,222	8,645
Other non-current assets	392	460
Total assets	$ 98,416	$ 95,712
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,342	$ 1,058
Accrued liabilities	6,421	3,550
Current operating lease liabilities	1,226	1,058
Total current liabilities	8,989	5,666
Warrant liabilities	1,953	2,772
Operating lease liabilities	9,040	9,725
Other non-current liabilities	2,992	2,874
Total liabilities	22,974	21,037
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $0.0001 par value, 165,000,000 shares authorized as of September 30, 2026 and December 31, 2025; 51,345,417 and 46,117,164 shares issued and outstanding as of September 30, 2026 and December 31, 2025, respectively	5	5
Additional paid-in capital	593,188	555,451
Accumulated other comprehensive (loss) income	(12)	11
Accumulated deficit	(517,739)	(480,792)
Total stockholders' equity	75,442	74,675
Total liabilities and stockholders' equity	$ 98,416	$ 95,712

See accompanying notes to the condensed consolidated financial statements.

PALLADYNE AI CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(*in thousands, except share and per share data*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Revenue, net	$ 8,557	$ 860	$ 17,878	$ 3,585
Operating expenses:				
Cost of revenue (exclusive of items shown separately below)	4,789	461	11,364	1,288
Research and development	3,989	3,146	12,220	9,141
General and administrative	10,109	4,138	25,129	12,516
Sales and marketing	2,699	1,180	6,815	3,730
Intangible amortization expense	355	—	1,066	—
Total operating expenses	21,941	8,925	56,594	26,675
Loss from operations	(13,384)	(8,065)	(38,716)	(23,090)
Interest income, net	320	566	907	1,512
Gain on warrant liabilities	1,051	3,759	819	33,110
Other income, net	—	—	43	—
(Loss) income before income tax expense	(12,013)	(3,740)	(36,947)	11,532
Income tax expense	—	—	—	—
Net (loss) income	$ (12,013)	$ (3,740)	$ (36,947)	$ 11,532
Net (loss) income per share				
Basic	$ (0.25)	$ (0.09)	$ (0.79)	$ 0.31
Diluted	$ (0.25)	$ (0.09)	$ (0.79)	$ 0.29
Weighted-average shares used in computing net (loss) income per share				
Basic	48,356,844	40,486,615	46,483,458	37,665,540
Diluted	48,356,844	40,486,615	46,483,458	40,161,248

See accompanying notes to the condensed consolidated financial statements.

PALLADYNE AI CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)
(*in thousands*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Net (loss) income	$ (12,013)	$ (3,740)	$ (36,947)	$ 11,532
Other comprehensive (loss) income:				
Change in unrealized (loss) gain on available-for-sale investments	(12)	20	(23)	8
Total other comprehensive (loss) income	(12)	20	(23)	8
Comprehensive (loss) income	$ (12,025)	$ (3,720)	$ (36,970)	$ 11,540

See accompanying notes to the condensed consolidated financial statements.

PALLADYNE AI CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount				
Balance at December 31, 2024	33,883,894	$ 3	$ 481,289	$ 6	$ (490,831)	$ (9,533)
Stock-based compensation	—	—	1,149	—	—	1,149
Common stock issued under equity award plans	492,815	—	—	—	—	—
Issuance of common stock, net of cost	1,335,807	1	13,932	—	—	13,933
Other comprehensive loss	—	—	—	(9)	—	(9)
Net income	—	—	—	—	22,759	22,759
Balance at March 31, 2025	35,712,516	$ 4	$ 496,370	$ (3)	$ (468,072)	$ 28,299
Stock-based compensation	—	—	1,141	—	—	1,141
Common stock issued under equity award plans	88,123	—	—	—	—	—
Exercise of stock options	44,056	—	54	—	—	54
Issuance of common stock under ESPP	15,097	—	76	—	—	76
Issuance of common stock, net of cost	1,720,422	—	14,450	—	—	14,450
Exercise of warrants	2,790,700	—	17,302	—	—	17,302
Other comprehensive loss	—	—	—	(3)	—	(3)
Net loss	—	—	—	—	(7,487)	(7,487)
Balance at June 30, 2025	40,370,914	$ 4	$ 529,393	$ (6)	$ (475,559)	$ 53,832
Stock-based compensation	—	—	1,056	—	—	1,056
Common stock issued under equity award plans	1,579,937	—	—	—	—	—
Exercise of stock options	7,483	—	11	—	—	11
Issuance of common stock, net of cost	77,960	—	667	—	—	667
Other comprehensive income	—	—	—	20	—	20
Net loss	—	—	—	—	(3,740)	(3,740)
Balance at September 30, 2025	42,036,294	$ 4	$ 531,127	$ 14	$ (479,299)	$ 51,846

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2025	46,117,164	$ 5	$ 555,451	$ 11	$ (480,792)	$ 74,675
Stock-based compensation	—	—	1,239	—	—	1,239
Common stock issued under equity award plans	198,163	—	—	—	—	—
Exercise of stock options	39,640	—	91	—	—	91
Issuance of common stock, net of cost	889,258	—	6,530	—	—	6,530
Other comprehensive loss	—	—	—	(12)	—	(12)
Net loss	—	—	—	—	(12,608)	(12,608)
Balance at March 31, 2026	47,244,225	$ 5	$ 563,311	$ (1)	$ (493,400)	$ 69,915
Stock-based compensation	—	—	2,319	—	—	2,319
Common stock issued under equity award plans	192,839	—	—	—	—	—
Exercise of stock options	45,578	—	72	—	—	72
Issuance of common stock under ESPP	18,683	—	85	—	—	85
Issuance of common stock, net of cost	1,642,078	—	10,777	—	—	10,777
Other comprehensive income	—	—	—	1	—	1
Net loss	—	—	—	—	(12,326)	(12,326)
Balance at June 30, 2026	49,143,403	$ 5	$ 576,564	$ —	$ (505,726)	$ 70,843
Stock-based compensation	—	—	4,777	—	—	4,777
Common stock issued under equity award plans	106,974	—	—	—	—	—
Exercise of stock options	45,107	—	115	—	—	115
Issuance of common stock, net of cost	2,049,933	—	11,732	—	—	11,732
Other comprehensive loss	—	—	—	(12)	—	(12)
Net loss	—	—	—	—	(12,013)	(12,013)
Balance at September 30, 2026	51,345,417	$ 5	$ 593,188	$ (12)	$ (517,739)	$ 75,442

See accompanying notes to the condensed consolidated financial statements.

PALLADYNE AI CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2026	**2025**
Cash flows from operating activities:		
Net (loss) income	$ (36,947)	$ 11,532
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Stock-based compensation	8,335	3,346
Depreciation of property and equipment	1,208	658
Amortization of intangible assets	1,066	—
Change in fair value of warrant liabilities	(819)	(33,110)
Change in fair value of contingent consideration	293	—
Loss on disposal of assets	27	—
Amortization of investment discount	(598)	(1,065)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(3,035)	(192)
Unbilled receivable	(58)	(640)
Inventories	(1,105)	(5)
Prepaid expenses and other current assets	340	129
Operating lease assets & other non-current assets	784	925
Accounts payable	283	130
Accrued liabilities and current operating lease liabilities	2,941	(100)
Operating lease liabilities	(894)	(740)
Net cash used in operating activities	(28,179)	(19,132)
Cash flows from investing activities:		
Purchases of property and equipment	(1,831)	(477)
Proceeds from sale of property and equipment	100	—
Purchases of marketable securities	(41,381)	(56,828)
Maturities of marketable securities	51,000	37,000
Net cash provided by (used in) investing activities	7,888	(20,305)
Cash flows from financing activities:		
Proceeds from exercise of stock options	278	65
Proceeds from issuance of common stock under ESPP	85	76
Proceeds from the exercise of warrants	—	6,419
Payment of obligations under finance leases	(113)	—
Payment of equipment financing liabilities	(48)	—
Proceeds from issuance of common stock	29,937	30,000
Payment of offering costs related to issuance of common stock	(898)	(900)
Payment of transaction costs related to issuance of common stock	—	(50)
Net cash provided by financing activities	29,241	35,610
Net increase (decrease) in cash and cash equivalents	8,950	(3,827)
Cash and cash equivalents at beginning of period	18,219	31,188
Cash and cash equivalents at end of period	$ 27,169	$ 27,361
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 148	$ —
Supplemental disclosure of non-cash activities:		
Operating lease right-of-use assets obtained in exchange for lease liabilities	$ 293	$ —

See accompanying notes to the condensed consolidated financial statements.

PALLADYNE AI CORP.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Business

The Company is a U.S.-based technology company developing and offering embodied artificial intelligence (“AI”) software and collaborative autonomy solutions, advanced avionics, unmanned aerial vehicles ("UAVs"), advanced UAV engineering services and precision-manufactured components for aerospace, defense and commercial/industrial markets. The Company’s core AI software offerings, Palladyne IQ and SwarmOS/Palladyne Pilot, consist of full-stack, closed-loop autonomy software that is intended to enhance the functionality and operational effectiveness of third-party robotic systems across a range of applications. These products are designed to be hardware agnostic, enabling integration across a wide range of robotic platforms, whether third-party or our own proprietary platforms, including industrial robots, collaborative robots (“cobots”), UAVs, unmanned ground vehicles (“UGVs”), and remotely operated vehicles (“ROVs”) across multiple domains.

Basis of Presentation and Consolidation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

The condensed consolidated financial statements as of September 30, 2026 are unaudited. The condensed consolidated balance sheet as of December 31, 2025 included herein was derived from the audited consolidated financial statements as of that date. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. As such, the information included herein should be read in conjunction with the consolidated financial statements and accompanying notes as of and for the year ended December 31, 2025 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 5, 2026.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation. The Company’s fiscal year begins on January 1 and ends on December 31.

In the opinion of the Company’s management, the unaudited condensed consolidated financial statements include all adjustments necessary for fair financial statement presentation. All adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2026.

Summary of Significant Accounting Policies and Use of Estimates

There have been no changes to the Company’s significant accounting policies and use of estimates and assumptions described in the annual consolidated financial statements for the year ended December 31, 2025 that have had a material impact on the Company’s condensed consolidated financial statements and related notes.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $47.0 million as of September 30, 2026, compared to $47.1 million as of December 31, 2025. The Company has incurred losses from operations and negative cash flows from operations since inception and is likely to continue to incur losses and negative cash flows from operations in the near term. As of September 30, 2026, the Company had an accumulated deficit of approximately $517.7 million and working capital of $47.3 million.

These financial statements have been prepared in accordance with GAAP and on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company’s main source of liquidity has been cash generated by equity offerings. The Company’s primary use of cash is for operations and administrative activities, including employee-related expenses and general, operating and overhead expenses. Future capital requirements will depend on many factors, including the Company’s timing and extent of development efforts, the expansion and success of sales and marketing activities, revenue growth rate, customer retention, the introduction of new and enhanced product offerings and market acceptance of the Company’s products. The Company believes it has sufficient financial resources to meet its current obligations for at least the next 12 months from the date of this report.

Revenue Recognition

The Company recognizes revenue from the sale of its products and from the delivery of goods and services arising out of its contractual arrangements to provide product development contract services that are funded by the customer. The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process:

(1) Identify the contract with a customer: A contract with a customer exists when (a) the Company enters into an enforceable contract with a customer that defines each party's rights and obligations regarding the products and services to be transferred and identifies the payment terms related to these products and services, (b) the contract has commercial substance and (c) the Company determines that collection of substantially all consideration for products and services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. Contract modifications may include changes in scope of work, and/or the period of completion of the project. The Company analyzes contract modifications to determine if they should be accounted for as a modification to an existing contract or a new stand-alone contract.

(2) Identify the performance obligations in the contract: The Company enters into contracts that can include combinations of products and services, which are either capable of being distinct and accounted for as separate performance obligations or as one performance obligation if the majority of tasks and services form a single project or capability. Determining whether products or services are considered distinct performance obligations that should be accounted for separately requires judgment.

(3) Determine the transaction price: The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. Such amounts are typically stated in the customer contract. However, to the extent that the Company identifies variable consideration, the Company will estimate the variable consideration at the onset of the arrangement as long as it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company's current contracts do not include any significant financing components because the timing of the transfer of the underlying products and services under contract is at the customer's discretion. Additionally, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Taxes collected from customers and remitted to governmental authorities are not included in revenue.

(4) Allocate the transaction price to performance obligations in the contract: Once the Company has determined the transaction price, the total transaction price is allocated to each performance obligation in a manner depicting the amount of consideration to which the Company expects to be entitled in exchange for transferring the good(s) or service(s) to the customer. If applicable, the Company allocates the transaction price to each performance obligation identified in the contract on a relative standalone selling price basis. The standalone selling price represents the amount the Company would sell the good(s) or service(s) to a customer on a standalone basis. For some government contracts, the Company uses expected cost plus a margin as the standalone selling price. Because the Company's contract pricing with government customers is generally based on expected cost plus a margin, the standalone selling price of the good(s) or service(s) in the Company's contracts with government customers is typically equal to the selling price stated in the contract. When we sell standard good(s) or service(s) with observable standalone sale transactions, the observable standalone sales transactions are used to determine the standalone selling price.

(5) Recognize revenue when or as the Company satisfies a performance obligation: For each performance obligation identified, the Company determines at contract inception whether it satisfies the performance obligation over time or at a point in time. For performance obligations satisfied over time, revenue is recognized as work progresses when the Company is entitled to the reimbursement of costs plus a reasonable profit for work performed for which the Company has no alternate use. For these performance obligations, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation. The Company believes that costs incurred as a portion of total estimated costs is an appropriate measure of progress towards satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort. Revenue for performance obligations that is not recognized over time is recognized at the point in time when control transfers to the customer (which is generally upon delivery). For performance obligations that are satisfied at a point in time, the Company evaluates the point in time when the customer can direct the use of, and obtain the benefits from, the products and services. Shipping and handling costs are recorded at the time of product shipment to the customer and are included within revenue.

Revenue from Contracts with Customers

The Company derives its revenue from multiple sources, including the sale of software and hardware products, product development contracts, manufacturing operations, and engineering and design services. Product revenue includes the sale of the Company's proprietary AI software products based on our AI/ML Foundational Technology. Product revenue also includes the sale of current and legacy hardware products, including the BRAIN family of guidance and navigation computer chips, and the sale of precision machined and fabricated components, subassemblies and structures and integrated assembly services for both defense and commercial customers in a variety of industries. Product development contract revenue consists of product development contracts with customers that support our software and hardware products under development. The Company also derives revenue from contracted engineering design services to aerospace customers focused on developing high-performance unmanned systems.

Product Revenue

Software product revenue consists of the sale of the Company's commercially available software products. The Company is in the early stages of its sales activities for its software products and has no software product revenue to date. Software product revenue will be recorded based on the nature and type of software license agreements.

Hardware product revenue consists of the sale of the Company's commercially available hardware products, and certain miscellaneous parts. Additionally, through its precision U.S. manufacturing capabilities, the Company sells precision machined and fabricated components, subassemblies and structures and integrated assembly services to both Defense and Commercial customers, which sales are included in hardware product revenue. The Company provides a limited one-year warranty on some of its products. Product warranties are considered assurance-type warranties and are not considered to be separate performance obligations. Product revenue is recognized at the point in time when ownership of the goods is transferred, generally at the time of shipment to the customer. At the time product revenue is recognized, an accrual is established for estimated warranty expenses based on historical experience as well as anticipated product performance.

Contract Revenue

Cost-type contracts – Contracts to develop, design and modify our technology and related products, including cost-plus-fixed fee and time and material contracts, relate primarily to the Company's AI/ML software and related technology. Cost-type contracts are generally entered into with the U.S. government. These contracts are billed at cost plus a margin as defined by the contract and the Federal Acquisition Regulation ("FAR"). The FAR establishes regulations around procurement by the government and provides guidance on the types of costs that are allowable in establishing prices for goods and services delivered under government contracts. Revenue on cost-type contracts is recognized over time as goods and services are provided.

Fixed-price contracts – Fixed-price development contracts relate primarily to the development of technology in the area of robotic platforms. Fixed-price development contracts generally require a significant service of integrating a complex set of tasks and components into a single deliverable. Revenue on fixed-price contracts is generally recognized over time as goods and services are provided. To the extent the Company's actual costs vary from the fixed fee, it will generate more or less profit or could incur a loss. The Company will recognize losses at the contract level in earnings in the period in which they are incurred.

Time and materials contracts – Time and materials contracts relate primarily to design-to-field advanced engineering design services that take aerospace programs from early concept through flight-ready prototype in compressed timelines, while engineering every stage for manufacturability and scale. Revenue on time and materials contracts is generally recognized over time as services are provided and materials are purchased and used in the project.

Revenue recognized for the three and nine months ended September 30, 2026 and 2025, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2026**	**2025**	**2026**	**2025**
Product Revenue	$ 3,407	$ —	$ 7,789	$ 3
Product Development Contract Revenue	2,767	860	4,013	3,582
Engineering Services Revenue	2,383	—	6,076	—
Revenue, net	$ 8,557	$ 860	$ 17,878	$ 3,585

Contract Balances

The timing of revenue recognition, billing and cash collection results in the recognition of accounts receivable, unbilled receivables, contract assets and deferred revenue in the Company's consolidated balance sheets.

Cash funds received in excess of revenue recognized that is contingent upon the satisfaction of performance obligations is accounted for as deferred revenue.

Contract assets include unbilled receivables which are amounts resulting from timing differences between revenue recognition and billing in accordance with agreed-upon contractual terms, which typically occur subsequent to revenue being recognized.

The opening and closing balances of our accounts receivable, unbilled receivables, contract assets and deferred revenue as of September 30, 2026 and December 31, 2025, are as follows:

(In thousands)	Accounts Receivable	Unbilled Receivable	Contract Assets (Current)	Deferred Revenue (Current)
Ending Balance as of December 31, 2025	$ 1,055	$ 2,455	$ 36	$ 319
Increase, net	3,035	58	14	548
Ending Balance as of September 30, 2026	$ 4,090	$ 2,513	$ 50	$ 867

The Company recorded its current contract assets and current deferred revenue within prepaid expenses and other current assets and accrued liabilities, respectively. During the three months ended September 30, 2026, the Company did not recognize any revenue related to deferred revenue which existed at December 31, 2025. During the nine months ended September 30, 2026, the Company recognized $0.2 million of the deferred revenue which existed at December 31, 2025. During the three and nine months ended September 30, 2025, the Company recognized all of the deferred revenue which existed at December 31, 2024.

Remaining Performance Obligations

As of September 30, 2026, the Company had backlog of $18.7 million. The Company expects most of this backlog to be recognized over the next 12 to 18 months. The Company’s backlog, or revenue related to remaining performance obligations, represents the total value of committed customer contracts and purchase orders, both funded and unfunded, less revenue recognized through September 30, 2026.

Recently Issued Accounting Standard Pronouncements

As an emerging growth company (“EGC”), the Jumpstart Our Business Startups Act (“JOBS Act”) allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are applicable to private companies. The Company has elected to use this extended transition period under the JOBS Act until such time as the Company is no longer considered to be an EGC. The adoption dates discussed below reflect this election.

In November 2024, the FASB issued ASU No. 2024-03, Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses, requiring public entities to disclose additional information about specific expense categories in the notes to the financial statements on an interim and annual basis. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, and for interim periods beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2024-03.

2. Fair Value Measurements

ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset, or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1—Fair value is based on observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2—Fair value is determined using quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable.

Level 3—Fair value is determined using one or more significant inputs that are unobservable in active markets at the measurement date, such as an option pricing model, discounted cash flow or similar technique.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

On a recurring basis, the Company measures certain of its financial assets and liabilities at fair value. The fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs as of September 30, 2026 and December 31, 2025:

	As of September 30, 2026			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents:				
U.S. treasury securities	$ 4,996	$ —	$ —	$ 4,996
Marketable securities:				
U.S. treasury securities	19,792	—	—	19,792
Total assets	$ 24,788	$ —	$ —	$ 24,788
Liabilities:				
Warrant liabilities	$ —	$ —	$ 1,953	$ 1,953
Other non-current liabilities:				
Contingent consideration	—	—	1,675	1,675
Total liabilities	$ —	$ —	$ 3,628	$ 3,628

	As of December 31, 2025			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Marketable securities:				
U.S. treasury securities	$ 28,836	$ —	$ —	$ 28,836
Total assets	$ 28,836	$ —	$ —	$ 28,836
Liabilities:				
Warrant liabilities	$ 928	$ 330	$ 1,514	$ 2,772
Other non-current liabilities:				
Contingent consideration	—	—	1,382	1,382
Total liabilities	$ 928	$ 330	$ 2,896	$ 4,154

As of September 30, 2026, the Company held $24.8 million of available-for-sale debt securities with maturity dates within one year. The fair value of the Company's available-for-sale debt securities approximates their amortized cost basis. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying amounts of accounts receivable, unbilled receivables, accounts payable and accrued expenses approximate their fair values because of the relatively short periods until they are required to be settled. The contingent consideration relates to the acquisition of GuideTech during 2025, as discussed in *Note 4, Acquisitions.* The contingent consideration was initially valued as of November 14, 2025, the acquisition date, and will be remeasured at fair value at each reporting date, or more frequently, if events or changes in circumstances indicate that a remeasurement is warranted. The valuation of the contingent consideration requires the use of a valuation model and assumptions such as projected cash flows and discount rates.

The following table sets forth a reconciliation from the opening balances to the closing balances for Level 3 values:

(In thousands)	**Warrants**	**Contingent Consideration**
Balance at December 31, 2025	$ 1,514	$ 1,382
Change in fair value	439	293
Balance at September 30, 2026	$ 1,953	$ 1,675

3. Balance Sheet Components

Inventories, Net

As of September 30, 2026 and December 31, 2025, inventories, net consisted of the following:

(In thousands)	September 30, 2026	December 31, 2025
Work-in-process	$ 1,403	$ 311
Finished goods, net	41	28
Total inventories	$ 1,444	$ 339

Property and Equipment, Net

As of September 30, 2026 and December 31, 2025, property and equipment, net consist of the following:

(In thousands)	September 30, 2026	December 31, 2025
Robotics and manufacturing equipment	$ 4,258	$ 2,857
Financed lease robotics and manufacturing equipment	996	996
Leasehold improvements	4,190	4,125
Land and building	1,878	1,832
Computer equipment	1,289	1,196
Furniture and fixtures, and other fixed assets	1,232	1,001
Construction in progress	459	682
Property and equipment, gross	14,302	12,689
Accumulated depreciation	(4,917)	(3,800)
Property and equipment, net	$ 9,385	$ 8,889

Depreciation expenses were $0.4 million and $0.3 million for the three months ended September 30, 2026 and 2025, respectively. Depreciation expenses were $1.2 million and $0.7 million for the nine months ended September 30, 2026 and 2025, respectively.

Accrued Liabilities

As of September 30, 2026 and December 31, 2025, accrued liabilities consist of the following:

(In thousands)	September 30, 2026	December 31, 2025
Payroll and related costs	$ 4,290	$ 1,699
Legal services accrual	233	173
Deferred revenue	867	319
Other contract liabilities	249	496
Other accrued expenses and current liabilities	782	863
Total accrued liabilities	$ 6,421	$ 3,550

Other non-current liabilities

Other non-current liabilities consist of the following:

(In thousands)	September 30, 2026	December 31, 2025
Contingent consideration	$ 1,675	$ 1,382
Equipment financing liabilities	1,317	1,492
Total other non-current liabilities	$ 2,992	$ 2,874

4. Acquisitions

On November 14, 2025, the Company acquired 100 percent of the equity interests of GuideTech, LLC ("GuideTech"), Warnke Precision Machining, LLC ("Warnke Precision Machining") and MKR Fabrication, LLC ("MKR Fabricators"). These transactions (collectively, the "2025 Acquisitions") were undertaken pursuant to two separate purchase agreements entered into on November 14, 2025.

