

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 14, 2026

XTI AEROSPACE, INC.
(Exact name of registrant as specified in its charter)

Nevada	001-36404	88-0434915
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
8123 InterPort Blvd., Suite C Englewood, CO	80112	
(Address of principal executive offices)	(Zip Code)	

Registrant's telephone number, including area code: (800) 680-7412

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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	XTIA	The Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

EXPLANATORY NOTE

As previously disclosed in the Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the “SEC”) by XTI Aerospace, Inc. (the “Company”) on November 12, 2025 (the “Prior 8-K”), on November 10, 2025, XTI Drones Holdings, LLC, a subsidiary of XTI Drones, LLC, which is a wholly-owned subsidiary of the Company, completed the acquisition of 100% of the equity interests of Drone Nerds, LLC and Anzu Robotics, LLC (such transactions, collectively, the “Acquisitions”). This Current Report on Form 8-K is being filed to provide the unaudited condensed consolidated financial statements of Drone Nerds, Inc. as of September 30, 2025 and for the nine months ended September 30, 2025 and 2024, the unaudited pro forma condensed consolidated balance sheet of the Company as of September 30, 2025 after giving effect to the Acquisitions, and the unaudited pro forma condensed combined statement of operations of the Company for the nine months ended September 30, 2025 after giving effect to the Acquisitions (collectively, the “Updated Financial Information”), so that such Updated Financial Information is available to be incorporated into any registration statements (or amendments thereto) of the Company. As previously disclosed, prior to the Acquisitions, Drone Nerds, LLC was known as Drone Nerds, Inc., a Florida corporation, which was converted into a Florida limited liability company as part of a reorganization for tax purposes.

The financial information being filed with this Current Report on Form 8-K should be read in conjunction with the Prior 8-K and the Company’s other filings with the SEC, which together provide a more complete description of the Acquisitions. Except as provided herein, the disclosures made in the Prior 8-K remain unchanged.

Item 8.01 Other Events.

The Updated Financial Information is included in Exhibits 99.1 and 99.2 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.**(a) Financial statements of businesses or funds acquired.**

The unaudited condensed consolidated financial statements of Drone Nerds, Inc. as of September 30, 2025 and for the nine months ended September 30, 2025 and 2024 are filed as Exhibit 99.1 to this Current Report on Form 8-K and are incorporated by reference herein.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information identified below giving effect to the Acquisitions is filed as Exhibit 99.5 to this Current Report on Form 8-K and is incorporated by reference herein:

- Unaudited pro forma condensed combined balance sheet as of September 30, 2025
- Unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2025

(d) Exhibits

Exhibit Number	Description
99.1	Unaudited condensed financial statements of Drone Nerds, Inc. as of September 30, 2025 and for the nine months ended September 30, 2025 and 2024
99.2	Unaudited pro forma condensed combined financial information of XTI Aerospace, Inc.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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 hereunto duly authorized.

XTI AEROSPACE, INC.

Date: January 14, 2026

By: /s/ Brooke Turk
Name: Brooke Turk
Title: Chief Financial Officer

**Drone Nerds, Inc. and
Subsidiaries**

Consolidated Financial Statements
As of September 30, 2025 and for the
Nine-Month Periods Ended September 30, 2025
and 2024

Drone Nerds, Inc. and Subsidiaries

Consolidated Financial Statements

As of September 30, 2025 and for the
Nine-Month Periods Ended September 30, 2025 and 2024

Drone Nerds, Inc. and Subsidiaries

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Drone Nerds, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)

	September 30, 2025	December 31, 2024
Assets		
Current Assets		
Cash	\$ 1,951,818	\$ 1,838,454
Accounts receivable, net	7,259,142	10,882,066
Inventories, net	14,654,404	23,912,058
Vendor deposits	10,376,100	9,086,624
Prepaid expenses and other assets	802,990	806,451
Total Current Assets	35,044,454	46,525,653
Property and equipment, net	196,808	276,246
Operating leases - right-of-use assets, net	1,694,503	2,251,539
Goodwill	170,000	170,000
Total Assets	\$ 37,105,765	\$ 49,223,438
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 3,657,617	\$ 5,135,940
Accrued expenses and other liabilities	7,404,132	10,516,952
Line of credit	2,880,683	15,240,950
Operating lease liabilities	659,861	738,055
Total Current Liabilities	14,602,293	31,631,897
Notes payable, related parties	450,000	450,000
Operating lease liabilities, net of current portion	1,159,150	1,605,282
Total Liabilities	16,211,443	33,687,179
Commitments and Contingencies		
Stockholders' Equity		
Common stock; \$1 par value; 400 shares authorized, issued and outstanding	400	400
Additional paid-in capital	1,099,700	99,700
Retained earnings	19,907,617	15,549,554
Due from stockholder	(113,395)	(113,395)
Total Stockholders' Equity	20,894,322	15,536,259
Total Liabilities and Stockholders' Equity	\$ 37,105,765	\$ 49,223,438

See accompanying notes to consolidated financial statements.

Drone Nerds, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)

<i>Nine months ended September 30,</i>	2025	2024
Sales	\$ 79,771,085	\$ 84,369,168
Cost of sales	61,136,973	70,730,221
Gross profit	18,634,112	13,638,947
 Operating expenses		
Salaries and benefits	5,819,245	5,623,032
Other selling, general and administrative expenses	3,293,652	3,784,913
Professional fees	910,889	889,360
 Income from operations		
Other income	8,610,326	3,341,642
Interest expense, net	84,186	70,308
 Net Income	\$ 8,254,687	\$ 2,599,418

See accompanying notes to consolidated financial statements.

Drone Nerds, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Due from Stockholder	Total Stockholders' Equity
Balances at January 1, 2025	400	\$ 400	\$ 99,700	\$ 15,549,554	\$ (113,395)	\$ 15,536,259
Net income	-	-	-	8,254,687	-	8,254,687
Contributions from stockholders	-	-	1,000,000	-	-	1,000,000
Distributions to stockholders	-	-	-	(3,896,624)	-	(3,896,624)
Balances at September 30, 2025	400	\$ 400	\$ 1,099,700	\$ 19,907,617	\$ (113,395)	\$ 20,894,322
	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Due from Stockholder	Total Stockholders' Equity
Balances at January 1, 2024	400	\$ 400	\$ 99,700	\$ 16,541,580	\$ (111,171)	\$ 16,530,509
Net income	-	-	-	2,599,418	-	2,599,418
Distributions to stockholders	-	-	-	(2,902,678)	-	(2,902,678)
Balances at September 30, 2024	400	\$ 400	\$ 99,700	\$ 16,238,320	\$ (111,171)	\$ 16,227,249

See accompanying notes to consolidated financial statements.

Drone Nerds, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,	2025	2024
Cash Flows From Operating Activities		
Net Income	\$ 8,254,687	\$ 2,599,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,438	57,212
Amortization of deferred loan costs	185,498	53,331
Non-cash lease expense	557,036	410,509
Changes in operating assets and liabilities:		
Decrease (Increase) in operating assets:		
Accounts receivable	3,622,924	(441,268)
Inventories	9,257,654	(4,432,395)
Vendor deposits	(1,289,476)	(2,909,212)
Prepaid expenses and other assets	3,461	217,814
Increase (decrease) in operating liabilities:		
Accounts payable	(1,478,323)	2,530,276
Accrued expenses and other liabilities	(3,112,820)	6,120,382
Operating lease liabilities	(524,326)	261,173
Net Cash Provided By Operating Activities	15,555,753	4,467,240
Cash Flows From Investing Activities		
Purchases of property and equipment	-	(213,974)
Net Cash Used In Investing Activities	-	(213,974)
Cash Flows From Financing Activities		
Contributions from stockholders	1,000,000	-
Distributions to stockholders	(3,896,624)	(2,902,678)
Borrowings under lines of credit	39,187,131	40,369,383
Repayments on lines of credit	(51,732,896)	(42,105,164)
Net Cash Used In Financing Activities	(15,442,389)	(4,638,459)
Net increase (decrease) in cash	113,364	(385,193)
Cash - beginning of period	1,838,454	1,657,345
Cash - end of period	\$ 1,951,818	\$ 1,272,152
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 442,368	\$ 997,404
Supplemental Schedule of Non-cash investing and financing activities:		
Right of use assets recognized due to lease amendment	\$ -	\$ 1,645,143

See accompanying notes to consolidated financial statements.

1. Description of Business

Business

Drone Nerds, Inc. was incorporated in 2014 as a Florida corporation and is headquartered in Dania Beach, Florida. Drone Nerds, Inc. specializes in wholesale and retail sales of high-end drones for a variety of commercial, private and recreational needs. Additionally, Drone Nerds, Inc. operates a retail store in South Florida.

Surf Nerds, LLC was incorporated in 2019 as a Florida Limited Liability Company and was headquartered in Dania Beach, Florida. Surf Nerds, LLC operated as an online retailer of electric surfboards until its dissolution in June 2025, at which time all assets and liabilities were transferred to Drone Nerds, Inc. The dissolution had no material impact on the consolidated financial statements, and no significant gains or losses were recognized.

Anzu Robotics, LLC was incorporated in 2023 as a Delaware Limited Liability Company and is headquartered in Austin, Texas. Anzu Robotics, LLC commenced its operations in 2024 and is engaged in the development and sale of commercial drone technology.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Drone Nerds, Inc., Surf Nerds, LLC, and Anzu Robotics, LLC (collectively referred to as the “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

The Company evaluates its relationships with other entities to determine whether any such entities are variable interest entities (“VIEs”) and whether the Company is the primary beneficiary of any VIEs. A VIE is an entity in which the Company, through contractual or other arrangements, has an interest that will absorb portions of the entity's expected losses or receive portions of the entity's expected residual returns, or both. The Company consolidates a VIE if it is determined to be the primary beneficiary, which is defined as the entity that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company has determined that Anzu Robotics, LLC meets the criteria to be considered a variable interest entity (“VIE”) under Accounting Standards Codification (ASC) 810, *Consolidation*, and that Drone Nerds, Inc. is the primary beneficiary. Accordingly, the financial results of Anzu Robotics, LLC are included in the accompanying consolidated financial statements. Surf Nerds, LLC was also considered a VIE, with Drone Nerds, Inc. as the primary beneficiary, until its dissolution in June 2025, at which time all assets and liabilities were transferred to Drone Nerds, Inc. and Surf Nerds, LLC ceased to be consolidated as a separate entity.

Basis of Presentation

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

2. Summary of Significant Accounting Policies***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant assumptions and estimates were used in determining the collectability of accounts receivable and the carrying value of inventory. Actual results could differ from those estimates and those differences may be material.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. As of September 30, 2025 and December 31, 2024, the Company had no cash equivalents and all cash amounts consisted of cash on deposit.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000. At times, such balances exceed these insured limits. The Company generally limits its exposure by placing its deposits with quality financial institutions. The Company has not experienced losses in such accounts.

Concentrations

As of September 30, 2025, accounts receivable totaling approximately \$1,844,000 from two customers represented approximately 26% of total accounts receivable, net. As of December 31, 2024, accounts receivable totaling approximately \$5,493,000 from two customers represented approximately 53% of total accounts receivable, net. As of September 30, 2025 and December 31 2024, approximate information regarding major customers representing more than 10% of total accounts receivable from unrelated parties is as follows:

	September 30, 2025	December 31, 2024
Customer A	15%	35%
Customer B	**	18%
Customer C	11%	**

** - Concentration did not exceed 10% of total accounts receivable, net.

As of September 30, 2025 and December 31, 2024, accounts payable totaling approximately \$819,000 and \$3,240,000 to a large vendor, primarily located in China, represented approximately 27% and 71% of total accounts payable, respectively. As of September 30, 2025 and December 31, 2024, approximate information regarding major vendors representing more than 10% of total accounts payable to unrelated parties is as follows:

	September 30, 2025	December 31, 2024
Vendor A	13%	71%
Vendor B	27%	11%
Vendor C	13%	**

** - Concentration did not exceed 10% of total accounts payable.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Vendor purchases of inventory totaling approximately \$30,899,000 and \$53,547,000 from the same vendor represented approximately 55% and 70% of total vendor purchases of inventory for the nine months ended September 30, 2025 and 2024, respectively.

In February 2018, the Company signed a 5-year contract extension with its largest vendor to be the official non-exclusive dealer of its products in the United States and Canada. The contract stipulates that it can be terminated by the vendor at any time. In September 2022, the Company executed an additional extension of this agreement through September 2025. In January 2025, the Company entered into a new one-year agreement with its largest vendor to continue as the official non-exclusive dealer of its products in the United States. In September 2025, the Company signed an additional one-year contract with its largest vendor, maintaining its status as the official non-exclusive dealer of the vendor's products in the United States.

Risks and Uncertainties

Credit Risk

In the normal course of business, the Company encounters economic risk, mainly comprised of credit risk and market risk. Credit risk is the risk of default on the Company's accounts receivable balances from the customers' inability or unwillingness to make contractually required payments.

Market Risk

Market risk reflects the risk that conditions in which the Company sells its products could change such that a significant effect on the Company's operations could occur. The Company derives most of its sales from the wholesale and online retail industry. The Company could experience declines in demand for products as a result of general economic conditions. Furthermore, the Company is dependent on borrowings provided by a line of credit to fund its current working capital needs.

Tariff Risk

The Company is currently subject to various international trade policies and regulations, which may impact the cost of inventory purchases. There remains uncertainty regarding the potential imposition of new tariffs or changes to existing tariffs on goods imported from certain countries where the Company sources its inventory.

Management is actively monitoring the situation and assessing the potential impact on the Company's financial position and results of operations. While it is not possible to predict the outcome of these developments, any significant increase in tariffs could result in higher costs of goods sold and may adversely affect the Company's profitability.

Regulatory and Supply Chain Risk

The Company is subject to risks arising from ongoing regulatory discussions and potential legislative actions targeting its primary supplier. Under the 2025 National Defense Authorization Act (NDAA), a U.S. national-security agency is required to complete a security review of certain suppliers, including the Company's primary supplier, by December 23, 2025. If no agency completes this review by the deadline, the law instructs the Federal Communications Commission (FCC) to automatically add these suppliers to the FCC "Covered List," which would effectively block new FCC equipment authorizations for their technology and drones in the U.S. (i.e., new models could not be approved).

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Management is actively monitoring these developments and evaluating their potential impact on the Company's financial position and results of operations. As of the issuance of these financial statements, all products purchased from the primary supplier in the Company's distribution channel possess valid FCC authorizations. Accordingly, management does not anticipate any material impact on the Company's operations, as revenue is expected to continue to be generated from existing, approved product lines.

The ultimate outcome of these regulatory and legislative matters cannot be predicted. Any significant regulatory changes or supply chain disruptions could result in inventory shortages and materially impact the operations, which ultimately may adversely affect the Company's future profitability.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist mainly of prepaid insurance. Premiums paid for receivable and cargo insurance during the year are amortized evenly over the term covered by the payment, generally twelve months.

Accounts Receivable, Net and Allowance for Credit Losses

Accounts receivable are recorded at the stated amount of the transactions with the Company's customers. Credit is extended based upon evaluation of the customers' financial condition. Payment terms vary and amounts due from customers are stated in the consolidated financial statements net of an allowance for credit losses.