GuideTech is an engineering and aerospace avionics products and services provider. MKR Fabricators and Warnke Precision Machining are U.S.-based precision manufacturing and fabrication businesses supporting defense and industrial customers. Through the 2025 Acquisitions, the Company acquired engineering design services, advanced avionics products and manufacturing and machining capabilities to complement its AI/ML Foundational Technology and related products and offer vertically integrated solutions for defense and commercial markets.

The aggregate consideration transferred for the 2025 Acquisitions was $22.6 million, consisting of $5.4 million of cash, $15.9 million comprised of 2,672,013 shares of common stock, and contingent consideration valued at $1.4 million. The contingent consideration arrangement provides for up to $25 million in earnout payments payable in cash or stock if certain revenue targets are achieved over a five-year period.

The 2025 Acquisitions have been accounted for as business combinations and the total purchase consideration was allocated to the net tangible and intangible assets and liabilities based on their fair values on the acquisition date and the excess was recorded as goodwill.

The following table presents the purchase consideration allocation recorded in the Company's consolidated balance sheet as of the acquisition date:

(in thousands)	**Amount**
Cash and cash equivalents	$ 69
Accounts receivable	2,017
Unbilled receivables	316
Inventories	326
Prepaid expenses and other current assets	246
Property and equipment	4,793
Intangible assets	10,548
Goodwill	14,731
Operating lease assets	831
Accounts payable	(1,331)
Accrued liabilities	(1,455)
Current operating lease liabilities	(59)
Operating lease liabilities	(773)
Other non-current liabilities [(1)]	(5,093)
Deferred tax liabilities	(2,541)
Total acquisition consideration	$ 22,625

(1)Other non-current liabilities includes $3.7 million of debt obligations which were repaid prior to December 31, 2025.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition:

	Amounts (in thousands)	**Weighted Average Useful Life (in years)**
Customer relationships	$ 5,148	8.8
Developed technology	2,600	7.0
Tradename	1,500	10.0
Non-compete	1,300	5.0
Total intangible assets	$ 10,548	8.1

Goodwill represents the future economic benefits arising from other assets that could not be individually identified and separately recognized, such as the acquired assembled workforce and synergies expected to be achieved from the integration of the 2025 Acquisitions. Goodwill is not deductible for tax purposes.

The results of operations of the 2025 Acquisitions have been included in the Company's condensed consolidated financial statements from the date of acquisition. Pro forma revenue and results of operations have not been presented because the historical results of the 2025 Acquisitions are not material to the Company's condensed consolidated financial statements.

5. Intangible Assets

Goodwill

There was no impairment of goodwill or other changes in the carrying amount of goodwill from December 31, 2025 to September 30, 2026.

Acquired Intangible Assets

Acquired intangible assets, net consisted of the following:

	September 30, 2026			
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (In years)
Customer relationships	$ 5,148	$ 533	$ 4,615	8.0
Developed technology	2,600	310	2,290	6.2
Tradename	1,500	125	1,375	9.2
Non-compete	1,300	216	1,084	4.2
Total	$ 10,548	$ 1,184	$ 9,364	

The Company recorded $0.4 million and $1.1 million of amortization expense during the three and nine months ended September 30, 2026, respectively, which was recorded as intangible amortization expense in the consolidated statement of operations. The Company had no intangible amortization expense during the three and nine months ended September 30, 2025.

As of September 30, 2026, future amortization expense related to acquired intangible assets was as follows:

(In thousands)	Amortization Expense
2026	$ 355
2027	1,421
2028	1,421
2029	1,421
2030	1,379
2031 and thereafter	3,367
Total	$ 9,364

6. Earn-Out Shares

On September 24, 2021 (the "Closing Date"), Rotor Acquisition Corp. ("Rotor"), a Delaware corporation, consummated the business combination (the "Business Combination") pursuant to the terms of the Agreement and Plan of Merger, dated as of April 5, 2021 (the "Original Merger Agreement"), by and among Rotor, Rotor Merger Sub Corp., a Delaware corporation and a direct, wholly-owned subsidiary of Rotor ("Merger Sub"), and Sarcos Corp., a Utah corporation ("Old Sarcos"), and Amendment No. 1 to the Agreement and Plan of Merger, dated as of August 28, 2021 (the "Amendment" and the Original Merger Agreement, as amended, the "Merger Agreement"), by and among Rotor, Merger Sub and Old Sarcos. Pursuant to the terms of the Merger Agreement, the Business Combination between Rotor and Old Sarcos was effected through the merger of Merger Sub with and into Old Sarcos, with Old Sarcos continuing as the surviving corporation (the "Merger") and a wholly-owned subsidiary of Rotor. On the Closing Date, Rotor changed its name to Sarcos Technology and Robotics Corporation. To reflect the Company's transition from a hardware-focused company to an AI software-focused company, in March 2024 the Company changed its name from Sarcos Technology and Robotics Corporation to Palladyne AI Corp.

As a result of the Business Combination, each holder of Old Sarcos capital stock was entitled to Contingent Merger Consideration following the closing of the Business Combination in the form of earn-outs, up to an aggregate of 4,687,500 shares of Common Stock (the "Earn-Out Shares"). On September 24, 2025, the four-year anniversary of the Closing Date, 2,343,750 of the Earn-Out Shares expired without having been released as the closing share price of a share of Common Stock of the Company did not equal or exceed $90.00 for 20 trading days in any 30 consecutive trading-day period at any time beginning on the first anniversary of the Closing Date and ending on the fourth anniversary of the Closing Date. On September 24, 2026, the five-year anniversary of the Closing Date, the remaining 2,343,750 Earn-Out Shares expired without having been released as the closing share price of a share of Common Stock of the Company did not equal or exceed $120.00 for 20 trading days in any 30 consecutive trading-day period at any time during the period beginning on the first anniversary of the Closing Date and ending on the fifth anniversary of the Closing Date.

The Earn-Out Shares were treated as equity-linked instruments as opposed to shares outstanding, and as such were not included in shares outstanding on the Company's condensed consolidated balance sheets. As of September 30, 2026, no Earn-Out Shares remained potentially issuable.

7. DeSPAC Warrants

On January 20, 2021, Rotor consummated the initial public offering ("IPO") of 27,600,000 units (the "Units"), including the full exercise by the underwriters of their over-allotment option. Each Unit included one sixth of a share of Class A Common Stock and one half of one warrant (the "deSPAC Public Warrants"). Simultaneously with the closing of the IPO, Rotor consummated the sale of 7,270,000 warrants (the "deSPAC Private Placement Warrants") in a private placement. At the Closing Date, Old Sarcos acquired the net liabilities from Rotor, including the deSPAC Public Warrants, and the deSPAC Private Placement Warrants (together the "deSPAC Warrants"). On September 24, 2026, all 20,549,453 deSPAC Warrants expired unexercised.

The deSPAC Warrants were recorded as warrant liabilities on the Company's consolidated balance sheets and were measured at fair value through their expiration on September 24, 2026. Prior to expiration, the Company valued the deSPAC Public Warrants using the closing price of the deSPAC Public Warrants on the Nasdaq Global Market as of the reporting date, which represented a level 1 fair value measurement. The fair value measurement for the deSPAC Private Placement Warrants was considered a level 2 fair value measurement, because the deSPAC Private Placement Warrants were substantially the same, but not identical to, the deSPAC Public Warrants.

The Company recognized gains of $0.7 million and $3.7 million related to the change in fair value of the deSPAC Warrants during the three months ended September 30, 2026 and 2025, respectively, which are recorded as gain on warrant liabilities within the consolidated statements of operations. The Company recognized gains of $1.3 million and $11.6 million related to the change in fair value of the deSPAC Warrants during the nine months ended September 30, 2026 and 2025, respectively, which are recorded as gain on warrant liabilities within the consolidated statements of operations.

8. 2024 Warrants

On November 1, 2024, the Company closed a registered direct offering for an aggregate of 2,790,700 shares of its common stock at a purchase price of $2.15 per share. In a concurrent private placement, the Company agreed to issue to the same investor warrants to purchase up to 2,790,700 shares of common stock (the "2024 Private Placement Warrants"). The 2024 Private Placement Warrants had an exercise price of $2.30 per share and were exercised in full May 2025, as discussed below.

In a separate concurrent private placement, the Company's Chief Executive Officer and certain other members of the Board of Directors purchased 430,105 shares of common stock at a price of $2.20 per share, which represented the consolidated closing bid price of the Company's common stock on the Nasdaq Global Market on October 30, 2024, and warrants to purchase up to 430,105 shares of common stock, at a price of $0.125 per warrant (the "2024 Concurrent Private Placement Warrants"). The 2024 Concurrent Private Placement Warrants have an exercise price of $2.30 per share and will expire five and one-half years following the date of issue.

The Company received gross proceeds of approximately $7 million, before deducting placement agency fees and offering expenses from the registered direct offering, the 2024 Private Placement Warrants and the 2024 Concurrent Private Placement Warrants (together the "2024 Warrants").

On May 9, 2025, all 2,790,700 of the 2024 Private Placement Warrants were exercised. As of September 30, 2026, all 430,105 of the 2024 Concurrent Private Placement Warrants were outstanding. The 2024 Warrants are recorded as warrant liabilities on the Company's consolidated balance sheet. The Company estimated the fair value of the 2024 Warrants using the Black-Scholes valuation model, which is considered a level 3 fair value measurement. The valuation model inputs are based on assumptions related to expected volatility, expected life, risk-free interest rate and expected dividends. These estimates, especially the expected volatility, are highly judgmental and could differ materially in the future. The Company recognized gains of $0.4 million and $0.1 million related to the change in fair value of the 2024 Warrants during the three months ended September 30, 2026 and 2025, respectively, which are recorded as gain on warrant liabilities within the consolidated statements of operations. The Company recognized losses of $0.4 million and gains of $21.5 million related to the change in fair value of the 2024 Warrants during the nine months ended September 30, 2026 and 2025, respectively, which are recorded as gain on warrant liabilities within the consolidated statements of operations.

The following table provides quantitative information regarding assumptions used in the valuation model to determine the fair value of the 2024 Warrants:

	September 30, 2026	September 30, 2025
Stock price	$ 5.16	$ 8.59
Term (in years)	3.6	4.6
Expected volatility	133.1%	103.5%
Risk-free rate	5.0%	3.7%
Dividend yield	0.0%	0.0%

9. Stock-based Compensation

2021 Stock Plan

The Company's Amended and Restated 2021 Equity Incentive Plan (the "2021 Plan") provides stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), stock appreciation rights ("SARS") and performance awards for issuance to Company employees, officers, directors, non-employee agents and consultants. In general, outstanding awards granted under the 2021 Plan vest over one to four years and, in the case of options, are exercisable up to 10 years from the date of grant. The maximum number of shares of Common Stock that may be issued pursuant to the 2021 Plan is (a) 9.5 million shares of Common Stock of the Company plus (b) any shares of Common Stock subject to stock options and other awards that were assumed in the Business Combination and expire or otherwise terminate without having been exercised in full, are tendered to or withheld by the Company for payment of an exercise price or for tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of shares to be added to the 2021 Plan pursuant to clause (b) equal to 2.1 million shares of Common Stock. As of September 30, 2026, 5.8 million shares were available to grant under the 2021 Plan.

2015 Stock Plan

The Old Sarcos 2015 Equity Incentive Plan (the "2015 Plan") provided stock options, RSUs, RSAs, SARS and performance awards for issuance to Old Sarcos' employees, officers, directors, non-employee agents and consultants. Outstanding awards under the 2015 Plan generally vest over three to five years and are exercisable up to 10 years from the date of grant. Unvested options are forfeited upon termination. No further awards may be made under the 2015 Plan. Any forfeited awards will be added to the 2021 Plan as described above.

2024 Inducement Plan

The Company adopted the 2024 Inducement Equity Incentive Plan (the "Inducement Plan") with an effective date of December 15, 2024 to be used exclusively for grants of nonstatutory stock options, RSUs, RSAs, SARS and performance awards to individuals who were not previously employees or directors of the Company (or who are returning to employment following a bona fide period of non-employment), as an inducement material to the individual's entry into employment with the Company. The Inducement Plan was adopted and approved without stockholder approval pursuant to Nasdaq Listing Rule 5635(c)(4). As of September 30, 2026, 73,177 shares were available to grant under the Inducement Plan.

2021 Employee Stock Purchase Plan

The 2021 Employee Stock Purchase Plan (the "ESPP") provides for the issuance of shares of Common Stock pursuant to purchase rights granted to employees over designated offering periods, by funds accumulated primarily through elective payroll deductions. Offerings under the ESPP commenced in December 2024. As of September 30, 2026, 450,404 shares were available for sale under the ESPP.

Offering periods are generally six months long and begin on June 1 and December 1 of each year. The purchase price for shares of Common Stock purchased under the ESPP is calculated as 85% of the lesser of the fair market value of the Common Stock on (1) the first trading day of the applicable offering period or (2) the last trading day of the offering period.

Stock Option Activity

The following summarizes the Company's stock option activity for the nine months ended September 30, 2026:

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price (Per share)	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding – December 31, 2025	1,200,568	$ 2.32	6.5	$ 2,619
Exercised	(130,325)	2.13		
Forfeited or expired	(40,683)	3.94		
Outstanding – September 30, 2026	1,029,560	$ 2.28	6.1	$ 3,136
Exercisable – December 31, 2025	845,217	$ 2.12	6.0	$ 1,888
Exercisable – September 30, 2026	821,156	$ 2.03	5.8	$ 2,606

2025 Executive RSU Awards

In November 2025, the Board of Directors approved certain Executive Restricted Stock Unit ("2025 Executive RSU") awards covering an aggregate of 5.4 million shares to certain senior executives outside of the 2021 Plan. In June 2026, stockholders approved the 2025 Executive RSU awards. Each 2025 Executive RSU award is divided into 10 equally-sized tranches, each tied to progressively higher stock price goals. The stock price goal for each tranche will be met only when the closing price per share of our common stock meets or exceeds the stock price goal on a sustained basis for a period of 60 consecutive trading days. A tranche for which the stock price is met will vest only if the associated service-based vesting condition is satisfied. If the stock price goal for a tranche is achieved, the number of restricted stock units that will be eligible for vesting for that tranche will be based on the increase in value of the Company's stock from the time of grant to the time of vesting. The increase in value will be determined by multiplying (a) the number of units subject to the tranche scheduled to vest on that vesting date by (b) (i) the excess, if any, of the volume-weighted average closing price of the Company's common shares for the 20-trading day period prior to and including the vesting date over the volume-weighted average closing price of the Company's common shares for the 20-trading day period ending on and including November 15, 2025 divided by (ii) the volume-weighted average closing price of the Company's common shares for the 20-trading day period prior to and including the vesting date. If a stock price goal is not met by November 15, 2030, the tranche of the award tied to such stock price goal will be forfeited.

The 2025 Executive RSU awards contain a market condition. The Company used a Monte Carlo valuation model to estimate the fair value of the award as of the grant-date. The associated compensation cost is recognized over the derived service period regardless of whether the market condition is ultimately satisfied. The Company calculated the grant-date fair value of the 2025 Executive RSU awards using the following weighted-average assumptions:

2025 Executive RSU Awards	
Risk-free interest rate	4.30%
Expected term (in years)	1.72
Expected dividend yield	0.00%
Expected volatility	140.30%

Restricted Stock Units Activity

The following table presents a summary of the Company's RSU activity for the nine months ended September 30, 2026, including the 2025 Executive RSU awards discussed above:

	Restricted Stock Units Outstanding	
	Number of Shares	Weighted-Average Grant-Date Fair Value (Per share)
Outstanding – December 31, 2025	1,577,394	$ 4.34
Granted	6,360,037	5.86
Vested	(497,976)	4.71
Forfeited	(208,136)	7.07
Outstanding – September 30, 2026	7,231,319	$ 5.58

Restricted Stock Awards Activity

The following summarizes the Company's employee RSA activity for the nine months ended September 30, 2026:

	Restricted Stock Awards Outstanding	
	Number of Shares	Weighted-Average Grant-Date Fair Value (Per share)
Outstanding – December 31, 2025	1,500,000	$ 2.23
Outstanding – September 30, 2026	1,500,000	$ 2.23

Stock-Based Compensation Expense

The Company recognized stock-based compensation expense in the condensed consolidated statement of operations and comprehensive loss as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2026	2025	2026	2025
Cost of revenue	$ 49	$ 17	$ 64	$ 42
Research and development	157	106	377	296
Sales and marketing	397	166	866	555
General and administrative	4,174	767	7,028	2,453
Total stock-based compensation expense	$ 4,777	$ 1,056	$ 8,335	$ 3,346

As of September 30, 2026, there was approximately $35.9 million of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted average period of 2.6 years.

10. Net (Loss) Income Per Share

The following table sets forth the computation of the basic and diluted net (loss) income per share attributable to common stockholders for the three and nine months ended September 30, 2026 and 2025:

(In thousands, except share and per share data)	Three Months Ended September 30, 2026	2025	Nine Months Ended September 30, 2026	2025
Numerator:				
Net (loss) income	$ (12,013)	$ (3,740)	$ (36,947)	$ 11,532
Denominator:				
Weighted average shares outstanding, basic	48,356,844	40,486,615	46,483,458	37,665,540
Dilutive effect of potential common shares	—	—	—	2,495,708
Weighted average shares outstanding, diluted	48,356,844	40,486,615	46,483,458	40,161,248
Basic net (loss) income per share	$ (0.25)	$ (0.09)	$ (0.79)	$ 0.31
Diluted net (loss) income per share	$ (0.25)	$ (0.09)	$ (0.79)	$ 0.29
Anti-dilutive securities, excluded	10,219,589	10,277,380	10,219,589	5,842,463

Potentially dilutive shares, which are based on the weighted-average shares of common stock, stock options, unvested stock units, unvested stock awards, purchase rights granted under the employee stock purchase plan and warrants using the treasury stock method are included when calculating diluted net (loss) income per share attributable to the Company when their effect is dilutive. Because the Company incurred a net loss for the three months ended September 30, 2026 and 2025 and the nine months ended September 30, 2026, none of the potentially dilutive common shares were included in the diluted share calculation for those periods as they would have been anti-dilutive.

11. Income Taxes

To determine the Company's quarterly provision for income taxes, the Company used an estimated annual effective tax rate that is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. Certain significant unusual or infrequently occurring items that are separately reported are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rate from quarter to quarter.

The Company had no significant income tax expense for the three and nine months ended September 30, 2026 and 2025. The provision for income taxes for the three and nine months ended September 30, 2026 and 2025 is based on the Company's estimated annualized effective tax rate for the fiscal years ending December 31, 2026 and 2025, respectively. For the three and nine months ended September 30, 2026, the Company's recognized effective tax rate differs from the U.S. federal statutory rate as the Company recorded net taxable losses during the periods with a corresponding full valuation allowance on the net deferred tax assets created from the losses.

12. Commitments and Contingencies

Legal Proceedings

The Company has been and may in the future be involved in various claims, lawsuits, investigations and other proceedings in the normal course of business. The Company accrues a liability when management believes information available prior to the issuance of its financial statements indicates it is probable a loss has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. The Company adjusts its accruals to reflect the impact of negotiation, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Legal costs are expensed as incurred. The Company has not recorded any material loss contingency related to legal proceedings in the balance sheets as of September 30, 2026 and December 31, 2025, respectively.

Indemnifications

In the ordinary course of business, the Company provides or may provide indemnifications of varying scope and terms to investors, directors, officers, employees, customers or vendors with respect to certain matters, including losses arising out of the Company's breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. As of September 30, 2026 and December 31, 2025, the Company has not accrued a liability for these indemnification obligations as the likelihood of incurring a material payment obligation in connection with these indemnification obligations is either not probable or not reasonably estimable due to the unique facts and circumstances involved.

13. Segment Information

The Company has determined that it has a single operating segment. The Company derives revenues from engineering and research and development service contracts, product sales, including our AI/ML software products, and precision machining and fabrication services. The accounting policies of the segment are the same as those described in Note 1, Basis of Presentation and Summary of Significant Accounting Policies.

The Company's Chief Executive Officer is the Chief Operating Decision Maker ("CODM"). The CODM allocates resources and makes operating decisions based on consolidated net income. The CODM does not evaluate profitability below the level of the consolidated company. Net (loss) income is used to monitor results on a budget versus actual basis. Net (loss) income is adjusted for various non-recurring and non-cash transactions such as stock compensation expenses and impairment expenses.

The following table presents selected financial information with respect to the Company's significant segment expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2026**	**2025**	**2026**	**2025**
Segment Revenue	$ 8,138	$ 860	$ 17,451	$ 3,582
Other Revenue [1]	419	—	427	3
Total Revenue	8,557	860	17,878	3,585
Less:				
Cost of revenue	4,740	444	11,300	1,246
Research and development	3,832	3,040	11,843	8,845
General and administrative	5,810	3,371	17,838	9,885
Sales and marketing	2,302	1,014	5,950	3,175
Intangible amortization expense	355	—	1,066	—
Other [2]	4,902	1,056	8,597	3,524
Interest income, net	(320)	(566)	(907)	(1,512)
(Gain) loss on warrant liabilities	(1,051)	(3,759)	(819)	(33,110)
Other income, net	—	—	(43)	—
Net (loss) income	$ (12,013)	$ (3,740)	$ (36,947)	$ 11,532

(1)Other revenue includes revenue from legacy product sales.

(2)Other for the three months ended September 30, 2026 includes $4.8 million of stock compensation expenses and $0.1 million of severance charges. Other for the three months ended September 30, 2025 includes $1.1 million of stock compensation expenses. Other for the nine months ended September 30, 2026 includes $8.3 million of stock compensation expenses and $0.3 million of severance charges. Other for the nine months ended September 30, 2025 includes $3.3 million of stock compensation expenses and $0.2 million of severance charges.

During the three and nine months ended September 30, 2026 and 2025, the Company had no revenue earned from customers located outside the United States.

All long-lived assets are maintained in the United States. All losses are attributable to operations within the United States.

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

Throughout this section, unless otherwise noted, the "Company," "Palladyne AI Corp.," "Palladyne," "we," "us," and "our" refers to Palladyne AI Corp., and its subsidiaries, collectively. You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited interim condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report (this "Report") as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2025 (the "2025 Form 10-K") and our other filings, including Current Reports on Form 8-K, that we have filed with the SEC through the date of this Report. As discussed in the Special Note Regarding Forward-Looking Statements below, in addition to historical information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in Part II Item 1A Risk Factors and elsewhere in this Report.