The Company recognizes an allowance for credit losses for accounts receivable based on its best estimate of the net amount expected to be collected. The Company determines the allowance based on a review of individual past due balances and potential collectability of these balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts that are outstanding longer than the payment terms are considered past due. As of September 30, 2025 and December 31, 2024, the allowance for credit losses was approximately \$100,000 and is reflected as a reduction of "Accounts receivable, net" on the accompanying consolidated balance sheets. Certain accounts receivable balances serve as collateral to the line of credit (Note 6).

Inventories

Inventories, consisting principally of drones and drone accessories, are stated at the lower of cost or net realizable value. Cost is determined using the specific identification method. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. Inventories include the capitalization of certain costs related to purchasing, freight and handling costs associated with placing inventory in its location and condition for sale.

Selling expenses and general and administrative expenses are reported as period costs and are excluded from inventory cost. The Company reviews the components of its inventory on a regular basis for excess and obsolete inventory based on estimated future usage and sales.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of September 30, 2025 and December 31, 2024, the inventory reserve was approximately \$642,000 and is reflected as a reduction of “Inventories, net” in the accompanying consolidated balance sheets.

Property and Equipment, net

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Assets over \$5,000, which are expected to last over one year, are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is recognized in income or expense for the period. Maintenance and repairs are charged to expense as incurred, and expenditures for major renewals and betterments are capitalized.

Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the various classes of assets as follows:

Office furniture and fixtures	7 years
Equipment	5 years
Leasehold improvements	Shorter of useful life or lease term
Software	3 years

Long-Lived Assets

The Company reviews long-lived assets for possible impairment at least annually, and more frequently if circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment is determined to exist when estimated amounts recoverable through future cash flows from operations on an undiscounted basis are less than the long-lived assets carrying values. If a long-lived asset is determined to be impaired, an impairment loss is recognized to reduce the asset to its fair value. Preparation of estimated future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning future conditions. There were no impairment losses for the nine months ended September 30, 2025 and 2024.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable net tangible and intangible assets acquired. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The Company compares the fair value of its reporting unit, including goodwill, to its carrying amount. If the carrying amount exceeds fair value, an impairment loss is recognized in an amount equal to the excess, limited to the total amount of goodwill. Impairment losses, if any, are included in operating expenses in the Company's consolidated statements of operations.

During the nine months ended September 30, 2025 and 2024, no events or circumstances indicated that goodwill may be impaired, and the annual impairment test did not result in any impairment charges (Note 5).

Leases

The Company enters into lease arrangements primarily for rental of office and operating facilities space, with various expiration dates. At its inception, the Company determines whether an arrangement is or contains a lease. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The definition of a lease embodies two conditions: (i) there is an identified asset in the contract that is land or a depreciable asset (i.e., property and equipment), and (ii) the customer has the right to control the use of the identified asset. The Company recognizes a right-of-use (ROU) asset and lease liability on the consolidated balance sheets for all leases with a term longer than 12 months, including renewals options reasonably certain to be exercised. ROU assets represent the Company's right to use an underlying asset for the lease term. Lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are classified and recognized at the commencement date.

ROU lease liabilities are measured based on the present value of fixed lease payments over the lease term, discounted at the appropriate rate. The Company has made an accounting policy to apply its incremental borrowing rate (IBR) as the discount rate used to measure lease liabilities and ROU assets at commencement of a lease. ROU assets consist of (i) initial measurement of the lease liability; (ii) lease payments made to the lessor at or before the commencement date less any lease incentives received; and (iii) initial direct costs incurred by the Company.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Key estimates and judgments included in the initial measurement of ROU assets and liabilities include (i) the discount rate used to discount the unpaid lease payments to present value, (ii) lease term and (iii) lease payments.

- i. The Company uses its IBR at lease commencement to discount lease payments, as the rate implicit in the lease is not readily determinable. The IBR is determined based on the rate of interest the Company would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments over a similar term in a similar economic environment.
- ii. The lease term for all of our leases includes the noncancellable period of the lease plus any additional periods covered by either a lessee option to extend (or not to terminate) the lease that the lessee is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- iii. Lease payments included in the measurement of the lease asset or liability comprise the following: (i) fixed payments (including in-substance fixed payments), (ii) variable payments that depend on index or rate based on the index or rate at lease commencement, (iii) the exercise price of a lessee option to purchase the underlying asset if the lessee is reasonably certain to exercise, (iv) payments for penalties for terminating the lease if the lessee is reasonably certain to exercise, and (v) amounts probable of being owed under residual value guarantees.

Variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate) are included in the measurement of ROU assets and lease liabilities using the index or rate at the commencement date. Variable lease payments that do not depend on an index or a rate are excluded from the measurement of ROU assets and lease liabilities and are recognized in the period in which the event, activity, or circumstance in the lease agreement on which those payments are assessed occur. Variable lease payments related to the Company's operating leases include costs such as insurance and common area maintenance and are recognized in operating expenses in the consolidated statements of operations in the period in which the obligation for those payments is incurred.

The Company monitors events or changes in circumstances that require a reassessment of a lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in operating expenses in the consolidated statements of operations.

Revenue Recognition

The Company generates revenue primarily from the sale of high-end drones to wholesale and retail markets.

Revenue is recognized when customers obtain control of goods and services promised by the Company in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (Topic 606). The amount of revenue recognized is based on the amount that reflects the consideration that is expected to be received in exchange for those respective goods and services. The transaction price for contracts may include forms of variable consideration, including reductions to the transaction price for volume discounts and rebates. Revenue is reported net of discounts and net of any estimated refund liability, which is determined based on historical experience. The estimated refund liability as of September 30, 2025 and December 31, 2024 was not material.

The Company records freight billed to customers in net sales. The corresponding costs incurred for shipping and handling related to these customers billed freight costs are recorded as costs to fulfill the contract and are included within cost of sales. All revenue is recognized at a point in time. For shipments with terms of Free-On-Board (FOB) Shipping Point, revenue is recognized upon shipment. Deferred revenue represents cash received by the Company in advance of shipment for FOB Shipping Point terms. Upon shipment the deferred revenue is recognized as revenue.

The Company's contracts typically do not result in situations where there is a time period greater than one year between performance under the contract and collection of the related consideration. The Company elected the practical expedient under Topic 606 related to significant financing components, where the Company expects, at contract inception, that the period between the entity's transfer of a promised good or service to a customer and the customer's payment for that good or service will be one year or less.

The Company also applies the practical expedient in Topic 606 related to costs to obtain a contract and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the incurred costs that the Company otherwise would have capitalized is one year or less. These costs are included in selling, general and administrative expenses.

The Company's main revenue generating activities include the following:

Wholesale

Revenue is comprised of sales of products through e-commerce channels and are primarily comprised of direct sales to wholesale resellers. Revenue is recognized when control of the product transfers to the customer, which is generally upon shipment of the goods, at which time the Company has satisfied its performance obligation. Payment terms start from the date of satisfaction of the performance obligation and varies based on the customer contract.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Retail

Revenue is comprised of point-of-sale retail sales at the Company's South Florida location. Revenue is recognized when control of the product transfers to the customer which is generally upon the point of sale of the goods, at which time the Company has satisfied its performance obligation. Payments are usually obtained from a mixture of cash and credit card.

A summary of all revenue earned is as follows:

<i>Nine months ended September 30,</i>	2025	2024
Wholesale	\$ 65,575,503	\$ 74,815,638
Retail	14,195,582	9,553,530
	\$ 79,771,085	\$ 84,369,168

It is the Company's policy to accept returns as deemed necessary based on the Company's return policy. The Company estimates sales returns and records a reserve for expected returns at each reporting date based on historical return pattern and current trends. Actual returns are charged against the reserve as they occur. As of September 30, 2025 and December 31, 2024, the Company recorded a reserve for sales returns and allowances of approximately \$144,000, which is reflected as a reduction of accounts receivable, net on the accompanying consolidated balance sheets.

Cost of Sales

The Company's cost of sales sold consists primarily of charges incurred for finished goods (drones and drone accessories), direct and indirect distribution costs, and other costs incurred in the sale of goods.

Shipping and Handling Costs

In some instances, the Company incurs shipping and handling costs relating to the sale of inventory. The Company recorded these costs as part of cost of sales in the accompanying consolidated statements of operations. Total shipping and handling costs incurred during the nine months ended September 30, 2025 and 2024 were approximately \$526,000 and \$631,000, respectively.

Vendor Programs

Consideration received from vendors for price protection, product rebates and marketing promotion are recorded as a reduction in cost of sales in accordance with ASC 705-20, *Accounting for Consideration*.

Advertising Costs

Advertising costs are charged to expense during the period in which they are incurred. Advertising costs were approximately \$363,000 and \$540,000 for the nine months ended September 30, 2025 and 2024, respectively.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Income Taxes

The Company recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The Company has analyzed the tax positions taken and has concluded that as of September 30, 2025 and December 31, 2024, there were no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the consolidated financial statements.

Management is required to analyze all open tax years as defined by the statute of limitations for all major jurisdictions, including federal and certain state taxing authorities. As of September 30, 2025, the Company did not have a liability for any unrecognized taxes. The Company has no examinations in progress and is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax liabilities will significantly change in the next 12 months.

The Company is treated as a Subchapter S Corporation for federal income tax purposes and accordingly, generally would not incur income taxes or have any unrecognized tax benefits. Instead, its earnings and losses are included in the personal tax returns of the stockholders and taxed depending on their personal tax situation. As a result, the consolidated financial statements do not reflect a provision for income taxes. The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Company files income tax returns.

Tax Collected from Customers and Remitted to Governmental Authorities

The Company records taxes collected from customers, which are directly imposed on a transaction with that customer, on a net basis. That is, in instances in which the Company acts as a collection agent for a taxing authority by collecting taxes that are the responsibility of the customer, the Company records the amount collected as a liability and relieves such liability upon remittance to the taxing authority without impacting revenues and expenses. On June 21, 2018, the U.S. Supreme Court decided in *South Dakota v. Wayfair, Inc.*, that state and local jurisdictions may, in certain circumstances, enforce sales and use tax collection on remote vendors that do not have physical presence in their jurisdiction. As states begin to interpret this ruling, some have begun, or have positioned themselves to begin, requiring sales and use tax collection by remote vendors. The details and effective dates of these collection requirements vary from state to state. The Company has internally evaluated the new requirements and, based on management's analysis as of September 30, 2025 and December 31, 2024, an accrual of approximately \$209,000 and \$175,000, respectively, has been recorded and is reflected within accrued expenses and other liabilities on the accompanying consolidated balance sheets.

3. Related Party Transactions

Due from Stockholder

As of September 30, 2025 and December 31, 2024, the Company had an outstanding amount due from a stockholder of approximately \$113,000 which bear interest of 2.0%, is unsecured and due on demand, included in the stockholders' equity on the consolidated balance sheets. Interest income from amount due from stockholder for the nine months ended September 30, 2025 and 2024 was approximately \$2,000 and is included in interest expense, net on the consolidated statements of operations.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Notes Payable, Related Parties

The Company has a note payable due of \$200,000 to a related party as reflected on the consolidated balance sheets as of September 30, 2025 and December 31, 2024, within the caption notes payable, related parties. The note is unsecured and bears interest at 10%. Interest expense was approximately \$15,000 for each of the nine months ended September 30, 2025 and 2024.

Additionally, in October 2016, the Company borrowed additional funds from another related party. The Company has a balance due of \$250,000 to this related party as reflected on the consolidated balance sheets as of September 30, 2025 and December 31, 2024, within the caption notes payable, related parties. The note is unsecured and bears interest at 10%. Interest expense was approximately \$19,000 for each of the nine months ended September 30, 2025 and 2024.

4. Property and Equipment, net

Property and equipment, net consists of the following:

	September 30, 2025	December 31, 2024
Office furniture and fixtures	\$ 133,860	\$ 133,860
Equipment	90,537	90,537
Leasehold improvements	271,535	271,535
Software	356,007	356,007
	<hr/>	<hr/>
Less: accumulated depreciation and amortization	851,939	851,939
	(655,131)	(575,693)
	<hr/>	<hr/>
	\$ 196,808	\$ 276,246

Depreciation and amortization expense was approximately \$79,000 and \$57,000 for the nine months ended September 30, 2025 and 2024, respectively.

5. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	September 30, 2025	December 31, 2024
Accrued expenses	\$ 199,419	\$ 16,068
Accrued payroll	516,638	309,626
Accrued purchases	4,002,560	8,394,859
Customer deposits	2,411,132	1,615,709
Other liabilities	274,383	180,690
	<hr/>	<hr/>
	\$ 7,404,132	\$ 10,516,952

6. Goodwill

On July 1, 2018, the Company acquired all of the assets of VeryDrone, Inc. (VeryDrone). As of September 30, 2025 and December 31, 2024, the Company reported gross goodwill of \$170,000 related to this acquisition. No impairment of goodwill was recorded for the nine months ended September 30, 2025 and 2024.

7. Lines of Credit

In December 2022, the Company entered into a revolving line of credit loan agreement with a financial institution for \$19,500,000. The line of credit bore interest equal to the Secured Overnight Financing Rate (SOFR) plus a margin determined by the financial institution and interest payments were due monthly and was scheduled to mature on December 23, 2024.

In July 2024, the line of credit loan agreement was amended, increasing the borrowing amount to \$25,000,000 and extending the maturity date to July 18, 2027. The renewed line of credit bears interest equal to the SOFR plus a margin determined by the financial institution (7.37% at December 31, 2024) and interest payments are due monthly. The line of credit is collateralized by all assets of the Company, including those held by the VIEs, and is personally guaranteed by the Company's stockholders.

In June 2025, the Company entered into a waiver and amendment agreement related to the line of credit. The agreement waived a default related to the Fixed Charge Coverage Ratio and amended the terms of the line of credit, reducing the maximum loan amount from \$25,000,000 to \$10,000,000. The interest rate was revised to 1-Month Term SOFR plus 5.00% until June 30, 2025, after which it will vary based on the Company's Fixed Charge Coverage Ratio performance. As part of the amended agreement, the Company was required to make an equity injection of approximately \$1,000,000 and pay a \$25,000 waiver fee. The equity injection of \$1,000,000 is included within the consolidated statement of stockholders' equity.

In July 2025, the Company transitioned its line of credit to a different financial institution and entered into a new revolving line of credit agreement with a maximum borrowing amount of \$25,000,000. The new facility bears interest at 1-Month Term SOFR plus 2.50%, subject to a minimum rate of 6.00% per annum (6.68% at September 30, 2025), with interest payments due monthly. The new line of credit is scheduled to mature on July 10, 2027.

As of September 30, 2025 and December 31, 2024, the outstanding balance was \$2,880,683 and \$15,240,950, respectively, and total interest expense for the nine months ended September 30, 2025 and 2024 totaled approximately \$410,000 and \$790,000, respectively. As of September 30, 2025 and December 31, 2024, the Company had a remaining balance available to be borrowed totaling \$22,119,317 and \$9,759,050, respectively.