Special Note Regarding Forward-Looking Statements

Certain statements in this Report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business. Specifically, forward-looking statements may include statements relating to:

- our ability to integrate acquired businesses and achieve the expected benefits of the acquisitions;
- our ability to develop and sell our full-stack, closed-loop autonomy software ("AI/ML Foundational Technology") and related products and the capabilities and functionality of our AI/ML Foundational Technology and related products;
- our ability to successfully provide vertically integrated aerospace engineering design services, enhanced avionics compute hardware and machining and fabrication services;
- our expected timeline for commercial release of our products and receipt of corresponding revenues;
- our ability to manage and overcome supply chain challenges, including increases in the cost of and an interruption in the supply or shortage of materials;
- nature and size of the markets that we are targeting;
- our product roadmaps, including expected timing of new product releases and target markets;
- our ability to respond to rapid technological changes;
- competition from existing or future businesses and technologies and the potential advantages of our products as compared to competitors;
- our ability to manage our growth and expenses;
- our ability to comply with evolving laws and regulations applicable to our business;
- our ability to attract and retain qualified personnel with the necessary experience, including employees who are instrumental to our business strategy;
- our projected financial and operating information and estimates of market size and opportunities;
- our future financial performance;
- our ability to introduce new products that meet our customers' requirements and to successfully transition to high volume manufacturing of our products by third-party manufacturers or by us;
- our ability to implement contingency plans to further limit operations and reduce costs and/or seek additional financing should revenue not materialize in time or sufficient amount to support our operations;
- the impact of natural disasters, health epidemics and global economic and geopolitical conditions and international conflicts on our business and the business of our customers;
- changes in the markets for our products and services;

- •expansion plans and opportunities;
- •future capital requirements and sources and uses of cash;
- •our ability to defend and the outcome of any litigation or regulatory proceedings;
- •our ability to maintain, protect and enhance our intellectual property;
- •our ability to maintain and protect our brand; and
- •other statements preceded by, followed by or that include the words "may," "can," "should," "will," "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "aim," "target" or similar expressions.

These forward-looking statements are based on information available as of the date of this Report and our management's current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and, in any event, you should not place undue reliance on these forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include those factors described in Part II Item 1A Risk Factors of this Report. Should one or more of these risks or uncertainties materialize, or should any of the assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. Our Risk Factors are not guarantees that no such conditions exist as of the date of this Report and should not be interpreted as an affirmative statement that such risks or conditions have not materialized, in whole or in part.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information known to us as of the date of this Report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

Overview

We are a U.S.-based technology company developing and offering embodied artificial intelligence ("AI") software and collaborative autonomy solutions, advanced avionics, unmanned aerial vehicles ("UAVs"), advanced UAV engineering services and precision-manufactured components for aerospace, defense and commercial/industrial markets. Our core AI software offerings, Palladyne IQ and SwarmOS/Palladyne Pilot, consist of full-stack, closed-loop autonomy software that is intended to enhance the functionality and operational effectiveness of third-party robotic systems across a range of applications and our proprietary UAVs. These products are designed to be hardware agnostic, enabling integration across a wide range of robotic platforms, whether third-party or our own proprietary platforms, including industrial robots, collaborative robots ("cobots"), UAVs, unmanned ground vehicles ("UGVs"), and remotely operated vehicles ("ROVs") across multiple domains.

We have modeled our embodied AI architecture after nature to enable machines to filter out irrelevant data, interpret relevant data, quickly make decisions in real time and act in the real world, all at the edge and without centralized decision-making. We refer to this architectural class as Decentralized Embodied Collaborative Autonomy ("DECA"). DECA describes biologically inspired autonomy in which physically embodied agents perceive, decide and act locally while collaborating through decentralized interaction rather than centralized control. AI is the enabling mechanism, but autonomy and execution occur entirely at the edge. Intelligence that must act in the physical world operates under fundamentally different constraints. Machines that move, coordinate and make decisions in real time cannot rely solely on centralized reasoning, constant connectivity or energy intensive computation. They must operate locally, respond in milliseconds, collaborate with other machines and do so within tight limits on power, size and cost. Our AI technology is being built to act, not only think. It is edge-native and decentralized by necessity. It is designed for systems in which each machine operates autonomously while collaborating locally with others, without reliance on continuous centralized control or excessive compute. We have already implemented early versions of a DECA architecture through our Palladyne IQ and SwarmOS platforms, proving the approach in real systems today while remaining at the early edge of a much larger and inevitable opportunity: becoming the intelligence layer for autonomous machines operating beyond the reach of the cloud.

We are positioning our defense business as a mid-tier U.S. technology prime defense contractor aiming to combine innovative autonomy, practical engineering and American production to bring intelligent systems into active service faster, safer and more cost-effectively than legacy approaches. We seek to harness our advanced, ethical embodied AI to provide cost-effective lethality and precision harm mitigation through rapidly delivering scalable, low-cost, intelligent and collaborative attritable weapons, including by developing proprietary UAVs incorporating our avionics and AI technologies. We support these efforts and those of other defense contractors and commercial customers through our vertically integrated aerospace engineering design services, enhanced avionics compute hardware and machining and fabrication services. Palladyne SwarmOS is designed for unmanned platforms and includes advanced autonomy and coordination capabilities that enable multiple UAVs to swarm, collaborate and execute complex missions through distributed tasking and edge-native orchestration. Our embodied AI is designed to operate in complex, contested and high-risk environments, enabling distributed tasking, human-on-the-loop oversight, degraded-communications resilience, multi-domain coordination and real-time responsiveness. Our platform-agnostic autonomy stack combines real-time sensor fusion, adaptive AI models, and edge-native orchestration to support autonomous and collaborative systems across air, ground, maritime and industrial domains where performance, resilience, trust and mission assurance are critical to operational outcomes. These capabilities are intended to meet the performance and reliability requirements of military and defense customers, particularly in applications where it is essential to conduct coordinated multi-vehicle operations in contested environments with degraded communications.

For commercial and industrial customers in particular, Palladyne IQ is designed to enable poly-functional robots, including industrial robots and cobots, to become capable of performing multiple tasks across dynamic real-world industrial environments. Palladyne IQ enables industrial robots and cobots to adapt to variability in tasks, parts, and environments, thereby reducing the need for rigid automation, custom fixtures, and manual intervention. We believe Palladyne IQ has applications across manufacturing, logistics, warehousing, and other industrial settings where unstructured or semi-structured environments have historically limited the adoption of automation. We also offer Palladyne Pilot, a derivative version of SwarmOS tailored to meet the requirements of public safety and commercial customers by delivering core autonomy capabilities with reduced system complexity and cost. Please see Part II Item 1A Risk Factors for a discussion of the risks related to these activities, in particular those discussed under "Risks Related to our Business".

Revenue

We derive revenue from multiple sources, including the sale of both software and hardware products, product development contracts with the Department of War ("DoW"), and engineering services. We accordingly classify our revenue into three primary streams: product revenue, product development contract revenue and engineering services revenue, with product revenue further disaggregated into software and hardware categories. Software product revenue is comprised of the sale of our proprietary AI software products based on our AI/ML Foundational Technology (i.e., Palladyne IQ, SwarmOS and Palladyne Pilot). Hardware product revenue consists of the sale of our hardware products, including our advanced avionics compute hardware (BRAIN) and our UAV products under development (i.e., Gremlin-X and SwarmStrike). We also classify as hardware product revenue sales of our precision machined and fabricated components and structures. Product development contract revenue consists of contracts to develop, design and modify our technology and related products. Engineering services revenue is derived from aerospace and defense customers focused on developing high-performance unmanned systems.

Key Factors Affecting Operating Results

We believe that our performance and future success depend on several factors that present significant opportunities for us but also pose risks and challenges, including those discussed below and in Part II Item 1A Risk Factors.

Development, Testing and Commercial Launch of our AI/ML Software, Avionics and UAV Products

We expect to continue commercialization efforts, internal testing and customer trials for our products through the remainder of 2026. Whether we are successful in these efforts depends on many factors, including those discussed under Part II Item 1A Risk Factors. Such risks may result in delay in achieving product revenues, which would adversely affect our financial condition and operating results.

Financing of Operations

We intend to use our cash on hand to continue to enhance our products, conduct product development activities, pursue marketing and sales opportunities and fund operations as we seek to further commercialize and enhance and achieve revenue from our products and services. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our product commercialization and enhancement efforts, our ability to sell our products and services and thereby recognize associated revenue, capital and human capital requirements to develop and sell products, support our partnership efforts as they develop and provide services prior to receiving payments sufficient to cover our costs and our ability to lower costs as volumes increase.

We have taken and continue to take numerous steps to manage our use of cash. For example, in 2023 we suspended our legacy hardware product development efforts and focused our product development efforts on our AI/ML Foundational Technology and related products, and terminated our operations in Pittsburgh, Pennsylvania in early 2024. Beginning in the fourth quarter of 2024 and through September 30, 2026 we raised approximately $98.9 million in gross proceeds from the sale of our Common Stock and warrants. For further information on our financing activities, see "*Liquidity and Capital Resources.*"

We believe we have sufficient liquidity to operate for at least the next 12 months without the need to raise additional capital. However, we may decide to seek additional financing during that time to bolster our cash reserves, increase our ability to continue to pursue our business objectives and to support partnership efforts and investments as opportunities materialize. As a result, we intend to continue monitoring our liquidity, financial and business results and outlook and market conditions, and may be opportunistic and raise capital when we consider market conditions are good or a favorable opportunity exists or when we otherwise deem it to be necessary or advisable. Any delays in the sales of our products and services will negatively impact our ability to generate revenue, our profitability, our cash flows, our overall operating performance and our ability to continue operations and may result in the need to raise additional capital. We will continue to carefully evaluate our use of cash and liquidity.

Strategic Acquisitions

On November 14, 2025, we acquired GuideTech, LLC, an engineering company, MKR Fabrication, LLC (also known as MKR Fabricators), a fabrication company, and Warnke Precision Machining, LLC (also known as Warnke Precision Machining), a precision machining company. Our results presented and discussed below include the operating activity for these acquired companies from the acquisition date through September 30, 2026. Our results for periods prior to the acquisition date do not include the financial information of these acquired companies.

Customer Demand

Although demand for AI/ML software products has grown in recent years, the market continues to evolve. The market demand for our software is unproven, and important assumptions about the characteristics of targeted markets, pricing and sales cycles may be inaccurate. Based on interaction with dozens of potential customers, we believe that the sales cycle for Palladyne IQ is likely to be between 12 and 18 months, or even longer, while the sales cycles for our other products are unknown. While we believe that our products will provide significant benefits and return on investment to customers, as it is a new technology, we are dependent on customers who are willing to adopt, purchase and implement new technologies and products. Further, we have U.S. government revenue-generating contracts related to various aspects of our AI/ML Foundational Technology and our Palladyne IQ and Palladyne SwarmOS/Pilot products and we have been affected by government shutdowns. For example, during the U.S. government shutdown in the fourth quarter of 2025, we experienced delays in our interactions with certain government agencies that affected our collection efforts, our ability to consummate new government contracts and our ability to maintain or renew government contracts in a timely manner. The duration of government shutdowns could have a compounding effect, and the longer they continue or the more frequently they occur, the more significant the potential adverse impact may be on our anticipated revenues. For additional information around the risks associated with our government contracts, see Part II Item 1A Risk Factors "*A portion of our revenue is currently and will continue to be generated by contracts with government entities, which makes us subject to a number of uncertainties, challenges and risks."* If customer demand does not develop as expected or we do not accurately estimate pricing, adoption rates and sales cycles for our products, our business, results of operations and financial condition will be adversely affected.

Continued Investment and Innovation

We are a pioneer in the robotic systems industry and benefit from lessons learned over 30-plus years and significant investment in research and development. Through our hardware development efforts over many years, including our related AI-software development efforts, we developed a significant amount of advanced technology that we are leveraging to develop our AI/ML Foundational Technology and related products. Our recent acquisitions have also brought us additional and new skills and expertise related to the products and services of the acquired companies. We believe our financial performance is dependent on our ability to enhance and update our products. It is important that we continually identify and respond to rapidly evolving customer requirements and competitive threats, develop and introduce innovative products, enhance our products and generate active market demand for and sell our products. If we fail to do this, our market and financial position and revenue may be adversely affected, and our investments in these technologies will not be recovered.

Geopolitical and Macro-economic Environment

Geopolitical and macro-economic factors, such as inflation, changes in United States trade policy, including tariffs, interest rates, oil prices, unemployment rates, international conflicts, such as the current wars between Russia and Ukraine and between the United States and Iran, other conflicts in the Middle East, volatility in the stock market and political or social unrest, can have significant impacts on economic activity, which in turn could affect demand for our products or our ability to cost-effectively develop and sell our products. Among other things, these and similar factors can affect our ability to hire or retain qualified personnel, our labor and materials costs, the prices we charge for our products and services and the budgets of our customers and their expected return-on-investment from the purchase of our products and services. Many of these factors are outside of our control but can have a significant impact on our business success and operating results. If we are unable to manage our business successfully in response to any such factors, our business and results of operations would be adversely affected.

Results of Operations

Comparison of the Three Months Ended September 30, 2026 and 2025.

Revenue, Net

The following table presents our revenue for the three months ended September 30, 2026 and 2025, respectively:

	Three Months Ended September 30,			
(In thousands)	**2026**	**2025**	**$ Change**	**% Change**
Product Revenue	$ 3,407	$ —	$ 3,407	*NM
Product Development Contract Revenue	2,767	860	1,907	222%
Engineering Services Revenue	2,383	—	2,383	*NM
Revenue, net	$ 8,557	$ 860	$ 7,697	895%

*NM - Not Meaningful

Revenue increased $7.7 million or 895%, from $0.9 million for the three months ended September 30, 2025, to $8.6 million for the three months ended September 30, 2026, as explained below.

Product Revenue

Product revenue was $3.4 million for the three months ended September 30, 2026. Our product revenue during the three months ended September 30, 2026, was derived mainly from the companies that we acquired in November 2025. It includes revenue from the sale of precision machined parts and components from our manufacturing business, from the sale of our BRAIN avionics products and Palladyne legacy hardware product sales.

Product Development Contract Revenue

Product development contract revenue increased by $1.9 million, or 222%, from $0.9 million for the three months ended September 30, 2025 to $2.8 million for the three months ended September 30, 2026. The increase was primarily due to new product development contracts that started during the second quarter of 2026, partially offset by contracts that were completed during the prior year. We expect future revenue from contracts to fluctuate due to the timing of new contracts signed, contract options being exercised, and the completion of existing contracts. We intend to take on only those product development contracts that we believe support and contribute to our product development efforts. As a result, there may be fewer opportunities to replace completed product development contracts in the future.

Engineering Services Revenue

Engineering services revenue was $2.4 million for the three months ended September 30, 2026. Engineering services revenue is derived from one of the businesses acquired in November 2025.

Operating Expenses

The following table presents our operating expenses for the three months ended September 30, 2026 and 2025, respectively:

(In thousands)	Three Months Ended September 30, 2026	2025	$ Change	% Change
Operating expenses:				
Cost of revenue	$ 4,789	$ 461	$ 4,328	939%
Research and development	3,989	3,146	843	27%
General and administrative	10,109	4,138	5,971	144%
Sales and marketing	2,699	1,180	1,519	129%
Intangible amortization expense	355	—	355	*NM
Total operating expenses	$ 21,941	$ 8,925	$ 13,016	146%

*NM - Not Meaningful

Cost of Revenue

Cost of revenue increased by $4.3 million or 939%, from $0.5 million for the three months ended September 30, 2025 to $4.8 million for the three months ended September 30, 2026. Cost of revenue consists of labor, materials and third-party costs associated with our products and services. Cost of revenue increased primarily due to increased revenue recorded during the period.

Research and Development

Research and development expenses increased by $0.8 million, or 27% from $3.1 million for the three months ended September 30, 2025, to $4.0 million for the three months ended September 30, 2026. Research and development costs during the three months ended September 30, 2026 increased due primarily to labor and labor related expenses associated with product design, testing, debugging, stabilization and enhancements of our UAV products and software in development.

General and Administrative

General and administrative expense increased by $6.0 million, or 144%, from $4.1 million for the three months ended September 30, 2025, to $10.1 million for the three months ended September 30, 2026. General and administrative expense increased primarily due to increased labor and labor related expenses associated with increases in headcount from the November 2025 acquisitions and hiring to support our new business activities. Stock compensation expenses also increased during the current year period driven primarily by the increased headcount and the 2025 Executive RSU awards that were granted in June 2026.

Sales and Marketing

Sales and marketing expense increased by $1.5 million, or 129%, from $1.2 million for the three months ended September 30, 2025, to $2.7 million for the three months ended September 30, 2026. This increase was driven by increased labor and labor related expenses as we have increased headcount to support our sales, business development and marketing efforts as we continue our initial sales development and outreach activities.

Intangible Amortization Expense

Intangible amortization expenses increased to $0.4 million for the three months ended September 30, 2026. The increase in intangible amortization expense is attributable to the recognition of amortization related to identified intangible assets acquired as part of the acquisitions completed in November 2025.

Other Income

The following table presents other income for the three months ended September 30, 2026 and 2025, respectively:

	Three Months Ended September 30,			
(In thousands)	**2026**	**2025**	**$ Change**	**% Change**
Other income				
Interest income, net	$ 320	$ 566	$ (246)	(43)%
Gain on warrant liability	1,051	3,759	(2,708)	(72)%
Total other income	$ 1,371	$ 4,325	$ (2,954)	(68)%

Other income decreased by $3.0 million for the three months ended September 30, 2026, compared to the three months ended September 30, 2025, due to decreased gains from changes in the fair value of our outstanding warrants and a decrease in interest income due primarily to a decrease in invested funds.

Provision for Income Taxes

We had no significant income tax expense for the three months ended September 30, 2026 and 2025, respectively. The provision for income taxes for the three months ended September 30, 2026 and 2025 is based on the Company's estimated annualized effective tax rate for the fiscal years ending December 31, 2026 and 2025, respectively. For the three months ended September 30, 2026 and 2025, the Company's recognized effective tax rate differs from the U.S. federal statutory rate as the Company recorded net taxable losses during the period with a corresponding full valuation allowance on the net deferred tax assets created from the losses.

Comparison of the Nine Months Ended September 30, 2026 and 2025.

Revenue, Net

The following table presents our revenue for the nine months ended September 30, 2026 and 2025, respectively:

	Nine Months Ended September 30,			
(In thousands)	**2026**	**2025**	**$ Change**	**% Change**
Product Revenue	$ 7,789	$ 3	$ 7,786	259,533%
Product Development Contract Revenue	4,013	3,582	431	12%
Engineering Services Revenue	6,076	—	6,076	*NM
Revenue, net	$ 17,878	$ 3,585	$ 14,293	399%

*NM - Not Meaningful

Revenue increased by $14.3 million, or 399%, from $3.6 million for the nine months ended September 30, 2025, to $17.9 million for the nine months ended September 30, 2026, as explained below.

Product Revenue

Product revenue was $7.8 million for the nine months ended September 30, 2026. Our product revenue during the nine months ended September 30, 2026, was derived mainly from the companies that we acquired in November 2025. It includes revenue from the sale of precision machined parts and components from our manufacturing business, from the sale of our BRAIN avionics products and Palladyne legacy hardware product sales.

Product Development Contract Revenue

Product development contract revenue increased by $0.4 million, or 12%, from $3.6 million for the nine months ended September 30, 2025, to $4.0 million for the nine months ended September 30, 2026. The increase was primarily due to new product development contracts that started during the second quarter of 2026, partially offset by contracts that were completed during the prior year and funding delays during the first quarter of 2026 due to the government delays and shutdowns.

Engineering Services Revenue

Engineering services revenue was $6.1 million for the nine months ended September 30, 2026. Engineering services revenue is derived from one of the businesses acquired in November 2025.

Operating Expenses

The following table presents our operating expenses for the nine months ended September 30, 2026 and 2025, respectively:

	Nine Months Ended September 30,			
(In thousands)	**2026**	**2025**	**$ Change**	**% Change**
Operating expenses:				
Cost of revenue	$ 11,364	$ 1,288	$ 10,076	782%
Research and development	12,220	9,141	3,079	34%
General and administrative	25,129	12,516	12,613	101%
Sales and marketing	6,815	3,730	3,085	83%
Intangible amortization expense	1,066	—	1,066	*NM
Total operating expenses	$ 56,594	$ 26,675	$ 29,919	112%

*NM - Not Meaningful

Cost of Revenue

Cost of revenue increased by $10.1 million, or 782%, from $1.3 million for the nine months ended September 30, 2025, to $11.4 million for the nine months ended September 30, 2026. Cost of revenue consists of labor, materials and third-party costs associated with our products and services. Cost of revenue increased primarily due to increased revenue recorded during the period.

Research and Development

Research and development expenses increased by $3.1 million, or 34% from $9.1 million for the nine months ended September 30, 2025, to $12.2 million for the nine months ended September 30, 2026. Research and development costs during the nine months ended September 30, 2026 increased due primarily to labor and labor related expenses associated with product design, testing, debugging, stabilization and enhancements of our UAV products and software in development.

General and Administrative

General and administrative expense increased by $12.6 million, or 101%, from $12.5 million for the nine months ended September 30, 2025, to $25.1 million for the nine months ended September 30, 2026. General and administrative expense increased primarily due to increased labor and labor related expenses associated with increases in headcount from the November 2025 acquisitions and hiring to support our new business activities. Stock compensation expenses also increased during the current year period driven primarily by the increased headcount and the 2025 Executive RSU awards that were granted in June 2026. Legal and professional services also increased during the current year to support increased business activities.

Sales and Marketing

Sales and marketing expense increased by $3.1 million, or 83%, from $3.7 million for the nine months ended September 30, 2025, to $6.8 million for the nine months ended September 30, 2026. This increase was driven by increased labor and labor related expenses as we have increased headcount to support our sales, business development and marketing efforts as we continue our initial sales development and outreach activities.

Intangible Amortization Expense

Intangible amortization expenses increased to $1.1 million for the nine months ended September 30, 2026. The increase in intangible amortization expense is attributable to the recognition of amortization related to identified intangible assets acquired as part of the acquisitions completed in November 2025.

Other Income

The following table presents other income for the nine months ended September 30, 2026 and 2025, respectively:

(In thousands)	Nine Months Ended September 30, 2026	2025	$ Change	% Change
Other income				
Interest income, net	$ 907	$ 1,512	$ (605)	(40)%
Gain on warrant liabilities	819	33,110	(32,291)	(98)%
Other income, net	43	—	43	*NM
Total other income	$ 1,769	$ 34,622	$ (32,853)	(95)%

*NM - Not Meaningful

Other income decreased by $32.9 million from $34.6 million for the nine months ended September 30, 2025, to $1.8 million for the nine months ended September 30, 2026. Other income decreased almost entirely as a result of changes in the fair value of our outstanding warrants as well as decreased interest income primarily due to a decrease in invested funds.

Provision for Income Taxes

We had no significant income tax expense for the nine months ended September 30, 2026 and 2025, respectively. The provision for income taxes for the nine months ended September 30, 2026 and 2025 is based on the Company's estimated annualized effective tax rate for the fiscal years ending December 31, 2026 and 2025, respectively. For the nine months ended September 30, 2026 and 2025, the Company's recognized effective tax rate differs from the U.S. federal statutory rate as the Company recorded net taxable losses during the period with a corresponding full valuation allowance on the net deferred tax assets created from the losses.

Backlog and Total Estimated Contract Value

Our backlog, as of September 30, 2026, was $18.7 million, $15.3 million of which was funded and $3.4 million of which was unfunded. Our backlog, as of December 31, 2025, was $13.9 million, $13.5 million of which was funded and $0.4 million of which was unfunded. Our backlog is equal to our remaining performance obligations under contracts or the total value of committed customer contracts and purchase orders, both funded and unfunded, less revenue recognized through September 30, 2026. Our total estimated contract value, which combines backlog with estimated potential contract value, including unexercised options from existing firm contracts, was $21.8 million as of September 30, 2026 and $20.0 million as of December 31, 2025.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were $47.0 million as of September 30, 2026, compared to $47.1 million as of December 31, 2025. We have incurred losses from operations and negative cash flows from operations since inception and are likely to continue to incur losses from operations and negative cash flows from operations in the near term. As of September 30, 2026, we had an accumulated deficit of approximately $517.7 million and working capital of $47.3 million.