In connection with the line of credit, the Company paid loan origination fees of approximately \$398,000 and is included in prepaid expenses and other assets on the accompanying consolidated balance sheets. The loan origination fees are being amortized over the duration of the line of credit. For each of the nine months ended September 30, 2025 and 2024, amortization expense was approximately \$185,000 and \$53,000, respectively, and reflected as operating expenses in the accompanying consolidated statements of operations.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

8. Leases

The Company leases offices and retail stores under noncancelable agreements. The Company assessed the lease classification of these leases at commencement date and concluded that the leases should be accounted for as operating leases. The operating leases expire at various dates through 2029, some with renewal options available to the Company. The lease agreements typically provide for base rental rates that increase at defined intervals during the term of the lease.

Consolidated balance sheet information related to the Company's operating leases consisted of the following:

		September 30, 2025	December 31, 2024
Assets	Operating lease right of use assets, net	\$ 1,694,503	\$ 2,251,539
Total Lease Assets		<u>\$ 1,694,503</u>	<u>\$ 2,251,539</u>
Liabilities			
Current Operating	Current portion of lease liabilities	\$ 659,861	\$ 738,055
Long-term Operating	Operating lease liabilities, net of current portion	<u>1,159,150</u>	<u>1,605,282</u>
Total Lease Liabilities		<u>\$ 1,819,011</u>	<u>\$ 2,343,337</u>

The components of total lease cost associated with the Company's operating leases are as follows:

<i>Nine months ended September 30,</i>	2025	2024
Operating lease expense (a)	\$ 560,140	\$ 478,617
Variable lease expense (b)	<u>37,969</u>	<u>31,432</u>
Total Lease Cost	<u>\$ 598,109</u>	<u>\$ 510,049</u>

(a) Expenses are classified within operating expenses in the consolidated statement of operations

(b) Variable lease costs consist primarily of taxes and common area and is included within operating expenses in the consolidated statement of operations

The following summarizes the cash flow information related to operating leases for the year ended:

	2025	2024
Operating lease liabilities arising from obtaining right-of-use assets	\$ -	\$ 1,645,143
Operating cash flows from operating leases	\$ 524,326	\$ 633,935
Weighted-average remaining lease term	3.0 years	3.8 years
Weighted-average discount rate	6.49%	6.28%

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Maturities of lease liabilities are as follows:

<i>Years Ended December 31,</i>	
2025**	\$ 195,991
2026	737,421
2027	510,964
2028	424,678
2029	143,421
Total minimum lease payments	2,012,475
Less: amount representing interest	(193,464)
Present value of future minimum lease payments	1,819,011
Less: current portion	(659,861)
Long Term Lease Liability	\$ 1,159,150

** 2025 amount reflects only the three-month period from October 1, 2025 to December 31, 2025

9. Commitments and Contingencies

Litigation

The Company, from time to time, is involved in litigation arising during the ordinary course of business. Based on currently available information, management believes that the resolution of any potential claims will not have a material adverse effect on the Company's consolidated operating results or financial position.

10. Benefit Plan

The Company maintains a 401(k)-retirement plan for its eligible employees. The Company determines annually the amount of its matching and profit-sharing contributions. For the nine months ended September 30, 2025 and 2024, the Company did not make any matching or profit-sharing contributions.

11. Variable Interest Entities

Surf Nerds, LLC and Anzu Robotics, LLC were formed to expand the Company's operations into electric surfboards and commercial drone technology, respectively. Drone Nerds, Inc. is the primary beneficiary of both entities, as it has the power to direct the activities that most significantly impact their economic performance and is exposed to the majority of their expected losses or residual returns.

In accordance with U.S. GAAP, the economic substance of these relationships gives Drone Nerds, Inc. a controlling financial interest in Surf Nerds, LLC and Anzu Robotics, LLC. Accordingly, the Company is required to consolidate these entities. The non-controlling interest in Surf Nerds, LLC and Anzu Robotics, LLC was immaterial to the consolidated financial statements and is included within the consolidated stockholders' equity as of September 30, 2025 and December 31, 2024.

Drone Nerds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Drone Nerds, Inc. is the primary obligor on a revolving line of credit agreement with an external lender (Note 7 and 12), which was collateralized by the assets of Drone Nerds, Inc., Surf Nerds, LLC, and Anzu Robotics, LLC until the dissolution of Surf Nerds, LLC in June 2025, after which the collateral was limited to the assets of Drone Nerds, Inc. and Anzu Robotics, LLC. In the event of default, the external lender has recourse to both the general credit of Drone Nerds, Inc. and the assets of the VIEs. The outstanding balance on the line of credit was \$2,880,683 and \$15,240,950 as of September 30, 2025 and December 31, 2024, respectively. Creditors of the consolidated VIEs also have recourse to the general credit of Drone Nerds, Inc.

Drone Nerds, Inc. has also provided financial support to both Surf Nerds, LLC and Anzu Robotics, LLC through intercompany loans necessary to fund their operations. As of September 30, 2025 and December 31, 2024, Anzu Robotics, LLC had intercompany payables to Drone Nerds, Inc. totaling approximately \$4,582,000 and \$5,100,000, respectively. As of December 31, 2024, Surf Nerds, LLC had an intercompany payable to Drone Nerds, Inc. totaling \$463,000. In the event that Surf Nerds, LLC or Anzu Robotics, LLC are unable to repay their obligations, Drone Nerds, Inc. would remain liable to the external lenders and may be required to forgive the intercompany loans.

12. Subsequent Events

The Company has evaluated subsequent events through December 17, 2025, which is the date the consolidated financial statements were available to be issued.

Subsequent to September 30, 2025, the Company declared and paid cash distributions to stockholders totaling approximately \$2,700,000. These distributions occurred after the consolidated balance sheet date and are not reflected in the consolidated financial statements.

On November 10, 2025, the Company was acquired by XTI Aerospace, Inc. in a transaction valued at approximately \$40,000,000, for a combination of cash, equity, and notes payable.

In connection with this transaction, the Company completed a reorganization (the “F-Reorganization”) intended to simplify its legal and tax structure in preparation for an equity sale transaction. As part of this F-Reorganization, the Company converted into Drone Nerds, LLC, a Florida limited liability company that is treated as a disregarded entity for U.S. federal income tax purposes. The transaction did not result in any changes to the underlying ownership, operations, or management of the Company and its consolidated subsidiaries.

On November 10, 2025, XTI Aerospace, Inc. deposited \$10,500,000 with the Company’s lender to fully collateralize the outstanding line of credit and fund working capital while the Company finalized an amendment to the line of credit agreement as a result of the Transaction.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On November 10, 2025, XTI Aerospace, Inc. (the “Company” or “XTI”) through a wholly-owned subsidiary acquired 100% of the issued and outstanding equity interests of two enterprise drone solutions providers, Drone Nerds, LLC, a Florida limited liability company, and Anzu Robotics, LLC, a Delaware limited liability company (collectively “Drone Nerds”) (the “Acquisition” or “Transaction”) for total purchase consideration of \$40.0 million, which was comprised of \$20.0 million in cash, \$10.3 million in the form of two promissory notes (the “Promissory Notes”) and \$9.7 million in the form of equity consideration. The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X. Defined terms included below have the same meaning as terms defined and included elsewhere in this Form 8-K.

The historical financial information of XTI was derived from the audited statements of operations for the year ended December 31, 2024 and the unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2025, as previously filed with the Securities and Exchange Commission. The historical financial information of Drone Nerds was derived from the audited statements of operations for the year ended December 31, 2024 and the unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2025, included elsewhere in this Form 8-K. Such unaudited pro forma financial information has been prepared on a basis consistent with the financial statements of XTI. This information should be read together with the financial statements of XTI and related notes, included in its Form 10-K filed on April 15, 2025 and its Form 10-Q filed on November 19, 2025.

These unaudited pro forma condensed combined financial statements are for informational purposes only. They do not purport to indicate the results that would have been obtained had the Acquisition and related transactions actually been completed on the assumed date or for the periods presented, or which may be realized in the future. The pro forma adjustments are based on the information currently available and the assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information.

There were no material transactions between the Company and Drone Nerds during the periods presented in the unaudited pro forma condensed combined financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF SEPTEMBER 30, 2025

(in thousands, except share and per share amounts)

	Pro Forma Adjustments for Subsequent Equity Transactions (Note 1)	Pro Forma Adjustments for Valkyrie Investment (Note 2)	XTI Pro Forma As Adjusted	Drone Nerds (Historical)	Transaction Accounting Adjustments	Other Transaction Accounting Adjustments	Pro Forma Combined	Post Acquisition Financing Transactions	As Adjusted Pro Forma Combined
Assets									
Current Assets									
Cash and cash equivalents	\$ 32,198	\$ -	\$ (2,000)	\$ 30,198	\$ 1,952	\$ (20,000)	\$ A	\$ 12,150	\$ 19,075
Accounts receivable, net	2,095	-	-	2,095	7,259	-	-	9,354	-
Other receivables	38	-	-	38	-	-	-	38	38
Inventories	1,433	-	-	1,433	14,654	3,695	B	(3,695)	16,087
Vendor deposits	-	-	-	-	10,376	-	-	10,376	10,376
Prepaid expenses and other current assets	918	-	-	918	803	-	-	1,721	1,721
Total Current Assets	36,682	-	(2,000)	34,682	35,044	(16,305)	(3,695)	49,726	19,075
Property and equipment, net									
Operating lease right-of- use asset, net	242	-	-	242	197	-	-	439	439
Intangible assets, net	243	-	-	243	1,695	79	C	-	2,017
Goodwill	1,169	-	-	1,169	-	-	-	1,169	1,169
Other assets	9,160	-	-	9,160	170	15,286	D	-	24,616
Total Assets	\$ 47,931	\$ -	\$ -	\$ 47,931	\$ 37,106	\$ (940)	\$ (3,695)	\$ 80,402	\$ 19,075
Liabilities and Stockholders' Equity									
Current Liabilities									
Accounts payable	\$ 2,560	\$ -	\$ -	\$ 2,560	\$ 3,658	\$ -	\$ -	\$ 6,218	\$ 6,218
Accrued expenses and other current liabilities	2,263	-	-	2,263	7,404	-	2,725	E	12,392
Accrued interest	342	-	-	342	-	-	-	342	342
Customer deposits	1,350	-	-	1,350	-	-	-	1,350	1,350
Warrant liability	28,228	(2,984)	-	25,244	-	-	-	25,244	24,186
Operating lease obligation, current	98	-	-	98	660	(45)	C	-	713
Deferred revenue	737	-	-	737	-	-	-	737	737
Short-term debt	-	-	-	-	2,880	10,265	F	-	13,145
Total Current Liabilities	35,578	(2,984)	-	32,594	14,602	10,220	2,725	60,141	20,186
Long Term Liabilities									
Long-term debt	-	-	-	-	450	-	-	450	450
Operating lease obligation, noncurrent	155	-	-	155	1,159	-	-	1,314	1,314
Total Liabilities	35,733	(2,984)	-	32,749	16,211	10,220	2,725	61,905	20,186
Mezzanine Equity	1,744	-	-	1,744	-	-	-	1,744	982
Stockholders' Equity									
Common stock	31	2	-	33	-	-	-	33	2
Series 4 Convertible Preferred Stock	-	-	-	-	-	-	-	-	AA
Series 5 Convertible Preferred Stock	-	-	-	-	-	-	-	-	-
Non-controlling interests	-	Class B Units		-	-	9,735	G	-	9,735
Additional paid-in capital	150,263	2,982	-	153,245	1,100	(1,100)	-	153,245	(2,095)
Accumulated other comprehensive income	898	-	-	898	-	-	-	898	898
Accumulated deficit	(140,738)	-	-	(140,738)	19,908	(19,908)	(6,421)	E	(147,159)
Due from stockholder	-	-	-	-	(113)	113	-	-	-
Total Stockholders' Equity	10,454	2,984	-	13,438	20,895	(11,160)	(6,421)	16,752	(2,093)
Total Liabilities, Mezzanine Equity, and Stockholders' Equity	\$ 47,931	\$ -	\$ -	\$ 47,931	\$ 37,106	\$ (940)	\$ (3,695)	\$ 80,402	\$ 19,075
									\$ 99,477

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2025
(in thousands, except share and per share amounts)

	XTI (Historical)	Pro Forma Adjustments for Valkyrie Investment (Note 2)	XTI Pro Forma As Adjusted	Drone Nerds (Historical)	Other Transaction Accounting Adjustments	Pro Forma Combined	Post Acquisition Financing Transactions	As Adjusted Pro Forma Combined
Revenues	\$ 3,568	\$ -	\$ 3,568	\$ 79,771	\$ -	\$ 83,339	\$ -	\$ 83,339
Cost of Revenues	1,673	-	1,673	61,137	-	62,810	-	62,810
Gross Profit	1,895	-	1,895	18,634	-	20,529	-	20,529
Operating Expenses:								
Research and development	5,649	-	5,649	104	-	5,753	-	5,753
Sales and marketing	5,267	-	5,267	2,916	-	8,183	-	8,183
General and administrative	22,434	-	22,434	7,003	-	29,437	-	29,437
Impairment of goodwill	4,049	-	4,049	-	-	4,049	-	4,049
Impairment of intangible assets	631	-	631	-	-	631	-	631
Amortization of intangibles	206	-	206	-	-	206	-	206
Total Operating Expenses	38,236	-	38,236	10,023	-	48,259	-	48,259
Income (Loss) from Operations	(36,341)	-	(36,341)	8,611	-	(27,730)	-	(27,730)
Other (Expense) Income								
Interest expense, net	(219)	-	(219)	(440)	-	(659)	-	(659)
Interest income	-	150	I	150	-	150	-	150
Loss on extinguishment of debt	(421)	-	(421)	-	-	(421)	-	(421)
Warrant issuance expense	(6,580)	-	(6,580)	-	-	(6,580)	-	(6,580)
Change in fair value of warrant liability	(3,280)	-	(3,280)	-	-	(3,280)	-	(3,280)
Other	(340)	-	(340)	84	-	(256)	-	(256)
Total Other (Expense) Income	(10,840)	150	(10,690)	(356)	-	(11,046)	-	(11,046)
Net Loss, before tax	(47,181)	150	(47,031)	8,255	-	(38,776)	-	(38,776)
Income tax benefit	5	-	5	-	-	5	-	5
Net income (loss)	(47,176)	150	(47,026)	8,255	-	(38,771)	-	(38,771)
Net income attributable to non-controlling interests - Class B Units	-	-	-	-	(1,370)	G	(1,370)	(1,370)
Preferred stock return	(29)	-	(29)	-	-	(29)	-	(29)
Net Income (Loss) Attributable to Common Stockholders	\$ (47,205)	\$ 150	\$ (47,055)	\$ 8,255	\$ (1,370)	\$ (40,170)	\$ -	\$ (40,170)

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2024
(in thousands, except share and per share amounts)