On November 13, 2024, we entered into an open market sale agreement (the "Sales Agreement") with Jefferies LLC to sell shares of our Common Stock from time to time through an "at-the-market" equity offering program (the "ATM Program"), under which Jefferies is acting as our sales agent. During the nine months ended September 30, 2026, we sold a total of 4,581,269 shares pursuant to the ATM program, for gross sales proceeds of approximately $29.9 million, before deducting commission and other expenses. Through September 30, 2026, we have sold a total of 12,703,853 shares pursuant to the ATM program, for gross sales proceeds of approximately $85.4 million, before deducting commission and other expenses.

We believe that our cash, cash equivalents and marketable securities on hand will be sufficient to support operations, working capital and capital expenditure requirements for at least the next 12 months from the date of this Report.

Our primary use of cash is for operations and administrative activities including employee-related expenses and general, operating and overhead expenses. While we do not have any significant debt, we do have a long-term lease for our facilities in Salt Lake City, Utah. Future capital requirements will depend on many factors, including the timing and extent of development efforts, the expansion and results of sales and marketing activities, the sales cycle for our products, customer acquisition and revenues, revenue growth rate, customer retention, the introduction of new and enhanced product offerings and market acceptance of our products.

We have taken many steps to reduce our use of cash. For example, in 2023 we suspended our legacy hardware product development efforts and focused our product development efforts on our AI/ML Foundational Technology and related products, and terminated our operations in Pittsburgh, Pennsylvania in early 2024. We plan to use our existing capital to further commercialize and conduct sales and marketing efforts for our commercially available products and services, as well as continue product testing, debugging and stabilization efforts, conduct product development efforts for initial and updated versions of our products, and to fund purchases for our work-in-process inventory and long lead time components.

The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our product development efforts, our ability to commercialize our products and thereby recognize associated revenue and capital requirements to conduct marketing and sales activities prior to receiving payments sufficient to cover our costs. Any delays in the sales of our products and services will negatively impact our ability to generate revenue, profitability, overall operating performance and financial condition. If we are unable to raise additional capital when desired or needed, our business, results of operations and financial condition would be materially and adversely affected.

We may enter into arrangements to acquire or invest in additional businesses, services and technologies, which may require acquisition capital as well as operational capital for these acquisitions or arrangements. We may be required to seek additional equity or debt financing to facilitate these arrangements. If additional financing is required from outside sources in connection with these arrangements, we may not be able to raise it on terms acceptable to us, or at all.

We currently primarily use cash from equity financings to fund operations and capital expenditures and meet working capital requirements. If additional funds are required to support our working capital requirements, for acquisitions, support for our partnerships or for other purposes, we may seek to raise funds through additional debt or equity financings or from other sources. We intend to continue monitoring our liquidity, financial and business results and outlook and market conditions, and may be opportunistic and raise capital when market conditions are good or a favorable opportunity exists or we otherwise determine it to be necessary or advisable, including under our "at-the-market" equity offering programs. Any delays in the successful further commercialization and sales of our products and services will negatively impact our ability to generate revenue, our profitability and our overall operating performance and result in the need to raise additional capital sooner than expected. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our equity holders could be significantly diluted and these newly issued securities may have rights, preferences or privileges senior to those of existing equity holders. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility and would also require us to incur additional interest expense. Additional financing may not be available at all or, if available, may not be available on terms favorable to us or that we find acceptable. For additional information around the risks associated with our capital needs see Part II Item 1A Risk Factors "*Our business plans require a significant amount of capital. We may sell additional equity or debt securities to meet capital needs or as we may otherwise determine to be advisable that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends. If we require additional capital and are not able to secure new funding, we may not be able to continue our business operations.*"

Cash Flows

The following table summarizes our cash flow data for the periods presented:

	Nine Months Ended September 30,			
(In thousands)	**2026**	**2025**	**$ Change**	**% Change**
Net cash (used in) provided by:				
Net cash used in operating activities	$ (28,179)	$ (19,132)	$ (9,047)	47%
Net cash provided by (used in) investing activities	7,888	(20,305)	28,193	(139)%
Net cash provided by financing activities	29,241	35,610	(6,369)	(18)%
Net increase (decrease) in cash and cash equivalents	$ 8,950	$ (3,827)	$ 12,777	(334)%

Net Cash Used in Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2026 increased by $9.0 million to $28.2 million from $19.1 million during the same period in 2025. The increase to net cash used in operating activities was primarily attributable to an increased net loss resulting from higher operating expenses, driven by increased headcount and operating costs from companies acquired in November 2025, as well as increases in accounts receivable and inventories, partially offset by changes in non-cash items such as stock-based compensation, intangible asset amortization and changes in fair value of warrant liabilities, as well as increases in accrued liabilities.

Net Cash Provided (Used In) by Investing Activities

Our net cash provided by investing activities during the nine months ended September 30, 2026 increased by $28.2 million compared to the same period in 2025. This increase was primarily driven by $9.6 million of maturities net of purchases, of marketable securities during the nine months ended September 30, 2026, as compared to $19.8 million of purchases net of maturities, of marketable securities during the nine months ended September 30, 2025. Additionally, purchases of property and equipment increased by $1.3 million to $1.8 million for the nine months ended September 30, 2026, up from $0.5 million during the nine months ended September 30, 2025.

Net Cash Provided by Financing Activities

Our net cash provided by financing activities decreased by $6.4 million during the nine months ended September 30, 2026, compared to the prior year period. This decrease was primarily attributable to lower net proceeds from equity issuances; specifically, we received $29.0 million, after deducting transaction costs, in net proceeds from the sale of our Common Stock during the nine months ended September 30, 2026, compared to $35.5 million, after deducting transaction costs, in net proceeds from the sale of our Common Stock and warrants during the nine months ended September 30, 2025.

Emerging Growth Company Status

Section 102(b)(1) of the Jumpstart our Business Startups Act of 2012 (the "JOBS Act") exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable.

We are an "emerging growth company" as defined in Section 2(a) of the Securities Act, and have elected to take advantage of the benefits of the extended transition period for new or revised financial accounting standards. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year in which the market value of Common Stock that is held by non-affiliates exceeds $700 million as of the end of that year's second fiscal quarter, (ii) the last day of the fiscal year in which we have total annual gross revenue of $1.235 billion or more during such fiscal year (as indexed for inflation), (iii) the date on which we have issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) December 31, 2026, and we expect to continue to take advantage of the benefits of the extended transition period, although we may decide to early adopt such new or revised accounting standards to the extent permitted by such standards. This may make it difficult or impossible to compare our financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of the extended transition period exemptions because of the potential differences in accounting standards used.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. There have been no material changes to our critical accounting policies or estimates as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2025.

Recent Accounting Pronouncements

See Note 1, Basis of Presentation and Summary of Significant Accounting Policies, to our unaudited interim condensed consolidated financial statements included elsewhere in this Report for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information otherwise required under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time period specified in the SEC rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended September 30, 2026, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that our disclosure controls and procedures were effective as of September 30, 2026.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2026 covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be subject to legal proceedings. We are not currently a party to or aware of any proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

You should carefully consider the following risk factors, in addition to the other information contained in this Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed consolidated financial statements and related notes. If any of the events described in the following risk factors and the risks described elsewhere in this Report occurs, our business, operating results and financial condition could be materially harmed. This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Report or other risks that we currently deem immaterial or that may be unknown to us.

Risks Related to Our Business

We are an early stage company with a history of losses, and expect to incur significant losses for the foreseeable future.

We have incurred losses from operations and negative cash flows from operations since inception and are likely to continue to incur losses from operations and negative cash flows from operations in the near term. We incurred a loss from operations of $38.7 million for the nine months ended September 30, 2026, and a loss from operations of $32.4 million for the year ended December 31, 2025. As of September 30, 2026, we had an accumulated deficit of $517.7 million and working capital of $47.3 million. We expect to incur significant losses for the foreseeable future. Forecasting the timing and amounts of expected revenue and our quarterly and annual results is challenging, in particular because the sales cycle, product acceptance, product pricing and customer adoption rates of our products are uncertain. Some of our contracts, including some of those reflected in backlog, are subject to cancellation, government budgetary process, milestone achievement or other conditions that, if not met, may delay, reduce or eliminate associated revenue. Even if we are able to successfully attract customers for commercial sales, we may not become profitable. We believe our ability to become profitable is dependent upon the successful commercialization and adoption on a large scale of our technology, products and services, including our ability to grow revenues, transition demonstrations, engineering engagements and development contracts into repeat production orders, long-term software licenses and larger commercial or government deployments, manage costs and maintain sufficient margins, none of which may occur. We may not be successful in achieving meaningful revenues from these products. Further, the timing, amount and growth rate of any such revenues are unknown.

We are likely to continue to incur losses in future periods as we:

- continue to develop and commercialize our products;
- conduct our sales and marketing activities and develop our sales and customer service capabilities;
- continue to invest in our technology, products and services and in our cybersecurity measures, policies and controls; and
- maintain our general and administrative functions and systems to support our operations and to operate as a publicly-traded company.

Because we will incur costs and expenses from these and other efforts before we receive significant product revenue, we expect to incur losses in future periods, which could be significant. In addition, we may find that these efforts are more expensive than we currently anticipate or that these efforts may result in less than expected or no additional revenue, which would further increase our losses and affect our ability to continue operations. We may have to obtain additional capital from external sources, and additional financing may not be available when needed or, if available, may not be available on terms favorable to us or to our stockholders. See "*Our business plans require a significant amount of capital. We may sell additional equity or debt securities to meet capital needs or as we may otherwise determine to be advisable that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends. If we require additional capital and are not able to secure new funding, we may not be able to continue our business operations.*"

Our operating and financial projections rely on management assumptions and analyses. If these assumptions or analyses prove to be incorrect, as they often have in the past, our actual operating results may be materially different from our expected or forecasted results.

We are an early stage company, with no or limited previous experience commercializing our products. Our projected financial and operating information reflects estimates of future performance and are based on multiple business, financial, technical and operational assumptions, including product strategy, timely hiring or retention of needed personnel, timing and successful commercialization of our products, the level of demand for our products and services, the size of our target markets, the performance and utilization of our products, product and services pricing, the nature and length of the sales cycle (which we believe to be long) and assumptions regarding government procurement timelines, customer funding, manufacturing capacity, production schedules, contract renewals, backlog conversion and successful integration of acquired operations. However, given our limited commercial experience, many of these estimates and assumptions may prove to be incorrect. Projections and other statements about future expectations are forward-looking statements that are inherently subject to significant risks, uncertainties and contingencies, many of which are beyond our control (in addition to the information contained in these Risk Factors, see "*Special Note Regarding Forward-Looking Statements*" *and* "*Management's Discussion and Analysis of Financial Condition and Results of Operations*").

We have yet to achieve positive operating cash flow, and our ability to generate positive cash flow is uncertain.

We had negative cash flow from operating activities of $27.6 million and $22.6 million for the years ended December 31, 2025 and 2024, respectively, and negative cash flow from operating activities of $28.2 million for the nine months ended September 30, 2026. We expect to continue to have negative cash flow from operating activities for the foreseeable future as we expect to incur research and development, sales and marketing and general and administrative expenses in our efforts to commercialize our products, increase sales and engage in continuous development work. We may not achieve positive cash flow in the near future or at all. Our business also may at times require significant amounts of working capital to support sales growth, capital expenditures or additional product development efforts. An inability to generate positive cash flow for the near term may adversely affect our ability to raise capital for our business on reasonable terms or at all, adversely affect our ability to pursue our business objectives, diminish customer willingness to enter into transactions with us and have other adverse effects, all of which would affect our ability to continue operations. See *"We are an early stage company with a history of losses, and expect to incur significant losses for the foreseeable future."*

We have no or limited previous history or experience with commercializing our products and may not be able to do so efficiently, effectively or at all. We were unsuccessful in our efforts to commercialize our legacy hardware technologies that we and our predecessor companies developed over the past several decades.

We have no or limited experience commercializing our products and may not be able to do so efficiently or effectively or at all. Historically we were unsuccessful in our efforts to commercialize our legacy hardware products. Moreover, commercialization may be delayed due to the challenges discussed under "*Successful commercialization of our technology and products may be delayed beyond our current expectations and therefore product availability to customers, customer acquisition and receipt of product revenue could be delayed.*" The commercialization of our products is a complex and evolving process that involves the development of new and emerging technologies, continued investment, including in privacy, safety and security efforts and potential collaborations with other companies, developers, partners and other participants. Market acceptance of our products is uncertain and we may need to change product features to meet customer needs. We regularly evaluate our product roadmaps and make significant changes as our understanding of the technological challenges and market landscape and our product ideas and designs evolve. We also may be unsuccessful in our research and product development efforts.

A key element of our long-term business strategy involves sales, marketing, training and customer service operations, including hiring personnel with the necessary experience. Managing and maintaining these operations is expensive and time consuming, and an inability to leverage such an organization effectively or at all could inhibit potential sales and the penetration and adoption of our products and services. In addition, certain decisions we make regarding priorities and staffing in these areas in our efforts to responsibly manage our financial resources could have unintended negative effects on our revenue, such as by weakening the sales and marketing infrastructures or lowering the quality of customer service.

Our recent expansion into integrated defense products, autonomous systems and advanced manufacturing exposes us to operational, execution and commercialization risks that differ from those associated with our software business.

Since our November 2025 acquisitions of GuideTech, Warnke Precision Machining and MKR Fabricators, we have significantly expanded our business beyond our AI software offerings through the development and commercialization of autonomous aerial systems, advanced avionics products, engineering services and precision manufacturing. Successfully managing and integrating these businesses requires capabilities different from those historically required for software development, including manufacturing execution, supply chain management, quality assurance, regulatory compliance, production scheduling, inventory management and contract performance.

Our ability to successfully pursue new businesses while continuing to develop and commercialize our AI software offerings is subject to significant operational risk. We may experience delays in production, cost overruns, manufacturing inefficiencies, supplier shortages, quality issues, workforce constraints, customer acceptance delays or other execution challenges that adversely affect our reputation, profitability and operating results. If we are unable to successfully manage expanded operations, realize anticipated synergies or scale these businesses efficiently, our financial condition, results of operations and long-term growth prospects could be materially adversely affected.

Successful commercialization of our technology and products may be delayed beyond our current expectations and therefore product availability to customers, customer acquisition and receipt of product revenue could be delayed.

We are focused on the development and commercialization of our technology and products. Product testing and customer use regularly provide feedback on how we can improve our products. If we are unable to demonstrate that our products deliver the performance, reliability, interoperability with third-party systems, scalability, functionality and/or safety that we or our potential customers expect or quickly address discovered issues, commercial success may be delayed as we work to address the deficiencies. As a result of such delays, we may receive product revenue later than expected or not at all if our potential customers decide to seek alternative solutions to our products, adversely affecting our results of operations and financial condition. If we are unable to recruit and retain employees as needed to commercialize our products, we may be unable to do so in a timely manner or at all.

Over recent years we experienced, and we continue to experience, these challenges, which have at times negatively impacted our product development schedules and progress. We expect these challenges to continue and, if they do and if we are unable to effectively mitigate their impact, it is likely that we will be unable to meet our currently expected timelines.

In addition, macro-economic conditions, such as changes in United States trade policy, including tariffs, inflation and high interest rates and geopolitical events, such as the current wars between Russia and Ukraine and between the United States and Iran, have contributed to price increases and otherwise affected financial and business markets and activities, and may continue to do so. If we are unable to develop and commercialize our products in a cost efficient manner, our financial results, financial condition and prospects would be materially and adversely affected.

Any issues in the development and use of our AI/ML Foundational Technology or AI-enabled products, or issues in products developed by others, may result in reputational harm or liability.

Any issues in the development or use of our AI/ML Foundational Technology or AI-enabled products, or issues in products developed by others may result in reputational harm or liability. As with many innovations, AI presents risks, challenges and unintended consequences that could affect its adoption, and therefore our business. AI algorithms and training methodologies may be flawed, ineffective or inadequate. As our AI software products increasingly enable autonomous operation of robotic systems, UAVs or other defense platforms, alleged failures of autonomous decision-making, object recognition, navigation or mission execution could result in increased product liability, contractual liability, regulatory scrutiny or reputational harm. Further, AI development or deployment practices by us or others could result in incidents that impair the acceptance of AI solutions or cause harm to individuals or society. These deficiencies and other failures of AI systems could subject us to competitive harm, regulatory action, legal liability and brand or reputational harm. If we enable or offer AI solutions that are controversial because of their impact on human rights, privacy, employment or other social, economic or political issues, or because of their use in defense or weapons systems, or other social, economic or political issues, we may experience competitive, brand or reputational harm or legal and/or regulatory action. Further, incorporating AI gives rise to litigation risk and risk of non-compliance and unknown costs of compliance, as AI is an emerging technology for which the legal and regulatory landscape is not fully developed. See "*Issues in the development and use of AI/ML, combined with an uncertain regulatory environment, may result in reputational harm, liability or other adverse consequences to our business operations*."

Our AI/ML Foundational Technology and other technologies and products are new, and customer trials and discussions may not result in purchases.

Our AI/ML Foundational Technology and other technologies and products are new technologies. As of the date of this Report, we have revenue generating contracts with commercial and U.S. government customers relating to our UAV engineering services, advanced avionics computers and precision manufacturing and we also have revenue generating contracts with U.S. government customers relating to various aspects of our AI/ML Foundational Technology and related products. However, while we continue to engage with numerous other potential customers, we currently have only secured one paying customer for our AI/ML Foundational Technology related products. Our products contain advanced software and control technologies that we have developed over many years. The design of our products is significantly influenced by feedback from potential customers and reflects the needs they express. Even if we are able to successfully incorporate that feedback into our products, customers who initially expressed an interest in our products during the design or testing phase may not purchase our products. If we cannot commercialize our technologies and products generally on our expected schedule, if our products do not offer our potential customers the features, functionality and return on investment that they expect, if

potential customers are unwilling or hesitant to adopt new technologies and products such as ours and/or if potential customers are not willing to pay for our products and services at the rates that we currently expect, our ability to generate material revenues will be materially impaired.

Based on interaction with dozens of potential customers, we believe the sales cycle for Palladyne IQ is likely to be between 12 and 18 months or even longer, while the sales cycles for our other products are unknown and could vary greatly, particularly for government customers, where sales cycles may be affected by budgetary and funding authorizations, changes in government spending priorities, government shutdowns or lapses in appropriations and delays in contract awards, modifications or exercise of contract options. For some of our products, we have limited actual knowledge of or experience with the sales cycle of our products including the customer testing that will be required for customers to ultimately license our software products. As a result, customer testing may take longer than we anticipate, and we may not be able to provide such testing to the satisfaction of prospective customers, which could result in longer sales cycles and fewer purchases than anticipated. We may not be able to adapt our products to reflect customer feedback successfully or at all. If customers who initially express an interest in our products and influenced their designs do not license or purchase our products, or if they adopt a competitor's technology, our business, prospects, financial condition and operating results would be adversely affected.

In addition, to build and maintain our business, we must maintain confidence among customers and potential customers in our technologies, products and services, long-term financial viability and prospects. Maintaining such confidence may be particularly complicated by certain factors including those that are largely outside of our control, such as our limited commercial software experience, customer unfamiliarity with our software and other products, any delays in development or testing, product performance, competition and uncertainty regarding the future of AI and robotics. If we do not generate sufficient revenue, our business, prospects, financial condition and operating results would be materially and adversely affected. Further, if investors, analysts, rating agencies and other third parties are not confident in our technologies, products and services, our ability to commercialize our products, our financial viability or our prospects, we may not be able to raise any needed funding which would materially and adversely affect our financial condition and prospects and ability to continue operations.

If our target markets and the industries we seek to serve do not continue to develop as we anticipate, or if potential customers do not adopt our technologies, products and services and license or purchase our products and services, our sales will not grow as quickly as expected, or at all, and our business, operating results and financial condition would be harmed.

The markets for our AI/ML Foundational Technology, other technologies and products and applications similar to ours are relatively new and evolving. We are developing our products to respond to an increasingly global and complex business environment with rigorous regulatory standards. If organizations do not allocate their budgets as we expect or if we do not succeed in convincing potential customers to license or purchase our products and services, our sales will not grow as quickly as anticipated, or at all. Economic uncertainty or future deterioration in general economic conditions might also cause our customers to cut or delay their spending, and such cuts might disproportionately affect businesses like ours to the extent customers view our products and services as too costly or discretionary. For example, the effects of changes in U.S. trade policy, including tariffs, are unknown and may have the effect of diminishing customer willingness to enter into transactions with us. Moreover, market acceptance of our technologies and products is critical to our continued success. Even if the market grows as expected, if potential customers do not adopt our technologies, products and services, our business, operating results, financial condition and growth prospects will be materially and adversely affected. If we are not able to generate material revenues from our products and services before we exhaust our financial resources, we may need to cease business operations. See "*We are an early stage company with a history of losses, and expect to incur significant losses for the foreseeable future.*" and "*Our business plans require a significant amount of capital. We may sell additional equity or debt securities to meet capital needs or as we may otherwise determine to be advisable that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends. If we require additional capital and are not able to secure new funding, we may not be able to continue our business operations*."

If we are unable to successfully introduce and implement enhancements, new features or modifications to our technologies and products, our business will be harmed.

If we are unable to successfully introduce and implement new products, applications, enhancements or features, or fail to develop new products or applications that achieve market acceptance or that keep pace with rapid technological developments, our business, operating results, financial condition and growth prospects will be adversely affected. The success of enhancements and new products and applications depends on several factors, including timely completion, introduction and market acceptance.

We must continue to meet the changing expectations and requirements of our customers. Any failure of our software or other products to operate effectively with future software, such as third-party robotic operating systems, technologies and third-party platforms or to evolve and scale to address the changing needs of our customers could reduce the demand for our products or result in customer dissatisfaction. Further, uncertainties about the timing and nature of new software, technologies or third-party platforms, or modifications to our software or products or existing software, technologies or platforms, could increase our research and development

expenses. If we are not successful in developing modifications and enhancements to our products or if we fail to introduce new products and applications to market in a timely fashion, our products might become less marketable, less competitive or obsolete, and consequently our revenue growth might be significantly impaired and our business, operating results and financial condition could be harmed.

We may fail to attract or retain customers at sufficient rates or in sufficient numbers or at all.

We have no or limited experience commercializing our products, including our AI software products and our UAV products, and may not be able to do so efficiently or effectively or at all. To create and grow our customer base, we must sell and/or license our software, products and services to new customers, which we may not be able to do in sufficient numbers or at all. For example, many of our customer engagements begin as demonstrations, evaluations, engineering services engagements or other limited-scope programs. Successful completion of these activities may not result in high-volume production contracts, larger deployments, long-term software licenses, expanded engineering services or additional or increased manufacturing contracts. Customers may discontinue evaluations at any stage, reduce funding, delay procurement decisions or select competing technologies. Even if we are able to attract customers, these customers may not maintain a high level of commitment to our technology, products or services. In addition, we will incur marketing, sales and other expenses, including referral fees, to attract new customers, which will offset revenue from such customers. For these and other reasons, we could fail to achieve revenue growth, which would adversely affect our results of operations, prospects and financial condition.

We expect certain of our technologies and products to be used with robots and UAVs operating in a wide variety of environments and for a broad range of complex uses. Our success depends on our ability, and the ability of our customers, to implement our products successfully in these environments. Customer retention will also be largely dependent on the quality and effectiveness of our customer service operations, which may be handled internally by our personnel and also by third-party service providers. We expect that we will need to often assist our customers in implementing our software and other products. If we or our customers are unable to implement our products successfully, or are unable to do so in a timely manner, inadequate performance might result and customer perceptions of our technology, products and company might be impaired, our reputation and brand might suffer, we may face legal claims, customers might choose not to renew or expand the use of our products and we might lose opportunities for additional sales.

We have no previous history with our licensing sales model for our software products.

We have no experience with licensing software as a business model. The success of our strategy to build recurring revenue streams through software licenses depends on our ability to successfully market our software products and their benefits to customers and to successfully develop a network of ongoing customers that maintain or renew their licenses, pay for upgrades, license additional functionality or expand the use of the software within their robotic systems. The likelihood of our success must be considered in light of these risks, and our license model may not prove successful.

In addition, our competitors may offer different pricing models that may be more attractive to potential customers. We may be required to adjust our sales model in response to these changes, which could adversely affect our financial performance.

Important assumptions about market demand, pricing, adoption rates and sales cycles for our products and services may be inaccurate.

Market demand for our products is unproven, and important assumptions about the characteristics of targeted markets, pricing, adoption rates and sales cycles may be inaccurate. Based on interaction with dozens of potential customers, we believe that the sales cycle for Palladyne IQ is likely to be between 12 and 18 months, or even longer, while the sales cycles for our other products are unknown.

Given the evolving nature of the markets in which we operate, it is difficult to predict customer demand or adoption rates for our products or the future growth of the markets we target. If one or more of the targeted markets experiences a shift in customer demand, whether due to new solutions that better address customer needs or otherwise, our products may not compete as effectively, if at all. If customer demand does not develop as expected, or if we do not achieve forecasted pricing, adoption rates and sales cycles for our products, our business, results of operations and financial condition will be adversely affected, perhaps materially.

The benefits of our AI/ML Foundational Technology and related products to customers and projected return on investment have not been substantiated through customer use.

Our AI/ML Foundational Technology and related products have not been extensively commercially used by customers. Our products may not perform consistent with customers' expectations or consistent with other products that may be or may become available. Any failure of our products to perform as expected could harm our reputation and result in adverse publicity, lost revenue, license cancellation, harm to our brand, delays in availability, product liability claims and significant warranty and other expenses and could have a material adverse impact on our business, prospects, financial condition and operating results.

We currently intend to target many customers that are large businesses, including large U.S. government prime contractors with substantial negotiating power, exacting product standards and potentially competitive internal solutions. If we are unable to sell our software products to these customers, our prospects and results of operations will be adversely affected.

We expect that many of our potential customers will be large businesses, including large U.S. government prime contractors with substantial negotiating power relative to us and, in some instances, may have internal solutions that are competitive to our AI/ML software products and other products and services. These large businesses also have significant development resources, which may allow them to acquire or develop independently, or in partnership with others, competitive technologies. Meeting the technical requirements and securing binding commitments from any of these businesses will require a substantial investment of our time and resources. We may be unable to secure customers from these or other businesses or we may be unable to generate meaningful revenue from these potential customers. If our products and services are not selected by these large businesses, if these businesses develop or acquire competitive technology, or if these businesses delay, reduce or terminate programs involving our products or services, it may have a material adverse effect on our business, prospects, financial condition and operating results.

A portion of our revenue is currently and will continue to be generated by contracts with government entities, which makes us subject to a number of uncertainties, challenges and risks.

We believe a significant portion of our business prospects and future growth will come from government contracts, either directly or as a subcontractor, many of which are subject to competitive procurement processes, lengthy evaluation periods and uncertainty as to timing and outcome. The procurement process can be highly competitive, expensive and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate revenue. Even after we are awarded a government contract, contracts with government entities are subject to a number of risks. Many government awards initially consist of research, development, prototype, engineering or demonstration activities. These awards frequently do not obligate future procurement, production quantities or follow-on contracts. Other factors that could impede our ability to generate revenue from government contracts include: changing political environments and shifts in government priorities; national security focus areas; impacts and changes to government spending; and budgetary or staffing cuts, including those related to government shutdowns resulting from lapses in government appropriations, delays or failures to timely enact annual appropriations or continuing resolutions, and other uncertainties in the federal budget and appropriations process. Any of these factors or other factors that affect government spending could result in cancellations of our contracts or in delays or terminations of opportunities that we are currently pursuing and negatively impact our business, financial condition and results of operations. For example, in the past due to government shutdowns, furloughs or reductions, we have experienced delays in our interactions with certain government agencies and these have affected our collection efforts and our ability to consummate new government contracts and may prevent us from maintaining or renewing certain government contracts. Government shutdowns, delays or uncertainty in the appropriations process may also delay payments or reimbursements to us and may cause government customers to defer the exercise of contract options, the issuance of task orders or contract modifications, or decisions to procure additional quantities, which could delay or reduce our anticipated revenues and cash receipts. The duration and frequency of a shutdown or other disruption in the federal budget or appropriations process could have a compounding effect, and the longer or more frequently such disruptions occur, the more significant the potential adverse impact may be on our anticipated revenues. Further, U.S. government spending may be reduced as a result of changes in policy, and other factors affecting the U.S. government such as national security focus areas, budget deficits and the national debt. Even if we are successful in being awarded a government contract, such award may be subject to appeals, disputes or litigation, including bid protests by unsuccessful bidders. Government demand and payment for our solutions may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Additionally, during lapses in federal appropriations, agencies may delay new contract awards or modifications, interrupt funding or refuse to obligate additional funds, furlough personnel or reduce administrative and contracting support. Government entities may have statutory, contractual or other legal rights to terminate our contracts for convenience or default. Also see "*We are subject to laws, regulations and contractual provisions as a government contractor or subcontractor, which may pose increased risk of potential liability and expenses related thereto, which could have a material adverse effect on our business, operating results and financial condition.*"

We operate in a competitive industry that is subject to rapid technological change, and we expect competition to increase. Our products may not be competitive with other alternatives.

The AI/ML software, robotics and UAV industries and other industries we seek to serve are subject to rapid technological change, and we expect competition to increase in the future. Our research and development efforts may be unable to keep up with changes in technology or its alternatives and, as a result, our competitiveness may suffer. Developments in alternative technologies or solutions may materially and adversely affect our competitiveness in ways we do not currently anticipate. While we plan to upgrade and adapt our products and services as we or others develop new technology, any failure by us to develop new or enhanced technologies or processes, or successfully react to changes or advances in existing technologies, could delay our development and introduction of new and enhanced products, which could result in the loss of competitiveness, decreased revenue and a loss of market share to competitors.

We believe that SwarmOS/Pilot will face competition from a variety of other UAV software solutions currently available on the market, which may include software developed by manufacturers for use with their proprietary UAVs. These include solutions offered by Anduril, Shield AI, Skydio and Swarmer. While certain competitors offer individual functionalities similar to what SwarmOS/Pilot provides, we believe they do not deliver the full suite of features offered by our product. Some competitors sell both UAV hardware and its corresponding software.

Large defense prime contractors with UAV, aviation or missile programs, such as Lockheed Martin, Northrop Grumman, Boeing and RTX, along with manufacturing companies, represent formidable potential competitors of ours, particularly as they accelerate investments in attritable autonomous systems, loitering munitions and AI-enabled avionics. These incumbents leverage established program relationships, large R&D budgets and certified production lines to develop integrated solutions like other low-cost attritable weapons such as the Leidos Black Arrow, which could compete with SwarmStrike.

While there are many automation-centric companies who are active, especially in early-adopter segments such as warehouse and logistics and select manufacturing or assembly verticals, we believe our primary competitors for Palladyne IQ are those who are focused on addressing key challenges in robotic deployments via autonomy or automation-enhancing software capabilities. In the broader automation landscape, our direct and indirect competitors include companies such as Bright Machines, Intrinsic, Mujin and Skild AI. We believe that our competitors generally are seeking to solve the same or similar industry challenges as we are, but that most are focused on a particular aspect of the problem we are addressing with Palladyne IQ than a fully competitive solution.

Although we view industrial robotics manufacturers, large system integrators and consulting companies such as Fanuc, KUKA, ABB, Yaskawa, Honeywell, Reply and Rockwell Automation, as potential target customers and/or channel partners for Palladyne IQ, we also recognize that these companies could also emerge as formidable competitors through their own internal development efforts or future technology partnerships with and acquisitions of our direct competitors. They may bring their robust customer relationships, channels and significant financial resources to help accelerate the market viability of their own products or those of one or more of our direct or indirect competitors.

We believe our engineering services may compete with companies such as ModalAI, ArkElectronics, Applied Navigation, and other organizations such as Georgia Tech Research Institute and similar organizations that sell or otherwise provide similar services. We believe that our competitors provide solutions for more broadly applicable use cases, while our engineering services provide solutions for nonstandard or specialized products or use cases where more generic competitor solutions are less suitable.

Many of our competitors and potential competitors have products that are commercially available and/or in development. We expect some products currently in development to become commercially available in the next few years. Further, our products may not be competitive with other alternatives.

Our competitor base may change or expand as we continue to develop and commercialize software and other products in the future. Competitors may develop products that utilize advanced technology similar to ours (such as computer vision, AI and ML) in a more effective way, or new technologies or products that provide superior results to customers or are less expensive than our products. Our technologies and products could be rendered obsolete by such developments.

Our competitors may respond more quickly to new or emerging technologies, undertake more extensive marketing campaigns, have greater financial, marketing, manufacturing and other resources than we do, or may be more successful in attracting potential customers, employees and strategic partners. In addition, potential customers could have long-standing or contractual relationships with competitors. Potential customers may be reluctant to adopt our products, particularly if they compete with or have the potential to compete with, or diminish the need/utilization of products or technologies provided by any of our competitors with whom they may have an existing relationship. If we are not able to compete effectively, our business, prospects, financial condition and operating results will be adversely affected.

In addition, because we operate in new and evolving markets, the actions of our competitors could adversely affect our business. Adverse events such as product defects or legal claims with respect to competing or similar products could cause reputational harm to the AI/ML software or robotics markets as a whole and, accordingly, our business.

If we are unable to maintain our technological and manufacturing process expertise, our business could be adversely affected.

The market for the products made by our manufacturing business is characterized by rapidly changing technology and continuing process development. We are continually evaluating the advantages and feasibility of new manufacturing processes. We believe that our future success will depend upon our ability to develop and provide products that meet our customers' changing needs. This requires that we maintain technological leadership and successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis. Our failure to maintain our technological and manufacturing process expertise could have a material adverse effect on our business.

We may not be able to successfully enhance our product offerings through our research and development efforts.

We expect to continue to advance and evolve our technologies and products in response to the evolving demands of our customers in the various industries we expect to serve. Palladyne IQ, Palladyne Pilot, SwarmOS, BRAIN and IntelliSwarm are in the early stages of commercialization and we continue to undergo reliability testing, debugging, and other stabilizing improvements. Gremlin-X and SwarmStrike are still in initial product development. We will incur significant additional product development efforts and expenses, and we may not be successful in commercializing or marketing our products at all or within our currently expected timelines or available resources. In addition, we continue to make iterative improvements to our products, as well as work to develop the next versions of our products. If we fail to adequately communicate to customers product improvements, or if customer feedback is not adequately reflected in our product improvements, customers may not be persuaded of the value of our products. If we fail to generate demand by developing products that incorporate features desired by customers, we may fail to generate revenue sufficient to achieve or maintain profitability. We have in the past experienced and may in the future experience delays in various phases of product development, including during research and development, release testing and marketing and customer education efforts. Further, delays in product development would postpone demonstrations and customer testing, which are important opportunities for customer engagement, and cause us to miss expected timelines. Such delays could cause customers to delay or forgo purchases of our products, or to purchase competitors' products. Even if we are able to successfully develop and commercialize our products when and as anticipated, we may not produce sales in excess of the costs of development, and our products may be quickly rendered obsolete by changing customer preferences or the introduction by competitors of products embodying new technologies or features. If we are unable to successfully manage our product development and communications with customers, customers may choose to not adopt or purchase our products, which would adversely affect our business, prospects, financial condition and operating results.

Risks Related to Our Operations and Growth

The success of our recent acquisitions of GuideTech, Warnke Precision Machining and MKR Fabricators is subject to numerous risks and uncertainties, including integration risks.

In November 2025, we completed our acquisitions of GuideTech, Warnke Precision Machining and MKR Fabricators. We believe that these businesses are complementary to ours, and that we and the acquired companies are benefiting and will continue to benefit from the combination of the businesses. Upon consummation of the acquisitions, we became subject to risks associated with these acquired businesses, many of which are the same risks that we faced prior to the acquisitions. Other risks include:

- risks associated with the products, services and technologies of the acquired businesses;
- integration risks, such as risks associated with combining multiple organizations and cultures in multiple geographies and integrating systems and maintaining IT security;
- potential loss of focus on business and product development objectives;
- maintaining customer and supplier relationships;
- potential inability to allocate resources appropriately across product lines and service offerings;
- potential liabilities or claims arising from the prior operations of the acquired businesses;
- potential inability to retain employees; and
- risks associated with whether we can achieve the expected benefits of the acquisitions.

If we are unable to effectively manage these and any other risks resulting from the acquisitions, the value of our investment in one or more of the acquired companies may be adversely affected and the expected benefits of the acquisitions may not be realized.

We continue working to fully integrate the acquired businesses. While we believe that the organizations share common values and cultures and that the acquisitions will help us expand our product portfolio, offer additional services, integrate additional technologies, serve additional markets and further our product development efforts, integration involves significant risk and management attention. If these efforts divert management time and company resources from our product development efforts, commercialization of our technologies and services could be delayed. The development and sales of the products and services of the acquired businesses could also be adversely affected. Delays in the development and commercialization of either our AI/ML Foundational Technology and related products or the products and services of the acquired businesses would adversely impact our ability to generate revenue, our potential overall profitability and our operating performance, and the value of our investments in the acquired businesses could be adversely affected. If we are unable to realize the benefits of the acquisitions, we may be required to write down the value of acquired assets or incur goodwill impairment charges.

Real or perceived design flaws, errors, defects, glitches, bugs or malfunctions (collectively, "flaws") in our technologies, products and services, failure of our products to perform as expected, connectivity issues or user errors can result in lower than expected return on investment for customers, personal injury or property damage and significant security or safety concerns, each of which could materially and adversely affect our results of operations, financial condition or reputation.

The design, development and use of our technologies and products involve certain inherent risks. New products generally suffer from flaws that are found, often as a result of customer use, and fixed over time. Real or perceived flaws in our products or designs, connectivity issues, unanticipated or unintended use of our products, user errors or inadequate disclosure of risks relating to the use of our products, among others, can lead to injury, property damage or other adverse events. We have conducted, are conducting and plan to continue to conduct extensive testing of our products, in some instances in collaboration with our customers, to ensure that any such issues can be identified and addressed. However, we may not be able to identify all such issues or, if identified, efforts to address them may not be effective in all cases, and our product testing may not be adequate. We plan to conduct investigations, where applicable, to identify the cause or causes of incidents and, when appropriate, implement changes to testing protocols or to the products to prevent such incidents from reoccurring. However, any implemented improvements may not fully prevent similar or other incidents in the future. Moreover, because of the size and weight of the third-party systems that may in the future use our technologies and products, and the nature and variability of the environments in which we expect our products to be used, adverse events relating to the use of our products could include significant injuries or even death. To the extent that flaws or connectivity issues are discovered during or after product development, we may experience delays in the development and/or sale of our products while the issues are resolved. For example, we continue our efforts to increase product reliability and stability and conduct ordinary course product testing and debugging, which may result in product development or commercialization delays. If any flaws and related issues that may arise cannot be adequately resolved, product sales may not occur and/or resume.

As certain of our products, in particular our AI software and related products, increasingly incorporate autonomous capabilities for operation in dynamic and, in some cases, mission-critical environments, software defects, sensor limitations, integration failures, communications interruptions, degraded GPS or other navigation signals, cybersecurity incidents, unexpected environmental conditions or other operational failures may be more difficult to predict, detect or remediate than in conventional software applications. Such failures may adversely affect mission performance, customer acceptance, regulatory compliance, product liability exposure and our reputation.

In addition, we may not be aware of flaws until injury to person or property has occurred. Such adverse events could lead to safety alerts relating to our products (either voluntary or required by governmental authorities), and could result, in certain cases, in the removal of our products from the market. Flaws could also result in negative publicity, damage to our reputation or, in the event of regulatory developments, delays in new product approvals.

Complex software may experience errors, especially when first introduced. Our software products are complex and may experience errors or performance problems in the future. A failure of any part of our technology and products could result in property damage, serious injury or even death. We plan to implement bug fixes and upgrades as part of our regular software maintenance, which may lead to downtime. Even if we are able to implement bug fixes and upgrades in a timely manner, customers and operators also may fail to install updates and fixes to the software for several reasons, including poor connectivity or inattention. Any such occurrence could cause delay in market acceptance of our software products, damage to our reputation, increased service and warranty costs, product liability claims and loss of revenue.

We anticipate that in the ordinary course of business we may be subject to product liability claims alleging flaws in the design of our products. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs and high punitive damage payments, damage our reputation or require significant costs to redesign or fix our software or products. Although we maintain product liability insurance, the coverage is subject to deductibles and limitations, and may not be adequate to cover future claims.

Even if our technologies and products perform properly and our products are used as intended, if personal injuries occur while operating our products or third-party products that incorporate our technologies and products, we could be exposed to liability and our results of operations, financial condition and reputation may be adversely affected.

Our technologies and products will contain complex technology and must be used as designed and intended in order to operate safely and effectively. Even if our products are used as designed and intended, customers may not operate our products or complex third-party systems and platforms that use our products safely and effectively. In addition, we cannot predict all the ways in which the proper use or misuse of our products can lead to injury or damage to property, and our training resources and safety systems may not be successful at preventing all incidents. If personal injury or damage to property were to occur while operating our products in a manner consistent with our training and instructions or otherwise, we could be exposed to liability and our results of operations, financial condition and reputation may be adversely affected.

We use "open source" software, which could negatively affect our ability to offer our technologies and products and subject us to possible litigation.

Our AI/ML Foundational Technology and other technologies and products incorporate "open source" software provided by third parties. Open source software is generally freely accessible, usable and modifiable, and is made available to the general public on an "as-is" basis under the terms of a non-negotiable license. Use and distribution of open source software may entail greater risks than use of third-party commercial software or internally developed software. Open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or other claims relating to violation of intellectual property rights or the quality of the software. In addition, certain open source licenses, like the GNU Affero General Public License, may require us to offer for no cost the components of our software that incorporate the open source software, to make available source code for modifications or derivative works we create by incorporating or using the open source software or to license our modifications or derivative works under the terms of the particular open source license. If we are required under the terms of an open source license to release our proprietary source code to the public, competitors could create similar products with lower development effort and time, which ultimately could result in a loss of sales for us.

We may also face claims alleging noncompliance with open source license terms or infringement, misappropriation or other violation of open source technology. These claims could result in litigation or require us to purchase a costly license, devote additional research and development resources to re-engineer our software, discontinue the sale of our software products if re-engineering could not be accomplished on a timely or cost-effective basis, or make generally available our proprietary code in source code form, any of which would have a negative effect on our business and operating results, including being enjoined from the offering of the components of our software that contained the open source software. We could also be subject to lawsuits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition and require us to devote additional research and development resources to re-engineer our software.

Although we monitor use of open source software and try to ensure that none is used in a manner that would subject our software to unintended conditions, few courts have interpreted open source licenses, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our AI/ML Foundational Technology, other technologies and products. We cannot guarantee that we will incorporate open source software in our products in a manner that will not subject us to liability, or in a manner that is consistent with our current policies and procedures.

Our business and prospects depend significantly on our ability to build our brands. We may not succeed in establishing, maintaining and strengthening effective brands, and our brands and reputation could be harmed by negative publicity regarding us or our technologies, products or services.

Our business and prospects are dependent on our ability to develop, maintain and strengthen our brands. If we do not continue to establish, maintain and strengthen our brands, we may lose the opportunity to build a critical mass of customers. We believe that our inability to successfully commercialize our legacy hardware products, and our resulting financial performance, damaged our prior brand. Promoting and positioning our brands will likely depend significantly on our ability to provide high quality software, other products and services and to engage with our customers as intended. To promote our brands, we may be required to change or expand our customer development and branding practices, including increased marketing activities, which could result in substantially increased expenses. If we do not develop and maintain strong brands, our business, prospects, financial condition and operating results will be materially and adversely impacted.

In addition, if safety incidents occur or are perceived to have occurred, whether or not such incidents are our fault, we could be subject to adverse publicity or resistance by our customers. Because many of our customers operate in defense and national security markets, reputational damage resulting from operational failures, cybersecurity incidents or contract performance issues could disproportionately affect our ability to win future business. In particular, given the popularity of social media, any negative publicity, whether true or not, could quickly proliferate and harm perceptions and confidence in our brands. As we expand our activities in defense and national security markets, including through products and partnerships involving autonomous systems, loitering munitions, missiles and other weapons systems, we may face increased public, media, investor, employee or other stakeholder scrutiny or opposition concerning the actual or perceived uses of our technologies. Such scrutiny or opposition could result in negative publicity, protests or other public campaigns, customer resistance, difficulties attracting or retaining employees, investor concerns or other reputational harm, including where such scrutiny relates to the activities of our customers or partners or to broader controversies involving similar technologies. Furthermore, there is the risk of potential adverse publicity related to our partners whether or not such publicity is related to their collaboration with us. Our ability to successfully position our brand could also be adversely affected by perceptions about the quality of our competitors' products.

Our management team has broad discretion in making strategic decisions to execute our growth plans, and our management's decisions have not always led to the desired result. Current and future decisions may not be successful in achieving our business objectives or may have unintended consequences that negatively impact our growth prospects.

Our management team has broad discretion in making strategic decisions to execute our growth plans and may devote time and company resources to new or expanded product and services offerings, potential acquisitions or strategic alliances, prospective customers or other initiatives that do not necessarily improve our operating results or contribute to our growth. For example, in November 2025, we acquired GuideTech, an engineering company, MKR Fabricators, a fabrication company, and Warnke Precision Machining, a precision machining company, to complement our business. Our management must make strategic and operational decisions in the context of limited financial and human resources. As a result, we have in the past and may in the future forgo opportunities we may have otherwise pursued given sufficient resources, some of which might have had greater likelihood of success. Any failure by management to make strategic decisions that are ultimately accretive to our growth may result in unfavorable returns and uncertainty about our prospects, each of which could cause the price of our Common Stock to decline and have a material adverse effect on our business, prospects, financial condition and results of operations and ability to continue operations.

We are highly dependent on the services of our senior management and other key employees and, if we are unable to attract, integrate and retain a sufficient number of qualified employees, our ability to develop and commercialize our technologies and products, offer our services, operate our business and compete could be harmed.

Our success depends, in part, on our ability to retain our key personnel. The unexpected loss of or failure to retain one or more of our senior managers or other key employees could delay product development and require outsourcing to third parties, each of which in turn could adversely affect our business. For example, we are highly dependent on the services of Benjamin G. Wolff, our President and Chief Executive Officer, and on our AI/ML Foundational Technology leadership team, in particular our Chief Technology Officer, Dr. Denis Garagic. Dr. Garagic has a significant influence on our AI/ML Foundational Technology development efforts and our business plan. If key members of our senior management were to discontinue service due to death, disability or any other reason, we may be significantly disadvantaged and their departure or the departure of other key contributors to our software and technology development efforts could result in delays in product development or commercialization, or potentially an inability to successfully commercialize our technologies and products at all, which would materially and adversely harm our business, results of operations and financial condition. Further, we may have difficulty finding, or be unable to find, qualified successors to any such persons should they depart the Company. If we are unable to successfully continue development and commercialization of our technologies and products in a timely manner, whether due to the departure of any such persons or otherwise, we may not have sufficient time or resources to pursue alternative plans or opportunities and may need to cease operations. We do not maintain key-person insurance for any of our senior management. For these reasons, we may incur significant costs to retain our senior management team and key personnel.