	Pro Forma Adjustments for Valkyrie Investment	XTI Pro Forma As Adjusted	Drone Nerds (Historical)	Transaction Accounting Adjustments	Other Transaction Accounting Adjustments	Pro Forma Combined	Post Acquisition Financing Transactions	As Adjusted Pro Forma Combined
	XTI (Historical)	(Note 2)						
Revenues	\$ 3,202	\$ -	\$ 3,202	\$ 111,201	\$ -	\$ 114,403	\$ -	\$ 114,403
Cost of Revenues	1,314	-	1,314	93,868	-	3,695	B	98,877
Gross Profit	1,888	-	1,888	17,333	-	(3,695)	15,526	15,526
Operating Expenses:								
Research and development	3,996	-	3,996	88	-	-	4,084	4,084
Sales and marketing	3,231	-	3,231	2,766	-	-	5,997	5,997
General and administrative	22,022	-	22,022	10,547	-	-	32,569	32,569
Merger and transaction costs	6,490	-	6,490	-	2,725	E	9,215	9,215
Impairment of intangible assets	2,507	-	2,507	-	-	-	2,507	2,507
Amortization of intangible assets	622	-	622	-	-	-	622	622
Total Operating Expenses	38,868	-	38,868	13,401	2,725	-	54,994	-
Loss from Operations	(36,980)	-	(36,980)	3,932	(2,725)	(3,695)	(39,468)	(39,468)
Other (Expense) Income								
Interest expense, net	(1,146)	-	(1,146)	(1,106)	-	(744)	H	(2,996)
Interest income	364	200	I	564	-	-	564	564
Amortization of deferred loan costs	(17)	-	(17)	-	-	-	(17)	(17)
Loss on conversion of note receivable to equity security	(2,630)	-	(2,630)	-	-	-	(2,630)	(2,630)
Loss on extinguishment of convertible notes payable	(6,732)	-	(6,732)	-	-	-	(6,732)	(6,732)
Change in fair value of convertible notes payable	12,882	-	12,882	-	-	-	12,882	12,882
Change in fair value of Damon investment and related warrants	(1,068)	-	(1,068)	-	-	-	(1,068)	(1,068)
Change in fair value of warrant liability	(281)	-	(281)	-	-	-	(281)	(281)
Other	21	-	21	154	-	-	175	175
Total Other (Expense) Income	1,393	200	1,593	(952)	-	(744)	(103)	(103)
Net Loss, before tax	(35,587)	200	(35,387)	2,980	(2,725)	(4,439)	(39,571)	(39,571)
Income tax provision	(16)	-	(16)	-	-	-	(16)	(16)
Net Income (Loss)	(35,603)	200	(35,403)	2,980	(2,725)	(4,439)	(39,587)	(39,587)
Net income attributable to non-controlling interests - Class B Units	-	-	-	-	(495)	G	-	(495)
Preferred stock return	(606)	-	(606)	-	-	-	(606)	(606)
Deemed dividend	(772)	-	(772)	-	-	-	(772)	(772)
Net Income (Loss) Attributable to Common Stockholders	\$ (36,981)	\$ 200	\$ (36,781)	\$ 2,980	\$ (3,220)	\$ (4,439)	\$ (41,460)	\$ (41,460)

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Presentation

The unaudited pro forma condensed combined statements of operations have been prepared as if the Acquisition had been consummated on January 1, 2024, and the unaudited pro forma condensed combined balance sheet has been prepared as if the Acquisition had been consummated on September 30, 2025 and do not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Acquisition. The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Acquisition and related transactions taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the post-combination company. They should be read in conjunction with the historical financial statements and notes thereto of XTI.

The allocation of the purchase consideration for the Acquisition depends upon certain estimates and assumptions, all of which are preliminary. The allocation of the purchase consideration has been made for the purpose of developing the unaudited pro forma condensed combined financial information. The final determination of fair values of assets acquired and liabilities assumed relating to the Acquisition could differ materially from the preliminary allocation of purchase consideration. The final valuation will be based on the actual net tangible and intangible assets of Drone Nerds existing at the acquisition date.

2. Accounting Policies and Reclassifications

Management performed a comprehensive review of the three entities' accounting policies. Based on its analysis, management reclassified certain operating expenses in the statements of operations of Drone Nerds to align with XTI's presentation. Management did not identify any further differences in accounting policies.

3. Estimated Purchase Price Consideration

Estimated purchase price of approximately \$40.0 million related to the Acquisition is comprised of the following components (in thousands):

Fair Value of Class B Units	\$ 9,735
Fair value of Promissory Notes	10,265
Cash	20,000
Total Consideration	\$ 40,000

The total equity consideration for the Acquisition included 6,524,576 Class B Units of our wholly-owned subsidiary that acquired Drone Nerds, which convert into common shares of XTI at the option of the holder at no additional consideration, which had an aggregate estimated fair value of approximately \$9.7 million. The fair value was determined based on XTI's five-day weighted average share price of \$1.492 ending November 7, 2025. If the Class B Units have not been converted into shares of XTI common stock prior to the fifteen-month anniversary of the Acquisition closing date, they will automatically convert into common shares at that time for no additional consideration. The Class B Units issued at the closing are fixed in number, subject to stock splits or similar adjustments, and are not subject to forfeiture prior to conversion.

The Promissory Notes bear interest at an annual rate of 7.25% and mature at the one-year anniversary of the Acquisition closing date, subject to monthly principal repayments and acceleration clauses if XTI or any of its affiliates receives an aggregate amount of \$40 million or more in future capital raises.

4. Adjustments to Unaudited Pro Forma Condensed Combined Financial Information

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed combined statements of operations are based upon the number of shares of common stock outstanding, assuming the Acquisition occurred on January 1, 2024.

Pro Forma Adjustments for Subsequent XTI Equity and Investment Transactions

The pro forma adjustments for subsequent XTI equity transactions represent significant transactions completed by the Company subsequent to September 30, 2025 and are as follows:

Note 1: During October 2025, all remaining outstanding pre-funded warrants that XTI issued as part of a best-efforts public offering that closed during September 2025 were exercised into common stock resulting in a reduction of Warrant Liabilities and an increase in Additional Paid-In Capital of approximately \$3.0 million on the unaudited pro forma September 30, 2025 condensed combined balance sheet.

Note 2: On October 21, 2025, the Company invested in Valkyrie Sciences Holdings LLC (“Valkyrie”) in the form of a convertible promissory note of \$2.0 million. The note bears simple interest at 10% per annum and matures on December 31, 2026. The Company may elect to convert the outstanding principal and accrued interest into (a) securities at the same price paid by new investors, (b) simple agreements for future equity in an affiliate of Valkyrie, or (c) equity of Valkyrie or its affiliate in the event of a sale of such entity as applicable, subject to a valuation cap of no greater than \$65 million. The unaudited pro forma condensed combined balance sheet has been adjusted to account for this transaction.

Transaction Accounting Adjustments to Unaudited Pro Forma Condensed Combined Financial Statements

Pro Forma Acquisition Accounting Adjustments

- A.** Represents the cash consideration portion of the purchase price.
- B.** Represents the fair value adjustment of inventory acquired.
- C.** Represents adjustments to reflect the remeasurement the right-of-use assets and lease liabilities for the acquired leases as of the date of the Acquisition.
- D.** The Company has performed a preliminary valuation analysis of the fair market value of Drone Nerds' assets to be acquired and liabilities to be assumed. Using the total consideration for the Acquisition, the Company has estimated the allocations to such assets and liabilities. The following table summarizes the allocation of the preliminary purchase price as of the Transaction's closing date, November 10, 2025 (in thousands):

Consideration(1)	\$ 40,000
Assets acquired:	
Cash and cash equivalents	\$ 1,952
Accounts receivable	7,259
Inventories	18,349
Vendor deposits	10,376
Prepaid assets and other current assets	803
Property and equipment	197
Other assets	1,774
Goodwill	15,456
Total assets acquired	56,166
Liabilities assumed:	
Accounts payable	3,658
Accrued liabilities	7,404
Operating lease obligation	1,774
Short-term debt	2,880
Long-term debt	450
Total liabilities assumed	16,166
Estimated fair value of net assets acquired	\$ 40,000

(1) See components of consideration above in Note 3 above.