We have experienced and may continue to experience changes in our senior management team, including as a result of our recent acquisitions. If we do not successfully implement and adapt to these changes, they may not lead to the desired improvement in our business and results of operations. This, in turn, could have a material adverse effect on our business. Any inability to successfully manage these changes could be viewed negatively by our customers, employees, investors and other third-party partners, and could have an adverse impact on our business and results of operations.

Our success also depends, in part, on our ability to identify, hire, attract, train and develop other highly qualified personnel as needed, specifically AI/ML software engineers. Because of the innovative and advanced nature of our technology, individuals with the necessary experience have not been, and likely will continue not to be, readily available to hire, and as a result, we may need to expend significant time and expense to recruit and retain experienced employees and appropriately train any newly hired employees. Integrating new employees can also cause disruptions to processes, projects, culture, priorities and our company as a whole. We face intense competition for experienced and highly skilled employees, specifically AI/ML software engineers, from numerous other companies, including other software and technology companies, many of which have greater financial and other resources than we do, and our ability to hire, attract and retain them depends on our ability to provide competitive compensation. We may not be able to attract, assimilate, develop or retain qualified personnel in the future, and our failure to do so could adversely affect our business, including the execution of our strategy. We may incur significant costs to attract and retain qualified personnel, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees may not be or become as productive as we expect, or may not fit culturally, and long-term employees may not embrace new leaders, priorities, methods, processes or other changes and may decide to leave or not perform as well as they did in the past, as we may face challenges in adequately or appropriately integrating them into our workforce and culture.

Our headquarters are in Salt Lake City, Utah, which has fewer highly skilled employees in the AI/ML software and robotics fields than some other major metropolitan areas. To attract and retain key personnel, we may need to open offices in other areas of the country, which could increase costs and reduce productivity. Any failure by our management team and our employees to perform as expected may have a material adverse effect on our ability to design and launch our software products or to operate our business and compete, as well as on our business, prospects, financial condition and operating results.

If we fail to effectively manage our business, we may not be able to develop, market and commercialize our technologies and products successfully.

Any failure to manage our business effectively could materially and adversely affect our prospects, financial condition and operating results. As we work to grow our business, we may need to manage the following activities, among others:

- maintaining effective management, engineering and other teams;
- retaining and recruiting individuals with the appropriate relevant experience;
- hiring and training new personnel;
- commercializing our AI/ML Foundational Technology, other technologies and products;
- growing demand for our engineering services and manufacturing, including any associated capital expenditures;
- entering into relationships with one or more manufacturing partners and third-party manufacturers and/or expanding our internal manufacturing capabilities;
- forecasting revenue, managing expenses and implementing enterprise resource planning, or ERP, systems;
- entering into relationships with one or more third-party service providers or partners, including in relation to the commercialization of our AI/ML Foundational Technology, other technologies and products;
- carrying out acquisitions and entering into collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships;
- expanding and enhancing internal information technology, safety and security systems;
- establishing or expanding sales and customer service organizations;
- conducting demonstrations and customer trials of our software products; and
- implementing and enhancing administrative, financial and compliance infrastructure, systems, controls and processes.

As customer demand increases, any failure to effectively manage our business to expand our manufacturing capacity, increase inventory, qualify additional suppliers, hire specialized personnel and make capital investments may adversely affect our financial condition. Further, such expansion investments may be based on forecasts of future customer demand, including anticipated government or commercial programs, that may not materialize or may be delayed. If anticipated demand does not materialize, expected production volumes are not achieved or customer programs are delayed, reduced or canceled, these investments may adversely affect our operating results, cash flows and financial condition.

We may be unable to adequately control the costs associated with our operations in order to achieve profitability.

We will require significant capital to develop and grow our business, including successfully commercializing our AI/ML Foundational Technology, other technologies and products, growing our engineering services and manufacturing businesses, establishing or expanding our design, research and development, sales and maintenance and service capabilities and building our brands. Defense manufacturing programs may require significant up-front investment in equipment, tooling, inventory, certifications and workforce expansion before revenue is recognized. We have incurred and expect to continue incurring significant expenses which will impact our profitability, including research and development expenses, sales and marketing expenses as we build our brands and market our products and general and administrative expenses. We may incur significant capital expenditures for the purchase of additional equipment to support growth in our manufacturing business. It may be difficult to reduce expenses further or maintain current levels while pursuing our business objectives. Some of the factors that may lead to cost increases or difficulty further reducing cost are outside of our control, such as national or global geopolitical and economic conditions, including tariffs, inflation and interest rates. In addition, we may incur significant costs upgrading or fixing flaws in our products. Our ability to continue our operations in the long term and potentially become profitable in the future will not only depend on our ability to commercialize our products to meet customer needs and identify and investigate new areas of demand, but also on our ability to license or sell our products at prices needed to achieve sufficient revenues and margins to cover our cash outlay, including the risks and costs associated with any warranty obligations. If we

are unable to efficiently develop, market, deploy, distribute and service our products in a cost-effective manner, our operating results, financial condition and prospects would be materially and adversely affected and we may not achieve profitability.

We expect to incur substantial research and development costs and devote significant resources to developing and commercializing our AI/ML Foundational Technology, other technologies and products, and we may never reach profitability and/or achieve significant or any revenue.

Our future growth depends on penetrating new markets, adapting our AI/ML Foundational Technology, other technologies and products to new applications and customer requirements and introducing new features and functionality that achieve market acceptance. We expect to incur substantial, and potentially increasing, research, development, sales and marketing costs as part of our efforts to develop, enhance and commercialize our technologies and products. Our research and development program may not produce successful results or be sufficient to adapt to new or changing technologies (such as AI), and our products may not achieve market acceptance, create meaningful or any revenue or become profitable.

Some of our products require hardware components, and we are dependent on our suppliers, some of which are currently single, sole or limited source suppliers. Any inability of these suppliers to deliver necessary components of our products at prices, volumes, performance, timing and specifications acceptable to us could have a material adverse effect on our business, prospects, financial condition and operating results.

We maintain a limited set of suppliers. As of September 30, 2026, most of our key suppliers are based in the United States. We have experienced, and may continue to experience, supply chain disruptions, including longer lead times for certain drone components and increased pricing and longer lead times for high-powered processing chips and related components, driven largely by macroeconomic shifts and the accelerating global investment in AI infrastructure, which could adversely affect our ability to meet production schedules. In some cases, we have sole source (where the component is only available from a single vendor, often as a result of customization for our use) or single source (where we purchase from a single vendor but there are alternative sources of the component) suppliers. We seek to minimize our dependence on sole or single source suppliers in order to reduce risk in our supply chain, including the risk of losing a sole or single source supplier due to bankruptcy, discontinuing production of the particular component or some other reason. However, some of the components used in our products may have to be purchased by us from a single source and some may only be available from a sole source. If our third-party suppliers are unable or unwilling to supply key components and materials in the required volumes, at the needed times or at acceptable prices, our sales, revenue and profitability will likely be adversely affected and we may not be able to meet our obligations to customers. Our third-party suppliers may also not be able to meet the specifications and performance characteristics required by us, which would impact our ability to achieve our product specifications and performance characteristics as well. Additionally, our third-party suppliers may be unable to obtain required certifications or provide warranties for their products that are necessary for our products. If we are unable to obtain components and materials used in our products from our suppliers, our business would be adversely affected.

We have less negotiating leverage with suppliers than larger and more established companies and may not be able to obtain favorable pricing and other terms. For example, agreements with suppliers may include terms that are unfavorable to us, such as requirements that we order components and manufacture systems and solutions in excess of our demand due to minimum order quantity requirements or minimum price thresholds. While we believe that we may be able to establish alternate supply relationships and can obtain or engineer replacement components for our single source components, we may be unable to do so in time to support our production needs, or at all, or at prices or quality levels that are favorable to us. Further, we may not be able to develop satisfactory alternatives to sole-sourced components. Any inability to find satisfactory alternatives to our single- and sole-sourced component suppliers, whether due to bankruptcy of the supplier, a decision to discontinue manufacturing the component or for any other reason, could affect our costs and component availability and have a material adverse effect on our business, prospects, financial condition and operating results.

Furthermore, fluctuations or shortages in raw materials or components and other economic conditions, including due to tariffs, may cause us to experience significant increases in freight charges and material costs. Substantial increases in the prices for our materials would increase our operating costs and could reduce our margins if the increased costs cannot be recouped through increased sales prices.

Our business involves significant risks and uncertainties that may not be covered by indemnity or insurance.

A significant portion of our business relates to designing, developing and manufacturing advanced defense and technology products and systems. New technologies may be untested or unproven. Failure of some of these products and services could result in extensive loss of life or property damage. Accordingly, we may incur liabilities that are unique to our products and services. In some but not all circumstances, we may be entitled to certain legal protections or indemnifications from our customers, either through U.S. Government indemnifications under Public Law 85-804, 10 U.S.C. 3861, the Commercial Space Launch Act or the Price-Anderson Act, qualification

of our products and services by the Department of Homeland Security under the SAFETY Act provisions of the Homeland Security Act of 2002, contractual provisions or otherwise.

We seek to obtain insurance coverage from established and reputable insurance carriers to the extent available in order to cover these risks and liabilities. However, the amount of insurance coverage that we maintain or that is available to purchase in the market may not be adequate to cover all claims or liabilities and we may self-insure certain types of risk. Insurance coverage is subject to the terms and conditions of the insurance contract and is further subject to any sublimits, exclusions, restrictions, or defenses, including standard exclusions for acts of war. Existing coverage is renewed annually and may be canceled pursuant to the terms of the policies while we remain exposed to the risk and it is not possible to obtain insurance to protect against all operational risks, natural hazards and liabilities. In addition, under certain classified fixed-price development and production contracts, we are unable to insure risk of loss to government property because of the classified nature of the contracts and the inability to disclose classified information necessary for underwriting and claims to commercial insurers. Even if insurance coverage is available, we may not be able to obtain it in an amount, at a price or on terms acceptable to us. Some insurance providers may be unable or unwilling to provide us insurance given the nature of our business or products. Additionally, disputes with insurance carriers over coverage terms or the insolvency of one or more of our insurance carriers may significantly affect the amount or timing of our cash flows.

Substantial costs resulting from an accident, failure of or defect in our products or services, natural catastrophe or other incident, or liability arising from our products and services in excess of any legal protection, indemnity, and our insurance coverage (or for which indemnity or insurance is not available or not obtained) could adversely impact our financial condition and operating results. Any accident, failure of, or defect in our products or services, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public and make it more difficult for us to compete effectively. It also could affect the cost and availability of adequate insurance in the future.

We face risks related to wars, natural disasters, health epidemics and other calamities and supply chain disruption, any of which could significantly disrupt our operations.

Our facilities or operations, or any potential third-party suppliers, partners, or service providers could be adversely affected by events outside of our or their control, such as natural disasters, wars, health epidemics, macro-economic conditions and other calamities and force majeure events. This may also include supply chain disruptions, inflation and high interest rates as a result of changes in U.S. trade policy, including tariffs and geopolitical events such as the current wars between Russia and Ukraine and between the United States and Iran. The effects of the foregoing are unknown and may have the effect of diminishing customer willingness to enter into transactions with us.

Our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. Our backup system may not be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks, cybersecurity incidents or similar events. Any of the foregoing events may give rise to interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or the malfunction of software or hardware, which could significantly disrupt our operations. Additionally, depending upon any potential health pandemics, epidemics or outbreaks that may emerge, our potential customers and partners may suspend or delay their engagement with us or take other actions or experience their own negative impacts, any of which could result in a material adverse effect on our financial condition and ability to meet current timelines. Health pandemics, epidemics or outbreaks may also adversely affect our ability to recruit skilled employees to join our team, conduct research and development activities and engage with development customers and may impede our product development timelines.

Events impacting our supply chain could be caused by factors beyond the control of our suppliers or us, including labor actions, increased demand, problems in production or distribution and/or disruptions in third-party logistics, information technology or transportation systems. Some of our key suppliers are relatively small companies that could be especially susceptible to these risks. In addition, global events in recent years have resulted in widespread global supply chain disruptions to vendors including critical supply chain shortages, labor shortages, significant material cost inflation and extended lead times for items that are required for our operations. Any such interruptions to our supply chain could increase our costs and could limit the availability of products critical to our operations.

Our ownership of real property subjects us to risks and liabilities that could adversely affect our business, financial condition and results of operations.

As a result of our acquisitions, we now own certain real property and manufacturing facilities. Ownership of real property exposes us to general risks that differ from those associated with leased facilities, including environmental liabilities, compliance with federal, state and local environmental, health and safety laws and regulations, zoning and land use restrictions, property damage, natural disasters, capital expenditures for maintenance, repair or improvements and costs associated with remediation of environmental contamination, including contamination that may have existed prior to our ownership, general liability, property and casualty losses, some of which may be uninsured and other liabilities incurred in the ordinary course of business. Any of these matters could result in significant

liabilities, operational disruptions, fines, penalties or increased operating costs and could materially and adversely affect our business, financial condition and results of operations.

Risks Related to Our Finances

Our business plans require a significant amount of capital. We may sell additional equity or debt securities to meet capital needs or as we may otherwise determine to be advisable that may dilute our stockholders or introduce covenants that may restrict our operations or our ability to pay dividends. If we require additional capital and are not able to secure new funding, we may not be able to continue our business operations.

We may seek additional financing to bolster our cash reserves and ensure our ability to continue to pursue our business objectives. Our current business plans may require us, or we may deem it advisable, to secure additional financing prior to achieving positive operating cash flows, and we do not anticipate achieving positive operating cash flows in the near term. As a result, we intend to continue monitoring our liquidity, financial and business results and outlook and market conditions, and may be opportunistic and raise capital when we consider market conditions are good or a favorable opportunity exists to bolster our cash reserves, reduce our financial risk, help finance research and development costs and pursue business objectives, including the potential acquisition of businesses, services or technologies. Any delays in the successful commercialization and sales of our products and services will negatively impact our ability to generate revenue, our profitability and our overall operating performance and result in the need to raise additional capital sooner than expected. For further information on our financing activities, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.*"

Even if we generate positive operating cash flows, we may need to raise significant amounts of additional capital to fund our business thereafter, including to finance ongoing research and development costs, any significant unplanned or accelerated expenses and new strategic alliances or acquisitions. The fact that we have limited experience commercializing our technologies and products, coupled with our belief that our AI/ML Foundational Technology represents a significant technology advancement, means we have limited to no historical data on the demand for our products. In addition, we expect our expenses to continue to be significant in the foreseeable future as we continue development activities and bring our products to market, and that our level of cash usage will be significantly affected by customer demand for our products. As a result, our future capital requirements are uncertain and actual capital requirements may be different from those we currently anticipate. As our manufacturing, engineering services and defense programs continue to expand, we may be required to commit significant working capital to procure long-lead materials, build inventory, acquire manufacturing equipment, expand production capacity and hire additional personnel before the related revenue is recognized or customer payments are received. If customer demand, production schedules, government funding or contract awards are delayed or differ from our expectations, these investments could adversely affect our liquidity, cash flows and financial condition.

Our strategy may require significant additional capital expenditures to establish or expand manufacturing facilities, production equipment, tooling, testing capabilities, inventory and other infrastructure necessary to support the domestic manufacture and integration of advanced defense systems. For example, in furtherance of our partnership with Israel Aerospace Industries ("IAI"), we may need to invest significant amounts in manufacturing facilities, personnel, equipment and inventory to support the manufacture and sale of IAI's loitering munitions. These investments may be required substantially in advance of receiving meaningful revenue from related sales or programs and may depend on assumptions regarding future customer demand, government funding and contract awards that ultimately may not materialize. If internally generated cash flows are insufficient to fund these investments, we may need to raise additional debt or equity capital, which may not be available on acceptable terms or at all and could dilute existing stockholders or otherwise adversely affect our financial condition.

We may need to seek equity or debt financing to finance our expenses and capital expenditures, and such financing might not be available to us in a timely manner or on terms that are acceptable, or at all. Even if available, the sale of additional equity or equity-linked securities could dilute our stockholders, and the incurrence of indebtedness would result in debt service obligations and could result in operating and financing covenants that would restrict our operations.

Additional financing may not be available to us when we need it or it may not be available on favorable terms. Our ability to obtain any necessary financing to carry out our business plan is subject to a number of factors, including general market conditions and investor acceptance of our business model. Current capital market conditions, including the impact of inflation, have increased borrowing rates and can be expected to significantly increase our cost of capital as compared to prior periods should we seek additional funding. Moreover, capital markets domestically and abroad are undergoing a period of significant volatility and uncertainty, and such financing alternatives may not be available to us in the future on favorable terms or at all should we determine it necessary or advisable to seek additional capital. If we raise additional capital through public or private equity offerings, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders' rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, buying or selling assets, making capital expenditures or declaring dividends.

These factors may make the timing, amount, terms and conditions of such financing unattractive or unavailable to us. If we are unable to raise sufficient funds if and when needed, we will have to significantly reduce our spending, delay or cancel our planned activities or substantially change our corporate structure or potentially cease operations and liquidate. We might not be able to obtain any funding, and might not have sufficient resources to conduct our business as projected or at all, either of which could mean that we would be forced to curtail or discontinue our operations.

If we cannot raise additional funds when we need or want them, our operations, prospects and financial condition would be materially and adversely affected.

Our financial results may vary significantly from period to period due to fluctuations in our operating costs, revenues, product demand and other factors.

We expect our period-to-period financial results to vary based on our operating costs and demand for our products and services, both of which we anticipate will fluctuate over time. Additionally, as we commercialize our technologies and products and/or enter into or complete government or development contracts, we expect our revenue from period to period to fluctuate, including as we introduce new products, features or functionality or introduce our technologies, products and services to new markets for the first time. As a result of these factors, we believe that quarter-to-quarter comparisons of our operating results, especially in the near term, are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our operating results may not meet expectations of equity research analysts, ratings agencies or investors, who may be particularly focused on quarterly financial results. If any of this occurs, the trading price of our securities could fall substantially, either suddenly or over time, and/or experience significant volatility.

We incur significant expenses and administrative burdens as a publicly-traded company, which makes it harder to achieve profitability than if we were a private company.

As a publicly-traded company, we are incurring legal, accounting and other expenses that private companies do not need to incur, and these expenses may increase as we continue to implement and strengthen controls, processes and systems and employ related personnel and after we are no longer an emerging growth company, as defined in Section 2(a) of the Securities Act. We are subject to reporting and other requirements of the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules adopted by the SEC and the Nasdaq Stock Market LLC. Our management and other personnel devote a substantial amount of time to these compliance initiatives. We may need to hire additional employees to support our operations as a public company as we grow and expand our businesses, which will increase our operating costs in future periods. Moreover, these rules and regulations make some activities more time-consuming and costly. These increased costs have increased our net loss and make it harder to achieve profitability. For example, director and officer liability insurance coverage is more expensive for publicly-traded companies than for private companies. Being a public company could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. Such increased expenses and administrative burdens involved in operating as a public company consume significant financial resources and any increases could have a material adverse effect on our business, financial condition and operating results.

If we fail to maintain and strengthen effective systems of disclosure controls and procedures and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be adversely affected.

We expect that the requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of Nasdaq will continue to result in significant legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls, internal control over financial reporting and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers in a timely manner. We have been aligning our finance and accounting systems following our recent acquisitions and a delay or other issues could impact our ability or prevent us from timely reporting our operating results, timely filing required reports with the SEC and complying with Section 404 of the Sarbanes-Oxley Act. The development and implementation of the processes and controls necessary for us to achieve the level of accounting standards required of a public company have increased and may continue to increase our legal and compliance costs, and such costs may be greater than expected.

We have previously identified material weaknesses in our internal control over financial reporting, and undertook remediation efforts to address the identified deficiencies and concluded that each material weakness was remediated. Our current controls and any new controls that we develop may be inadequate because of changes in conditions of our business or otherwise. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could adversely affect our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting to the extent we are required to include such evaluations and reports in our periodic reports that we file with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information.

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we expect to continue to expend significant resources, including accounting-related costs, and provide significant management oversight. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase operating costs and could materially and adversely affect our ability to operate our business. If our internal controls are or are perceived to be inadequate or if we are or are perceived to be unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and the trading price of our Common Stock could decline. In addition, if our financial statements are not filed on a timely basis, we could be subject to sanctions, enforcement actions or investigations by Nasdaq, the SEC or other regulatory authorities or to private litigation. As a result, any failure to maintain effective internal control over financial reporting could result in a material adverse effect on our business and the price of our Common Stock.

Our independent registered public accounting firm is not currently required to formally attest to the effectiveness of our internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act. Should we become subject to Section 404(b), our independent registered public accounting firm may issue a report that is adverse if it is not satisfied with the level at which our controls are documented, designed or operating. Any failure to maintain effective disclosure controls and procedures and internal control over financial reporting could have a material and adverse effect on our business, prospects, financial condition and operating results.

Our ability to use net operating loss carryforwards and other tax attributes may be limited.

We have incurred operating losses during our history and do not expect to become profitable in the near future, and we may never achieve profitability. To the extent that we continue to generate tax losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire.

Under current law, U.S. federal net operating loss carryforwards generated in taxable periods beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such net operating loss carryforwards is limited to 80% of current year taxable income. Additional or different limitations may apply under state law. Suspensions or other restrictions on the use of net operating losses or tax credits, possibly with retroactive effect, may result in our existing net operating losses or tax credits expiring or otherwise being unavailable to offset future income tax liabilities.

In addition, our net operating loss carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), these U.S. federal net operating loss carryforwards and other tax attributes may become subject to an annual limitation in the event of certain cumulative changes in the ownership of our company. An "ownership change" pursuant to Section 382 of the Code generally occurs if one or more stockholders or groups of stockholders who own at least 5% of a company's stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Our ability to utilize net operating loss carryforwards and other tax attributes to offset future taxable income or tax liabilities may be limited as a result of ownership changes. Similar rules may apply under state tax laws. If we earn taxable income, such limitations could result in increased future income tax liability to us and our future cash flows could be adversely affected. We have recorded a full valuation allowance related to our net operating loss carryforwards and other deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

We have been and may in the future be subject to risks associated with strategic relationships, acquisitions or transactions and may not identify or form desired strategic relationships in the future.

As part of our strategy, we have in the past sought, and may in the future, seek strategic alliances, joint ventures, minority equity investments, acquisitions, collaborations and in-license arrangements with third parties. Some of our third-party relationships are not governed by formal agreements and this may also be true for future relationships. These partnerships, relationships or arrangements may not lead to binding agreements, lasting or successful business relationships or any other anticipated benefits. Such actual or potential relationships may subject us to a number of risks, including risks associated with sharing proprietary information, non-performance or significant delays in performance by the third-party and increased expenses in establishing new relationships, any of which could

materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic partners suffers negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third-party.

We expect that strategic business relationships will be an important factor in the growth and success of our business. However, we may not be able to identify or secure suitable business relationship opportunities in the future or our competitors may capitalize on such opportunities before we do. Moreover, identifying such opportunities could require substantial management time and resources, and negotiating and financing relationships involves significant costs and uncertainties. If we are unable to successfully source and execute on strategic relationship opportunities in the future, our overall growth could be impaired, and our business, prospects, financial condition and operating results could be materially adversely affected.

We have entered into, and may in the future enter into, strategic relationships under which we are expected to manufacture, integrate, adapt or "Americanize" products or technologies originally developed by third parties for sale to the U.S. government. For example, on June 8, 2026 we announced our partnership with IAI to enable us to manufacture and sell certain of IAI's loitering munitions systems to the DoW. Our ability to generate revenue from these relationships will depend on numerous factors outside of our control, including our ability to successfully transfer technology, establish domestic manufacturing capabilities, satisfy applicable U.S. government requirements, obtain any necessary approvals or certifications, negotiate definitive agreements, and secure government contract awards, none of which may occur. We may expend significant amounts and management time and attention in furtherance of these relationships without achieving the expected benefits.

When appropriate opportunities arise, we have in the past acquired, and may in the future acquire additional assets, products, technologies or businesses. The sellers of these assets, products and technologies or businesses may retain certain rights to the technology that they sell to us, which in some circumstances could allow the sellers to compete with us. In addition to possible stockholder approval, we may need approvals and licenses from relevant government authorities for acquisitions and to comply with any applicable laws and regulations, which could result in delays and costs, and may disrupt our business strategy if we fail to do so. Furthermore, acquisitions and the subsequent integration of new assets and businesses into our own require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our operations and financial results. Acquired assets or businesses may not generate the financial results we expect, and we will become subject to risks associated with any acquired business. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business, all of which could adversely affect our financial position. For example, we previously experienced an impairment of all of the goodwill associated with an acquisition we completed in 2022. In connection with acquisitions, we may enter into post-closing financial arrangements such as purchase price adjustments, earn-out obligations, and indemnification obligations, which may have unpredictable financial results. For example, there is an earn-out obligation associated with one of the acquisitions we recently completed. Moreover, the costs of identifying and consummating acquisitions may be significant and we could experience difficulty in integrating personnel, operations, and financial and other controls and systems and retaining key employees and customers.

Risks Related to Legal Claims and Regulatory Compliance

Issues in the development and use of AI/ML, combined with an uncertain regulatory environment, may result in reputational harm, liability or other adverse consequences to our business operations.

AI/ML technologies are complex and rapidly evolving, and we face significant competition from other companies as well as an evolving regulatory landscape. The introduction of AI/ML technologies into new or existing products may result in new or enhanced governmental or regulatory scrutiny, litigation, confidentiality or security risks, technical or operational risks, safety risks, ethical concerns or other complications that could adversely affect our business, reputation or financial results or limit the functionality of our software or our ability to sell our products. Governmental bodies have implemented laws and regulations and are considering further control of AI/ML technologies that could negatively impact our ability to use and develop software products incorporating these technologies.

For example, on March 13, 2024, the European Parliament adopted the European Union's Artificial Intelligence Act (the "AI Act"). The AI Act creates a framework of prohibitions and disclosure, transparency and other regulatory obligations based on various levels of risk for businesses introducing AI systems in the EU. Once the AI Act becomes effective, certain provisions could require us to alter or restrict our use of AI, depending on respective levels of risk-categorization, types of systems, and manner of use. The AI Act also may require us to comply with monitoring and reporting requirements. Noncompliance with the AI Act could result in fines of up to €35 million or 7% of annual global turnover for the previous year, whichever is higher. Other jurisdictions may adopt similar or more restrictive legislation that may render the use of such technologies challenging. Numerous other laws and bills have been enacted or proposed at the U.S. federal and state level, as well as internationally, aimed at regulating the development, deployment or provision of AI systems and services.

Our efforts to comply with the AI Act and other legislation or regulations, whether now in effect or as may be proposed or enacted in the future, relating to AI/ML technologies may be difficult, onerous and costly, and could adversely affect our business, reputation, financial condition, results of operations and growth prospects. We may need to devote substantial time and resources to evaluate our obligations under the AI Act and other legislation and regulations and to develop and execute a plan designed to ensure compliance. Further, the intellectual property ownership and license rights, including copyright, surrounding AI/ML technologies have not been fully addressed by U.S. courts or other federal or state laws or regulations, and the use or adoption by our customers of third-party AI/ML technologies alongside our own products may result in or otherwise expose us to claims of copyright infringement or other intellectual property misappropriation or infringement.

Uncertainty around new and emerging AI/ML technologies may require additional investment in the development and maintenance of proprietary datasets and ML models, development of new approaches and processes to provide attribution or remuneration to creators of training data, and development of appropriate protections and safeguards for handling the use of data with AI technologies, which may be costly and could impact our expenses as we utilize AI/ML technologies within our products. The use of AI/ML technologies presents emerging ethical and social issues, and if we enable or offer solutions that draw scrutiny or controversy due to their perceived or actual impact on customers or on society as a whole, we may experience brand or reputational harm, competitive harm and/or legal liability.

We are increasingly incorporating AI capabilities into our business operations. The implementation of AI in our business operations can be costly and there is no guarantee that our use of AI will benefit our business operations. Additionally, AI algorithms or training methodologies may be flawed, and datasets may contain irrelevant, insufficient or biased information, which can cause errors in outputs. The use of AI could subject us to risks related to intellectual property infringement or misappropriation, data privacy, and cybersecurity. Any of these matters may give rise to legal liability, damage our reputation, and materially harm our business.

These challenges may make it harder for us to conduct our business using AI, and may lead to regulatory fines or penalties, require us to change our product offerings or business practices, or prevent or limit our use of AI. If we cannot use AI, or that use is restricted, our business may be less efficient, or we may be at a competitive disadvantage. Any of these factors could adversely affect our business, financial condition, and results of operations.

If our manufacturing or engineering processes and services do not comply with applicable regulatory requirements, or if we manufacture or design products containing defects, demand for our services may decline and we may be subject to product or other liability claims.

Products we manufacture or design for customers in defense industries, as well as the processes we use to produce them, are regulated by the Department of War, Occupational Safety and Health Administration (OSHA), and the Federal Aviation Administration, among others, which have increased their focus and enforcement related to materials and other fabrication concerns, including with regard to counterfeit goods, workplace safety, and standards certification. In addition, our customers' products and the manufacturing processes or engineering services or documentation that we use to produce or design them often are highly complex. As a result, products that we manufacture or our engineering may at times contain defects, and our manufacturing processes or engineering designs may be subject to errors or noncompliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes or engineering designs, may result in delayed shipments to customers or reduced or cancelled customer orders. If these defects or deficiencies are significant, our business reputation could also be damaged. Further, as our manufacturing activities expand, we also may become subject to additional quality assurance, supplier management, traceability, certification, inspection and recordkeeping requirements imposed by customers or governmental authorities. The failure of our products, manufacturing processes or engineering designs or facilities to comply with applicable statutory and regulatory requirements could subject us to fines or penalties and, in some cases, require us to pause or halt production or incur considerable expense to achieve compliance. In addition, these defects may result in liability claims against us or expose us to liability to pay for the recall of a product. The magnitude of any such claim may increase as we expand our defense manufacturing and engineering services as defects in defense devices or systems could seriously harm or kill users of these products and others. Even if our customers are responsible for the defects, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims.

Changes in tax laws could have a material adverse effect on our business, cash flows, results of operations or financial condition.

We are subject to the tax laws, regulations, and policies of several taxing jurisdictions. Changes in tax laws, as well as other factors, could cause us to experience fluctuations in our tax obligations and effective tax rates or otherwise adversely affect our tax positions and/or our tax liabilities. For example, on July 4, 2025, the United States enacted tax legislation commonly referred to as the One Big Beautiful Bill Act (the "OBBB Act"). In addition, the Organisation for Economic Co-operation and Development ("OECD") has introduced a global minimum tax initiative, which is in various stages of adoption. On January 5, 2026, the OECD announced a side-by-side elective safe harbor that would exempt U.S.-parented multinationals from certain provisions of this initiative for fiscal years beginning on or after January 1, 2026. Any new tax laws or changes to existing tax laws could adversely affect our effective tax rate,

operating results, tax credits or incentives or tax payments, or require our potential customers to pay additional taxes, which could have a material adverse effect on our business, cash flows, results of operations or financial condition.

We may become subject to new or changing governmental regulations relating to the design, manufacturing, development, marketing, licensing, distribution or use of our technology and products or to the providing of customer service or in connection with the entry into certain transactions with foreign entities, and a failure to comply with such regulations could lead to delays in launching our products and/or withdrawal of our products from the market, delay our projected revenues, increase costs and/or make our business unviable.

We may become subject to a variety of existing or new laws and regulations in the United States and international jurisdictions, such as the AI Act, including in the areas of design, manufacturing, privacy, security, safety, competition, consumer protection development, marketing, licensing, distribution, the development and use of our products, and engagement with certain foreign entities. Such laws and regulations may also cover employment, taxation, privacy, data security, data protection, national security and international trade (including laws and regulations relating to tariffs, export controls, sanctions, inbound or outbound foreign investment, government contracts, transfers of sensitive personal data and government data to service providers or vendors located in China or with other specified links to China (and other designated countries), telecommunications and other similar matters), pricing, content, copyrights and other intellectual property, mobile communications, electronic contracts and other communications, the design and operation of websites, and the characteristics and quality of software and services, which may delay or impede the development and commercialization of our technology and products, affect our ability to engage with certain entities and/or require us to pause sales and modify our products, which could result in a material adverse effect on our revenue, financial condition and/or long-term business strategy, especially if implemented on a large scale or in a key market. Such laws and regulations can also give rise to liability, such as fines and penalties or for property damage, bodily injury and cleanup costs. Capital and operating expenses needed to comply with laws and regulations can be significant, and violations may result in substantial fines and penalties, third-party damages, suspension of production or a cessation of our operations. Any failure to comply with such laws or regulations could lead to withdrawal of our products from the market.

We may be subject to claims, lawsuits, arbitration proceedings, government investigations and other legal, regulatory and administrative proceedings and face potential liability and expenses related thereto, which could have a material adverse effect on our business, operating results and financial condition.

We may be subject to claims, lawsuits, arbitration proceedings, government investigations and other legal, regulatory and administrative proceedings. In addition, we may be subject to the heightened scrutiny that is sometimes directed toward companies taken public via a business combination with a special purpose acquisition company. The outcome of any such claims, investigations or proceedings cannot be predicted with any degree of certainty. In the ordinary course of business, we have been and may in the future be the subject of various legal claims. Any such claims, investigations or proceedings against us, whether meritorious or not, could be time-consuming, result in costly litigation, be harmful to our reputation, require significant management attention and divert significant resources, and the resolution of any such claims, investigations or proceedings could result in substantial damages, settlement costs, fines or penalties that could adversely affect our business, financial condition or operating results or result in harm to our reputation and brand, sanctions, consent decrees, injunctions or other remedies requiring a change in our business practices.

Further, under certain circumstances we have taken on or may take on contractual or other legal obligations to indemnify and to incur legal expenses on behalf of investors, directors, officers, employees, customers, vendors or other third-parties. For example, our Amended and Restated Bylaws (the "Bylaws") provide that we will indemnify our directors and officers, and may indemnify our employees, agents and other persons, to the fullest extent permitted by the Delaware General Corporation Law. We have also entered into indemnification agreements with directors and officers that require us, among other things, to indemnify them against claims that may arise due to their service in those capacities. These indemnification agreements also require us to advance expenses reasonably and actually incurred by them in investigating or defending any such claims, and it may be difficult or impossible to recover any advanced expenses if it turns out the person was not entitled to indemnification. If we are required or agree to defend or indemnify, or advance expenses to, any of our investors, directors, officers, employees, customers, vendors or other third-parties, we could incur material costs and expenses that could adversely affect our business, results of operations or financial condition.

We are subject to evolving laws, regulations, standards, policies and contractual obligations related to data privacy and security, and our actual or perceived failure to comply with such obligations could harm our reputation, subject us to significant fines and liability or otherwise adversely affect our business, prospects, financial condition and operating results.

We are subject to or affected by a number of national, state and local laws and regulations, as well as contractual obligations and industry standards, that impose certain obligations and restrictions with respect to data privacy and security, and govern our collection, storage, retention, protection, use, processing, transmission, sharing and disclosure of personal and other sensitive information, including that of our employees, customers and others. Many jurisdictions have enacted laws requiring companies to notify individuals, regulatory authorities and others of security breaches involving certain types of data. Such laws may be inconsistent or may change or additional

laws may be adopted. In addition, our agreements with certain customers may require us to notify them in the event of a security breach or incident. Such mandatory disclosures are costly and could lead to negative publicity, penalties, fines, litigation and other proceedings or cause our customers to lose confidence in the effectiveness of our security measures and require us to expend significant capital and other resources to respond to and/or alleviate problems caused by the actual or perceived security breach or incident.

As a government contractor and subcontractor, we are subject to the DoW's cybersecurity requirements, including compliance with the Cybersecurity Maturity Model Certification ("CMMC") program requirements, under which we received Level 2 third-party certification on April 10, 2025 for our primary government contracting entity (subsequently affirmed in April 2026), and under which another of our government contracting entities self-certified as to Level 2 compliance. Depending on the awarding DoW agency and contract terms, we, and our subcontractors or other third parties on whom we rely, may be required to have CMMC certification to be eligible for award. Likewise, if we, or our subcontractors or other third parties on whom we rely, are unable to maintain the required CMMC certification during contract performance, the government may terminate, or not exercise options to renew, our contract. We are also required to affirm our CMMC status annually, and obtain recertification of our CMMC status periodically, which may increase our costs of compliance and may cause operational delays to remediate any newly discovered risks. In addition, obligations that may be imposed on us under the CMMC program may be different from or in addition to those otherwise required by applicable laws and regulations, which may cause additional expense for compliance.

The global data protection landscape is rapidly evolving, and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future. We may not be able to monitor and react to all developments in a timely manner. For example, California adopted the California Consumer Privacy Act ("CCPA"), which became effective in January 2020. The CCPA established a privacy framework for covered businesses, including an expansive definition of personal information and data privacy rights for California residents. The CCPA includes a framework with potentially severe statutory damages and private rights of action. The CCPA was modified and supplemented by the California Privacy Rights Act ("CPRA"), which went into effect on January 1, 2023. Numerous other states have proposed, and in many cases have enacted, laws addressing privacy and cybersecurity. These laws in many cases are comprehensive privacy statutes similar to the CCPA and CPRA. Additionally, some states have proposed, and in certain cases enacted, laws addressing specific matters such as biometrics or health-related personal information. The U.S. federal government also is contemplating additional federal privacy legislation. As we expand our operations, the CCPA, CPRA, and other laws and regulations relating to privacy and data security may increase our compliance costs and potential liability. Compliance with any applicable privacy and data security laws and regulations is a rigorous and time-intensive process, and we may be required to put in place additional mechanisms to comply with such laws and regulations.

Additionally, as our international presence expands, we may become subject to or face increasing obligations under laws and regulations in countries outside the United States, many of which, such as the European Union's General Data Protection Regulation ("GDPR") and national laws supplementing the GDPR, as well as legislation substantially implementing the GDPR in the United Kingdom, generally are more stringent than those currently enforced in the United States. The GDPR requires companies to meet stringent requirements regarding the handling of personal data of individuals located in the European Economic Area. The GDPR also includes significant penalties for noncompliance, which may result in monetary penalties of up to the higher of €20 million or 4% of a group's worldwide turnover for the preceding financial year for the most serious violations. The United Kingdom's data protection regime also provides for substantial penalties that, for the most serious violations, can go up to the greater of £17.5 million or 4% of a group's worldwide turnover for the preceding financial year. Many other jurisdictions globally are considering or have enacted legislation providing for local storage of data or otherwise imposing privacy, data protection and data security obligations in connection with the collection, use and other processing of personal data. As a general matter, compliance with laws, regulations, contractual obligations, industry standards, and any rules or guidance from self-regulatory organizations relating to privacy, data protection, and data security that apply, or are asserted to apply, to our operations may result in substantial costs and may necessitate changes to our business practices, which may compromise our growth strategy, adversely affect our ability to acquire customers, and otherwise adversely affect our business, prospects, results of operations and financial condition.

We publish privacy policies and other documentation regarding our collection, processing, use and disclosure of personal information and/or other confidential information. Although we endeavor to comply with our published policies and other documentation, we may at times fail to do so or may be perceived to have failed to comply with such policies and other actual or asserted legal or contractual obligations relating to privacy, data protection or data security. Moreover, despite our efforts, we may not be successful in achieving or maintaining compliance, including if our employees, contractors, service providers or vendors fail to comply with our published policies and documentation. Such failures can subject us to potential action by governmental or regulatory authorities if they are found to be deceptive, unfair or misrepresentative of our actual practices. Any actual or perceived inability to adequately address privacy and security concerns or comply with applicable laws, rules and regulations relating to privacy, data protection or data security, or applicable privacy notices, could lead to investigations, claims and proceedings by governmental entities and private parties, damages for contract breach and other significant costs, penalties or liabilities. Any such claims or other proceedings could be expensive and time-consuming to defend and could result in adverse publicity. Any of the foregoing may have an adverse effect on our business, prospects, results of operations, and financial condition.

We are subject to cybersecurity risks to our operational systems, security systems, infrastructure and data, whether processed by us or by third-party vendors.

Our business and operations may involve the collection, storage, processing and transmission of personal data and certain other sensitive and proprietary data of collaborators, customers and others. Additionally, we maintain sensitive and proprietary information relating to our business, such as our own proprietary information and personal data relating to our employees. An increasing number of organizations have disclosed breaches of their information security systems and other information security incidents, some of which have involved sophisticated and highly targeted attacks. We have been and may in the future be a target for cybersecurity attacks designed to disrupt our operations or to attempt to gain access to our systems, data processed or maintained in our business, trade secrets or other proprietary information or financial resources. Some of our employees work remotely, which has increased security risks. In addition, the risk of state-supported and geopolitical-related cybersecurity attacks is believed to be heightened because of our position as a U.S. government contractor, the nature of our products and expertise and international conflicts and related political or economic responses and counter-responses.

We are at risk for interruptions, outages and breaches of (1) operational systems, including business, financial, accounting, product development, data processing or production processes, owned by us or our third-party vendors or suppliers; (2) facility security systems, owned by us or our third-party vendors or suppliers; (3) in-product technology, owned by us or our third-party vendors; (4) our software, including third-party software we license; and (5) customer data that we process or our third-party vendors process on our behalf. Because techniques used to obtain unauthorized access to or to sabotage information systems change frequently and may not be known until launched against a target, we may be unable to anticipate or prevent these attacks, react in a timely manner or implement adequate preventive measures, and we may face delays in our detection or remediation of, or other responses to, security breaches and other privacy-and security-related incidents. Such incidents could: materially disrupt our operational systems; result in loss of intellectual property, trade secrets or other proprietary or competitively sensitive information; compromise certain information of customers, employees or others; jeopardize the security of our facilities; or affect the performance of in-product technology and the integrated software in our systems. Certain disruption, hacking or other efforts may be state-sponsored or supported by significant financial and technological resources, making them even more difficult to detect, remediate and otherwise respond to.

We plan to include product services and functionality that utilize data connectivity to monitor performance and timely capture opportunities to enhance performance and for safety and cost-saving preventative maintenance. The availability and effectiveness of our services depend on the continued operation of information technology and communications systems. Our systems will be vulnerable to damage or interruption from, among others, physical theft, fire, terrorist attacks, natural disasters, power loss, war, telecommunications failures, viruses, denial or degradation of service attacks, ransomware and other malicious code, social engineering schemes, insider theft or misuse or other attempts to harm our systems. We may face objections to our intended collection or use of data, which may require us to implement new or modified data handling policies and mechanisms, increase our maintenance costs and costs associated with data processing and handling, and harm our prospects. The use of AI/ML technologies may result in security incidents and our use of AI/ML technologies may create additional cybersecurity risks or increase cybersecurity risks, including risks of security breaches and incidents. Further, AI/ML technologies may be used in connection with certain cybersecurity attacks, including to identify and exploit vulnerabilities and launch more automated, targeted and coordinated attacks, resulting in heightened risks of and potentially greater impacts from security breaches and incidents.

Although we have implemented and are in the process of implementing additional systems and processes that are designed to protect our data and systems within our control, prevent data loss and prevent other security breaches and security incidents, these security measures cannot guarantee security. The Information Technology ("IT") infrastructure used in our business may be vulnerable, and has been vulnerable in the past, to cybersecurity attacks or security breaches or incidents, and third parties may be able to access data, including personal data and other sensitive and proprietary data of ours and our customers, collaborators and partners, our employees' personal data or other sensitive and proprietary data accessible through those systems, or such data otherwise may be subject to unauthorized use, disclosure, unavailability, modification or other processing. Employee error, malfeasance or other errors in the storage, use or transmission of any of these types of data could result in an actual or perceived privacy or security breach or other security incident.

Moreover, there are inherent risks associated with developing, improving, expanding and updating our current systems, such as the disruption of our data management, procurement, product development, finance and sales and service processes. These risks may affect our ability to manage our data or deploy and service our products and solutions, offer and perform our services, adequately protect our intellectual property or achieve and maintain compliance with, or realize available benefits under, applicable laws, regulations and contracts. We cannot be sure that these systems upon which we rely, including those of our third-party vendors or suppliers, will be effectively implemented, maintained or expanded as planned. If we do not successfully implement, maintain or expand these systems as planned, our operations may be disrupted, our ability to accurately and timely report our financial results could be impaired and deficiencies may arise in our internal control over financial reporting, which may impact our ability to certify our financial results. Moreover, our proprietary or other sensitive information or intellectual property could be compromised or misappropriated and our

reputation may be adversely affected. If these systems do not operate as we expect them to, we may be required to expend significant resources to make corrections or find alternative sources for performing these functions.

Any actual or perceived security breach or security incident, or any systems outages or other disruption to systems used in our business, could interrupt our operations, result in loss or improper access to, or acquisition, unavailability, modification, disclosure or other processing of, data or a loss of intellectual property protection, harm our reputation and competitive position, reduce demand for our products and services, damage our relationships with customers, partners, collaborators or others or result in claims, regulatory investigations and proceedings and significant legal, regulatory and financial exposure, and any such incidents or any perception that our security measures are inadequate could lead to loss of confidence in us and harm to our reputation, any of which could adversely affect our business, financial condition and results of operations. Any actual or perceived breach of privacy or security, or other security incident, impacting any entities with which we share or disclose data (including, for example, our third-party technology providers) could have similar effects. We expect to incur significant costs in an effort to detect and prevent privacy and security breaches and other privacy- and security-related incidents, and may face increased costs and requirements to expend substantial resources in the event of an actual or perceived privacy or security breach or other incident.

We are subject to laws, regulations and contractual provisions as a government contractor and subcontractor, which may pose increased risk of potential liability and expenses related thereto, which could have a material adverse effect on our business, operating results and financial condition.

As a government contractor and subcontractor, we must comply with laws, regulations and contractual provisions related to the formation, administration and execution of government contracts and other agreements, which affect how we and our partners do business with government agencies. U.S. governmental agencies, such as the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit and investigate government contractors. In addition, as a result of actual or perceived noncompliance with government contracting laws, regulations or contractual provisions, we may be subject to non-ordinary course audits and internal investigations which may prove costly to our business financially, divert management time or limit our ability to continue selling products and services to our government customers. These laws and regulations may impose other added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages, downward contract price adjustments or refund obligations, civil or criminal penalties, termination of contracts and suspension or debarment from government contracting. Any such damages, penalties, disruption or limitation in our ability to do business with a government would adversely impact, and could have a material adverse effect on, our business, prospects, financial condition and operating results.

We are subject to U.S. and foreign anti-corruption and anti-money laundering laws and regulations. We can face criminal liability and other serious consequences for violations of these laws, which can harm our business, prospects, financial condition and operating results.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended ("FCPA"), the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, and other anti-corruption, anti-bribery and anti-money laundering laws, including those of other countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees, business partners, third-party intermediaries, representatives and agents from authorizing, promising, offering or providing, directly or indirectly, improper payments or anything else of value to government officials, political candidates, political parties or commercial partners for the purpose of obtaining or retaining business or securing an improper business advantage.