For the purposes of pro forma presentation, the Company has assumed the excess consideration over the net assets acquired is Goodwill. The Company will be performing a more comprehensive assessment of assets acquired that may result in other intangible assets being identified in that analysis.

Other Transaction Accounting Adjustments

- E.** To reflect the total transaction costs of XTI and Drone Nerds of approximately \$2.7 million to be expensed as if incurred on January 1, 2024, the date the Acquisition occurred for the purposes of the unaudited pro forma condensed combined statements of operations. This is a non-recurring item and includes legal and accounting fees, investment banking, and other transaction-related professional fees.
- F.** As part of the purchase consideration, XTI will be issuing approximately \$10.3 million in Promissory Notes. In addition, XTI will be assuming approximately \$2.9 million of existing short-term debt and approximately \$0.5 million of existing long-term debt of Drone Nerds.
- G.** Represents the issuance of non-controlling Class B Units valued at approximately \$9.7 million as part of the purchase price consideration. The related impact to the unaudited pro forma condensed combined statements of operations was net income attributable to non-controlling interests of approximately \$0.5 million and approximately \$1.4 million for the year ended December 31, 2024 and nine months ended September 30, 2025, respectively.
- H.** Represents the interest expense relating to the Promissory Notes issued as part of the purchase price consideration.
- I.** Represents interest income relating to the Valkyrie convertible note investment (see Note 2).

Pro Forma Adjustments for Post Acquisition Financing Transactions

- AA.** On November 10, 2025, the Company entered into a Securities Purchase Agreement with Unusual Machines, Inc. (“UMAC”), pursuant to which the Company issued UMAC 25,000 shares of Series 10 Convertible Preferred Stock (the “Series 10 Preferred”) at a stated value of \$1,000 per share, for aggregate gross proceeds of \$25.0 million (the “Subscription Amount”) in a private placement that closed on November 12, 2025.

The Series 10 Preferred carries a 12% cumulative dividend, payable quarterly in cash, common stock, or in kind (PIK) through accretion to stated value. Each share is convertible into common stock at a fixed conversion price of \$1.492 per share upon receipt of required shareholder approval, at which time all shares will automatically convert. The issuance of common stock upon such automatic conversion is subject to a beneficial ownership limitation of 4.99% (or 9.99% at holder election). If the issuance of common stock upon such automatic conversion would exceed such limit, then, at the holder’s election, the Company may issue pre-funded warrants in lieu of conversion shares or hold such excess conversion shares in abeyance for the holder’s benefit.

As a result of the Company's shareholders' approval of the issuance of Company securities for purposes of Nasdaq Listing Rule 5635 at the Company's 2025 annual meeting held on December 30, 2025, all outstanding shares of the Series 10 Preferred were converted into (i) 1,721,980 shares of the Company's common stock and (ii) a pre-funded warrant to purchase an aggregate of 15,307,735 shares of the Company's common stock, which shares and pre-funded warrant were issued on January 5, 2026. The pre-funded warrant has an exercise price of \$0.0001 per share, provided that such exercise price is deemed pre-paid as part of the Subscription Amount. The pre-funded warrant was issued in lieu of common stock due to the beneficial ownership limitation in the Series 10 Preferred. The pre-funded warrant is immediately exercisable and may be exercised at any time, subject to the aforementioned beneficial ownership limitation, until it is exercised in full.

The preliminary accounting for the Series 10 Preferred, subsequent common shares and pre-funded warrant exercises, and related placement agent's warrants (see **BB** below) is based on management's current interpretation of the relevant terms and application of U.S. GAAP, including ASC 480, ASC 815, and ASC 505. The classification and measurement of these instruments are subject to change as the Company completes its detailed analysis and obtains any required third-party valuations or technical accounting review.

For pro forma presentation, the \$25.0 million Subscription Amount, net of issuance costs of approximately \$1.9 million, resulting in net proceeds of approximately \$23.1 million, is reflected as a warrant liability of approximately \$19.0 million and accumulated other comprehensive income of approximately \$4.1 million.

- BB.** In connection with the Series 10 Preferred financing, the Company issued warrants to the placement agent to purchase 837,801 shares of common stock at an exercise price of \$1.492 per share, equal to the Series 10 Preferred conversion price. The warrants are immediately exercisable upon closing and expire five years from the date of issuance. For pro forma purposes, the fair value of the placement agent warrants is classified as mezzanine equity and treated as a direct issuance cost of the offering, recorded as a reduction to additional paid-in capital, with no impact on the pro forma statements of operations or earnings per share.
- CC.** During December 2025, the Company made the first required principal payment on the Promissory Notes issued as part of the Acquisition's purchase price consideration (see Note 3), in an aggregate amount of \$4.0 million.

5. Net Loss per Share

Net loss per share was calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Acquisition, assuming the shares were outstanding since January 1, 2024. As the Acquisition transactions are being reflected as if they had occurred at the beginning of the earliest period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Acquisition have been outstanding for the entirety of all periods presented.

The unaudited pro forma condensed combined financial information has been prepared for the nine months ended September 30, 2025 and for the year ended December 31, 2024 (in thousands, except share and per share data):

	Nine Months Ended September 30, 2025 ⁽¹⁾	Year Ended December 31, 2024 ⁽²⁾
Pro forma net loss attributable to common stockholders	\$ (38,800)	\$ (40,965)
Weighted average shares outstanding – basic and diluted ⁽³⁾	17,438,728	6,751,769
Pro forma net loss per share attributable to common stockholders – basic and diluted	\$ (2.22)	\$ (6.07)
As Adjusted Pro forma net loss attributable to common stockholders	\$ (38,800)	\$ (40,965)
Weighted average shares outstanding – basic and diluted ⁽⁴⁾	34,468,443	23,781,484
As Adjusted Pro forma net loss per share attributable to common stockholders – basic and diluted	\$ (1.13)	\$ (1.72)

(1) *Pro forma net loss per share includes the pro forma adjustments described in “Unaudited Pro Forma Condensed Combined Financial Information” for the nine months ended September 30, 2025. The calculation excludes the pro forma adjustment related to net income attributable to non-controlling interests—Class B Units, as it assumes the full conversion of the Class B Units into the Company’s common shares effective January 1, 2024. Accordingly, no non-controlling interest is reflected in pro forma net loss per share.*

(2) *Pro forma net loss per share includes the pro forma adjustments described in “Unaudited Pro Forma Condensed Combined Financial Information” for the year ended December 31, 2024. The calculation excludes the pro forma adjustment related to net income attributable to non-controlling interests—Class B Units, as it assumes the full conversion of the Class B Units into the Company’s common shares effective January 1, 2024. Accordingly, no non-controlling interest is reflected in pro forma net loss per share.*

(3) *Includes 6,524,576 Class B Units issued as part of the Acquisition’s purchase price consideration as they convert to common shares of XTI, at the option of the holder or automatically fifteen months from the Acquisition’s closing date, and require no future additional consideration.*

(4) *Includes (i) 6,524,576 Class B Units issued as part of the Acquisition’s purchase price consideration as they convert to common shares of XTI, at the option of the holder or automatically fifteen months from the Acquisition’s closing date, and require no future additional consideration, and (ii) 1,721,980 shares of common stock and a pre-funded warrant to purchase 15,307,735 shares of common stock at an exercise price of \$0.0001 per share (which exercise price is deemed pre-paid as part of the Subscription Amount) that were issued on January 5, 2026 as a result of the automatic conversion of the Series 10 Preferred.*