We have direct and indirect interactions with foreign officials, including in furtherance of sales to governmental entities in non-U.S. countries. We sometimes leverage third parties to conduct our business abroad, and our third-party business partners, intermediaries, representatives and agents may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of our employees or these third-parties, even if we do not explicitly authorize or have actual knowledge of such activities. The FCPA and other applicable laws and regulations also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, our employees, business partners, third-party intermediaries, representatives and agents may take actions in violation of our policies and applicable law, for which we may be held responsible. Our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions.

Any allegations or violations of the laws and regulations described above may result in whistleblower complaints, adverse media coverage, investigations, substantial civil and criminal fines and penalties, damages, settlements, prosecution, enforcement actions, imprisonment, the loss of export or import privileges, suspension or debarment from government contracts, tax reassessments, breach of contract and fraud litigation, reputational harm and other consequences, any of which could adversely affect our business, prospects, financial condition and operating results. In addition, responding to any investigation or action will likely result in a significant diversion of management's attention and resources and significant defense costs and other professional fees.

We are subject to laws and regulations imposing export and import controls that could subject us to liability if we do not comply with such requirements.

Our provision of products, technology and services is subject to compliance with applicable export control, import and economic sanctions laws and regulations, including the U.S. Export Administration Regulations, U.S. International Traffic in Arms Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control. Exports of our software products and technology must be made in compliance with these laws and regulations. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; debarment from U.S. government contracting; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers.

Moreover, international sales of our products may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities, both domestic and foreign. If we are not allowed to export our products or the clearance process is burdensome and costly, our ability to generate revenue would be adversely affected. We have entered into, and intend to continue to pursue, strategic or customer relationships or transactions with non-U.S. entities. These relationships or transactions may require export licenses, technology control plans, governmental approvals, compliance with applicable foreign ownership, control or influence requirements, or other regulatory approvals and ongoing compliance activities, which generally result in additional costs as compared to domestic transactions. Changes in geopolitical conditions, export controls, sanctions, national security policies or other regulatory requirements could delay, restrict or prevent these relationships or transactions, limit our ability to collaborate with international partners or increase the costs and complexity of maintaining such relationships, any of which could adversely affect our business, financial condition and results of operations.

In addition, changes to our technologies or products or changes in applicable export control, import or economic sanctions laws and regulations may create delays in the introduction and sale of our products, constrain collaboration with suppliers or other business partners or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Compliance with such laws and regulations may also be costly and require time and attention from our management. Any change in export, import or economic sanctions laws and regulations, shift in the enforcement or scope of existing laws and regulations or change in the countries, governments, persons or technologies targeted by such laws and regulations could also result in decreased use of our products, as well as our decreased ability to export or market our products to potential customers. Any decreased use of our products or limitation on our ability to export or market our products would likely adversely affect our business, prospects, financial condition and operating results.

Increased scrutiny and changing expectations from regulators, investors, customers, employees, and others regarding our environmental, social and governance practices and reporting could cause us to incur additional costs, devote additional resources and expose us to additional risks, which could adversely impact our reputation, customer acquisition and retention, access to capital and employee retention.

Companies across all industries are facing increasing scrutiny related to their environmental, social and governance ("ESG") practices and reporting. Regulators, investors, customers, employees and other stakeholders have focused increasingly on ESG practices and placed increasing importance on the implications and social cost of their investments, purchases and other interactions with companies. Equally, some stakeholders may be opposed to the implementation of such initiatives at all. Anti-ESG sentiment has gained some momentum across the United States, with several states having enacted or proposed "anti-ESG" policies, legislation or issued related legal opinions. If our ESG practices and reporting do not meet investor, customer or employee expectations or legal requirements, which continue to evolve, our brand, reputation and customer retention may be negatively impacted. We could also incur additional costs and need to devote additional resources to monitor, report and implement various ESG practices, including as a result of regulatory developments.

Risks Related to Our Intellectual Property

Our success depends in part on our ability to obtain and maintain protection for the intellectual property relating to our AI/ML Foundational Technology and our other technologies and products.

Our success depends in part on our ability to obtain and maintain protection for the intellectual property relating to our AI/ML Foundational Technology and our other technologies and products. We seek to protect our intellectual property through a combination of patents, trademarks and other intellectual property rights, as well as confidentiality and/or intellectual property assignment agreements with our employees and certain of our contractors, consultants, scientific advisors and other vendors and third-parties. In addition, we rely on copyright and trade secret law to protect our proprietary software and technologies.

Patent positions covering software and solutions can be highly uncertain and involve many new and evolving complex legal, factual and technical issues. Patent laws and interpretations of those laws are subject to change and any such changes may diminish the value of our patents or narrow the scope of our right to exclude others. In addition, we may fail to apply for or be unable to obtain patents necessary to protect our technologies or products from competition or fail to enforce our patents due to lack of information about the exact use of technology or processes by third parties or for a variety of other reasons. Also, we cannot be sure that any patents will be granted in a timely manner or at all with respect to any of our pending patent applications or that any patents that are granted will be adequate to exclude others for any significant period of time or at all. Given the foregoing, and in order to continue reducing operational expenses, we are investing fewer resources in filing and prosecuting new patents and on maintaining and enforcing various patents, especially in regions where we currently do not focus our market growth strategy or with respect to patents with less relevance to our current business.

Litigation to establish or challenge the validity of patents or to defend against or assert against others' infringement, unauthorized use, enforceability or invalidity, can be lengthy and expensive and may result in our patents being invalidated or interpreted narrowly and may restrict our ability to be granted new patents related to our pending patent applications. Even if we prevail, litigation may be time consuming, force us to incur significant costs and divert management's attention from managing our business while any damages or other remedies awarded to us may not be valuable or adequate. In addition, U.S. patents and patent applications may be subject to interference or derivation proceedings, and U.S. patents may be subject to re-examination and inter partes or post grant review proceedings in the U.S. Patent and Trademark Office. Furthermore, our issued patents may be subject to claims of invalidity based on earlier filed patents or published applications not discovered in any patent searches or by the patent offices that carried out examination of the issued patents. Foreign patents may also be subject to opposition or comparable proceedings in corresponding foreign patent offices. Any of these proceedings may be expensive and could result in the loss of a patent or denial of a patent application or the loss or reduction in the scope of one or more of the claims of a patent or patent application.

In addition, we seek to protect our trade secrets, know-how, and confidential information that is not patentable or for which we decide not to seek a patent by entering into confidentiality and intellectual property assignment agreements with our employees and certain of our contractors and confidentiality agreements with certain of our consultants, scientific advisors and other vendors and contractors. However, we may fail to enter into the necessary agreements, and even if entered into, these agreements may be breached or otherwise fail to prevent disclosure, third-party infringement or misappropriation of our proprietary information, may be limited as to their term and may not provide an adequate remedy in the event of unauthorized disclosure or use of proprietary information. Enforcing a claim that a third party illegally obtained or is using our trade secrets without authorization may be expensive and time consuming, and the outcome is unpredictable. Some of our employees or consultants or service providers may own certain technology which they license to us for a set term. If these technologies are material to our business after the term of the license and we are unable to use them, it could adversely affect our business and profitability.

We have taken and continue to take precautions to initiate safeguards to protect our information technology systems. However, these measures may not be adequate to safeguard our proprietary information, which could lead to the loss or impairment thereof or to expensive litigation to defend our rights against competitors who may be better funded and have superior resources. In addition, unauthorized parties may attempt to copy or reverse engineer certain aspects of our software or other technologies that we consider proprietary or our proprietary information may otherwise become known or may be independently developed by our competitors or other third parties. If other parties are able to use our proprietary technology or information, our ability to compete could be harmed. Further, unauthorized use of our intellectual property may have occurred or may occur in the future, without our knowledge.

We also have made efforts to register and enforce our trademark rights. However, trademark law and the associated infringement analysis is complex, and, notwithstanding our efforts to develop and enforce our trademark portfolio, both outgoing and incoming claims of trademark infringement could lead to limitations, loss or impairment of those trademark rights or to expensive litigation to prosecute or defend our trademark rights against third-party infringers who may be better funded and have superior resources.

If we are unable to obtain or maintain adequate protection for our intellectual property or if any protection is reduced or eliminated, competitors may be able to use our technologies, resulting in harm to our competitive position and our business.

We may not be able to effectively protect our intellectual property rights in our target markets or at all.

Filing, prosecuting, maintaining and defending patents and trademarks and seeking to enforce copyrights on our intellectual property in all target markets would be prohibitively expensive and time consuming, and thus our intellectual property rights outside the United States are limited. In addition, the laws of some of our target markets, especially developing countries, such as China, do not protect intellectual property rights to the same extent as federal and state laws in the United States. Also, it may not be possible to effectively enforce intellectual property rights in some countries at all or to the same extent as in the United States and other countries. Consequently, we are unable to prevent third parties from using our inventions in all of our target markets, or from selling or importing products made using our inventions, technologies or software in the jurisdictions in which we do not have (or are unable to effectively enforce) patent or other intellectual property protection. Competitors may use our technologies in jurisdictions where they have not obtained patent protection to develop, market or otherwise commercialize their own products, and we may be unable to prevent those competitors from

importing those infringing products into territories where we have patent protection, but enforcement may not be as strong as in the United States. These products may compete with our software or other products and our patents and other intellectual property rights may not be effective or sufficient to prevent them from competing in those jurisdictions. Moreover, strategic partners, competitors or others may raise legal challenges against our intellectual property rights or may infringe upon our intellectual property rights, including through means that may be difficult to detect or prevent.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. Proceedings to enforce our patent rights in the United States or foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert patent infringement or other claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights in the United States and around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license from third parties.

We may be subject to intellectual property infringement claims or misappropriation claims, which may be time consuming and expensive and, if adversely determined, could limit our ability to commercialize our software or other products.

Companies operating in the robotics software industry may face difficulty enforcing their patent and other intellectual property rights and may become subject to a substantial amount of litigation over these rights. In particular, our competitors in both the United States and abroad, many of which have substantially greater resources than we have and have made substantial investments in competing technologies, have been issued patents and filed patent applications with respect to their products and processes and may apply for other patents in the future. The large number of patents, the rapid rate of new patent issuances and the complexities of the technology involved increase the risk of patent litigation.

Determining whether a product infringes a patent involves complex legal and factual issues and the outcome of patent litigation is often uncertain. No assurance can be given that patents containing claims covering our software, other products, technologies or methods do not exist, have not been filed or could not be filed or issued. In addition, because patent applications can take years to issue and because publication schedules for pending applications vary by jurisdiction, there may be applications now pending of which we are unaware and which may result in issued patents that our current or future products infringe. Also, because the claims of published patent applications can change between publication and patent grant, published applications that initially do not appear to be problematic may issue with claims that potentially cover our software, other products, technologies or methods. Moreover, there may be pending, published or allowed applications that may disclose, but not claim, subject matter covering our software, other products, technologies or methods, where such pending or published applications may be amended, or one or more continuation or divisional applications may be filed, in an attempt to capture, to the extent possible, such software, other products, technologies or methods that are in the public domain, and which may result in issued patents that our current or future products infringe.

Infringement actions and other intellectual property claims brought against us, whether with or without merit, may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management, and harm our reputation. We cannot be certain that we will successfully defend against any allegations of infringement. If we are found to infringe another party's patents, we could be required to pay damages. We could also be prevented from selling our infringing products, unless we can obtain a license to use the technology covered by such patents or can redesign our products so that they do not infringe. A license may not be available on commercially reasonable terms or at all, and we may not be able to redesign our products to avoid infringement. In these circumstances, we may not be able to sell our products at competitive prices or at all, and our business, prospects, financial condition and operating results would be harmed.

Intellectual property discovered through government funded programs may be subject to federal regulations such as "march-in" rights, certain reporting requirements and a preference for U.S.-based companies. Compliance with such regulations may limit our exclusive rights and limit our ability to contract with non-U.S. manufacturers.

We may develop, acquire or license intellectual property rights that have been generated through the use of U.S. government funding or grants. Pursuant to the Bayh-Dole Act of 1980, the U.S. government has certain rights in inventions developed with government funding. These U.S. government rights may include a non-exclusive, non-transferable, irrevocable worldwide license to use inventions for any governmental purpose. In addition, the U.S. government may have the right, under certain limited circumstances, to require us to grant exclusive, partially exclusive, or non-exclusive licenses to any of these inventions to a third party if the U.S. government determines that: (1) adequate steps have not been taken to commercialize the invention; (2) government action is necessary to meet public health or safety needs; or (3) government action is necessary to meet requirements for public use under federal regulations (also referred to as "march-in rights"). Such "march-in" rights would apply to new subject matter arising from the use of such government funding or grants and would not extend to pre-existing subject matter or subject matter arising from funds unrelated to the government funding or grants. If the U.S. government exercised its march-in rights in our intellectual property rights generated through the use of U.S. government funding or grants, we could be forced to license or sublicense intellectual property we developed or that we license on terms unfavorable

to us, and there can be no assurance that we would receive compensation from the U.S. government for the exercise of such rights. The U.S. government may also have the right to take title to these inventions if the grant recipient fails to disclose the invention to the government or fails to file an application to register the intellectual property within specified time limits. Intellectual property generated under a government funded program is also subject to certain reporting requirements, compliance with which may require us to expend substantial resources. In addition, the U.S. government requires that any products embodying any of these inventions or produced through the use of any of these inventions be manufactured substantially in the United States. This preference for U.S. industry may be waived by the federal agency that provided the funding if the owner or assignee of the intellectual property can show that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible. This preference for U.S. industry may limit our ability to contract with non-U.S. product manufacturers for products covered by such intellectual property.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our employees' former employers.

We may be subject to claims that we or our employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of an employee's former employers. Litigation may be necessary to defend against these claims. If we fail to successfully defend against such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or be forced to seek a license, which may not be available on commercially acceptable terms or at all. A loss of key personnel or their work product could hamper or prevent our ability to commercialize our software products, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and demand on management resources.

Risks Related to Ownership of our Securities

The issuance or sale of shares of our Common Stock, or rights to acquire shares of our Common Stock could depress the trading price of our Common Stock and may cause dilution to our existing stockholders.

We may from time to time conduct offerings of our Common Stock or other securities that are convertible into or exercisable for our Common Stock to finance our operations or fund acquisitions, or for other purposes. For further information on our financing activities for the nine months ended September 30, 2026, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.*"

If we issue additional shares of our Common Stock or rights to acquire shares of our Common Stock, if any of our existing stockholders sells a substantial amount of our Common Stock or if the market perceives that such issuances or sales may occur, the trading price of our Common Stock may significantly decrease. In addition, our issuance of additional shares of Common Stock, including upon exercise of our outstanding warrants, will dilute the ownership interests of our existing stockholders.

The price of our Common Stock could decline due to the large number of shares of our Common Stock being subject to employee equity awards.

We have granted and expect to continue to grant equity awards to our directors and employees as additional compensation in an effort to align their interests with those of our stockholders. There is a potential that sales of large amounts of our Common Stock issued pursuant to these awards may take place during concentrated periods, including because these awards may be scheduled to vest during specified points in time, such as expected open trading windows under our insider trading policy, or because achievement of stock price conditions in awards to senior employees could lead to concurrent vesting and settlements. Such concentrated sales could lead to a decline in the price of our Common Stock.

"Sell-to-cover" transactions are used in connection with the vesting and settlement of equity awards that are granted to our employees so that shares of our Common Stock are sold on behalf of our employees in an amount sufficient to cover the tax withholding obligations and, if applicable, exercise price associated with these awards. As a result of these transactions, a significant number of shares of our Common Stock may be sold over a limited time period in connection with significant vesting events. We may also settle tax withholding obligations in connection with vesting of awards through "net settlement," in which we remit cash to satisfy the tax withholding obligation and withhold a number of the vested shares on each vesting date. Depending on the fair value of our Common Stock and the number of awards vesting on any applicable vesting date, such net settlement could require us to expend substantial funds to satisfy tax withholding.

The markets for our Common Stock have been volatile and may not continue at all.

Since our Common Stock began trading on the Nasdaq Global Market, the price of our Common Stock has been volatile and may continue to fluctuate significantly due to various factors, some of which are beyond our control. Any of the factors listed below could have a material adverse effect on your investment in our securities and our securities may trade at prices significantly below the price you paid for them. In such circumstances, the trading price of our securities may not recover and may experience a further decline.

Factors affecting the trading price of our Common Stock may include:

- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in the market's expectations about our operating results;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in strategy or financial condition;
- speculation in the press or investment community;
- success of competitors;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in operating performance and stock market valuations of companies in our industries, such as robotics software, technology, AI or defense companies;
- changes in financial estimates and recommendations by securities analysts concerning our company or the market in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- our ability to market, sell and deliver our software products;
- changes in laws and regulations affecting our business;
- commencement of, or involvement in, litigation;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- the volume of shares of our Common Stock, including as a result of the exercise or vesting of employee equity awards;
- any major change in our board of directors or management;
- sales of substantial amounts of Common Stock by our directors, officers or significant stockholders or the perception that such sales could occur;
- the realization of any of the risk factors discussed herein;
- additions or departures of key personnel;
- failure to comply with Nasdaq listing requirements (see *"Our Common Stock is subject to potential delisting from The Nasdaq Global Market if we do not meet Nasdaq's continued listing requirements, which would likely impair the liquidity of the trading market for our Common Stock"*);
- failure to comply with the Sarbanes-Oxley Act of 2002 or other laws or regulations;
- actual, potential or perceived control, accounting or reporting problems;
- changes in accounting principles, policies and guidelines; and
- general economic and political conditions such as recessions, interest rates, changes in U.S. trade policy including tariffs and expectations of tariffs, fuel prices, international currency fluctuations and acts of war or terrorism.

Broad market and industry factors may materially harm the market price of our Common Stock irrespective of our operating performance or any of the factors listed above. The securities markets in general have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these securities, including our securities, are not predictable. A loss of investor confidence in the market for the stocks of other companies which investors perceive to be similar to us could depress our stock price regardless of our business, prospects, financial conditions or

results of operations. A decline in the market price of our Common Stock also could adversely affect our ability to issue additional securities and our ability to obtain additional financing in the future.

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Our Common Stock is subject to potential delisting from the Nasdaq Global Market if we do not meet Nasdaq's continued listing requirements, which would likely impair the liquidity of the trading market for our Common Stock.

Our listing on the Nasdaq Global Market is contingent upon meeting all the continued listing requirements of the Nasdaq Global Market. On two occasions in the past, we received notice from Nasdaq that we were not in compliance with its continued listing requirements based on the minimum bid price per share of our Common Stock. While in each case we were able to achieve compliance within the compliance period, if we fail to meet any listing requirements, we could again receive notice of non-compliance and in that case may not be able to regain compliance. If our Common Stock is delisted from the Nasdaq Global Market and is not eligible for quotation or listing on another market or exchange, we may be transferred to an over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for our shares, and it would likely also reduce the visibility, liquidity, and value of our Common Stock, reduce institutional investor interest in us, and may increase the volatility of our Common Stock. Delisting could also cause a loss of confidence of potential industry partners, lenders and employees, which may harm our ability to raise capital through alternative financing sources on terms acceptable to us, which could further harm our business and our future prospects. Some or all of these material adverse consequences may contribute to a further decline in our stock price. If an active trading market for our Common Stock is not sustained with sufficient trading volume, you may have limited or no ability to sell your Common Stock.

If securities or industry analysts cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our Common Stock, the price and trading volume of our Common Stock could decline.

The trading markets for our Common Stock will be influenced by research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. From time to time, analysts covering us have ceased publishing research or reports about us. If any analyst covering our company now or in the future changes their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, the price of our Common Stock would likely decline. If any analyst covering our company now or in the future were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the prices and trading volumes of the Common Stock to decline.

2024 Warrants are exercisable for Common Stock, and their exercise would increase the number of shares eligible for future resale in the public market and result in dilution to our stockholders.

On November 1, 2024, we issued warrants to purchase up to 3,220,805 shares of Common Stock (the "2024 Warrants"). As of September 30, 2026, there were 430,105 2024 Warrants outstanding. Each whole 2024 Warrant entitles the holder to purchase one share of our Common Stock at a price of $2.30 per share. The shares of Common Stock issued upon exercise of our 2024 Warrants will result in dilution to the then existing holders of Common Stock and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our Common Stock.

Anti-takeover provisions contained in our Charter and Bylaws, as well as provisions of Delaware law, could impair a takeover attempt, which could limit the price investors might be willing to pay in the future for our Common Stock.

Our Charter and Bylaws contain provisions that may discourage unsolicited takeover proposals that stockholders may consider to be in their best interests. We are also subject to anti-takeover provisions under Delaware law, which could delay or prevent a change of control. Together, these provisions may make more difficult the removal of management and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our securities. These provisions include:

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- only the board of directors (pursuant to a majority vote of the whole board), the chairperson of the board of directors, or the Chief Executive Officer may call a special meeting;
- stockholder vote of at least 66-2/3% required to remove a director for "cause";
- stockholder vote of at least 66-2/3% required to approve certain amendments to the Charter and Bylaws; and
- the designation of Delaware and federal courts as the exclusive forums for certain disputes.

Our Bylaws provide that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for certain stockholder litigation matters, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or stockholders.

Our Bylaws provide, to the fullest extent permitted by law, that internal corporate claims may be brought only in the Court of Chancery in the State of Delaware (or, if the Court of Chancery does not have, or declines to accept, jurisdiction, another state court or a federal court located within the State of Delaware). In addition, our Bylaws provide that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. This forum selection provision will not apply to claims brought to enforce a duty or liability created by the Exchange Act. Any person or entity purchasing or otherwise acquiring or holding any interest in our stock shall be deemed to have notice of and consented to the forum provision in our Bylaws.

This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, other employees or stockholders, which may discourage lawsuits with respect to such claims. Alternatively, if a court were to find the choice of forum provision contained in our Bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition. For example, under the Securities Act, federal courts have concurrent jurisdiction over all suits brought to enforce any duty or liability created by the Securities Act, and investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such a forum selection provision as written in connection with claims arising under the Securities Act.

The JOBS Act permits "emerging growth companies" like us to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies.

We qualify as an "emerging growth company" as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act. As such, we take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies for as long as we continue to be an emerging growth company, including (1) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, (2) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (3) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. As a result, our stockholders may not have access to certain information they deem important. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following January 20, 2026, the fifth anniversary of Rotor's initial public offering, (b) in which we have total annual gross revenue of at least $1.235 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Common Stock that is held by non-affiliates exceeds $700 million as of the last business day of our prior second fiscal quarter, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the exemption from complying with new or revised accounting standards provided in Section 7(a)(2)(B) of the Securities Act as long as we are an emerging growth company. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies, but any such election to opt out is irrevocable.

We have elected to avail ourselves of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of our financial statements with another public company that is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Investors may find our Common Stock less attractive because we rely on these exemptions and may continue to rely on them to the extent they remain available to us. If some investors find our Common Stock less attractive as a result of these exemptions and reduced disclosure as an emerging growth company, there may be a less active trading market for and/or more price volatility with respect to our Common Stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a)

None.

(b)

None.

(c)

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a)

None.

(b)

None.

(c)

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," each as defined in Regulation S-K Item 408.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 30, 2021).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 20, 2023).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on March 18, 2024).
3.4	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on March 18, 2024).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** The Certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Palladyne AI Corp. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

PALLADYNE AI CORP.

Date: November 10, 2026

By: /s/ Benjamin G. Wolff
Benjamin G. Wolff
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2026

By: /s/ Trevor Thatcher
Trevor Thatcher
Chief Financial Officer
(Principal Financial and Accounting Officer)