

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2026

OR

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

Commission File Number: 001-36404

XTI AEROSPACE, INC.

(Exact name of registrant as specified in its charter)

Nevada

88-0434915

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

511 East John Carpenter Freeway, Suite 500

Las Colinas, TX 75062

(Address of principal executive offices)

(Zip Code)

(800) 680-7412

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001	XTIA	The Nasdaq Capital Market

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 x No o

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 (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 20, 2026
Common Stock, par value \$0.001	38,477,789

XTI AEROSPACE, INC.

Form 10-Q

For the Quarterly Period Ended June 30, 2026

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION
CONTAINED IN THIS REPORT**

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions 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”). Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “hopes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “would,” “should,” “could,” “may” or other similar expressions in this Form 10-Q. In particular, these include statements relating to future actions; prospective products, applications, customers and technologies; future performance or results of anticipated products; anticipated expenses; and projected financial results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- supplier concentration and regulatory actions affecting key suppliers, including restrictions on the sale or use of certain drone platforms manufactured by foreign companies;
- changes in applicable laws or regulations, including evolving Federal Aviation Administration (“FAA”) and Federal Communications Commission (“FCC”) regulations, National Defense Authorization Act (“NDAA”) compliance rules, and other procurement regulations affecting the Unmanned Aircraft System (“UAS”) industry;
- customer demand for the products and services we offer, including enterprise drone solutions, training, repair, and lifecycle support services;
- the impact of competitive or alternative products, technologies and pricing;
- our ability to attract customers and fulfill customer orders in our UAS solutions business;
- our ability to scale our UAS platform in a cost-effective manner and expand our supplier and OEM relationships;
- emerging competition and rapidly advancing technology in the UAS and autonomous systems markets that may outpace our capabilities;
- our ability to navigate the regulatory environment and complexities with compliance related to such environment;
- the risk that our planned Advanced Technology and Manufacturing division may not successfully secure prime contractor agreements, commercial partnerships, or manufacturing partnerships on acceptable terms, and may not generate revenues on the timelines we anticipate, or at all, and the risk that we may significantly reduce investment in, restructure, or discontinue the division if key operational or commercial milestones are not achieved;
- the risk that we may not realize the expected benefits of the Drone Nerds acquisition or any future acquisition, or may experience significant delays or unexpected costs in integrating acquired companies;
- borrowing base limitations, covenants and other restrictions under our asset-based credit facility and obligations under acquisition-related indebtedness;
- our history of losses and the risk that we may not achieve or sustain profitability;
- our ability to raise additional capital on acceptable terms, or at all;
- our ability to restructure the Seller Notes (as defined below), obtain a waiver of the existing cross-defaults under our asset-based credit facility and avoid acceleration of our indebtedness;
- substantial doubt about our ability to continue as a going concern;
- our ability to maintain compliance with the continued listing requirements of the Nasdaq Capital Market;
- general economic conditions and events and the impact they may have on us and our potential customers, including, but not limited to, escalating tariff and non-tariff trade measures imposed by the U.S. and other countries, increases in inflation rates and rates of interest, and supply chain challenges;
- cybersecurity threats, data protection risks and reliance on third party information technology systems;

- litigation, regulatory investigations and other legal proceedings;
- risks related to intellectual property protection;
- potential impairments of goodwill and other intangible assets;
- tax law changes and limitations on our ability to use net operating losses; and
- other factors discussed in this Form 10-Q.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Form 10-Q, particularly in the “Risk Factors” section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make or collaborations or strategic partnerships we may enter into.

You should read this Form 10-Q and the documents that we have filed as exhibits to this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

EXPLANATORY NOTE

In November 2025, the Company completed the acquisition of Drone Nerds, LLC and Anzu Robotics, LLC (collectively, “Drone Nerds”) through XTI Drones Holdings, LLC, a Texas limited liability company (“XTI Drones Holdings”). The Company holds an 83.403% controlling equity interest in XTI Drones Holdings through its ownership of Class A Units, and the remaining 16.597% equity interest is held by other Class B unitholders. The results of Drone Nerds have been included in the Company’s condensed consolidated financial statements from the acquisition date, and the ownership interest not held by the Company is reflected as noncontrolling interest.

In December 2025, the Company committed to a plan to dispose of its historical Industrial IoT / Real-Time Location Systems (“RTLS”) operations (the “Inpixon Business”) and classified the business as held for sale. In accordance with ASC 205-20, the results of the Inpixon Business have been classified as discontinued operations in the condensed consolidated financial statements included in this Quarterly Report and have been retrospectively presented as discontinued operations for all periods presented. The disposition of the Inpixon Business was completed on February 3, 2026.

Unless otherwise indicated or the context otherwise requires, references in this Quarterly Report to “XTI Aerospace,” the “Company,” “we,” “us,” and “our” refer to XTI Aerospace, Inc. and its consolidated subsidiaries.

This Quarterly Report is being filed after its prescribed due date. As previously disclosed in our Notification of Late Filing on Form 12b-25 filed on August 17, 2026 and our Current Report on Form 8-K filed on October 13, 2026, the filing was delayed to permit a committee of independent directors of our Board of Directors to complete an internal review of matters relating to our former Chief Executive Officer and related corporate governance matters. See Part I, Item 4, “Controls and Procedures,” and Part II, Item 1A, “Risk Factors.”

PART I — FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except number of shares and par value data)

	<u>June 30, 2026</u>	<u>December 31, 2025</u>
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,214	\$ 16,696
Accounts receivable, net	13,170	12,093
Inventories	19,092	15,400
Prepaid expenses and other current assets	5,864	3,989
Current assets of discontinued operations (Note 17)	—	3,645
Total Current Assets	45,340	51,823
Property and equipment, net	401	385
Operating lease right-of-use asset, net	1,511	2,965
Intangible assets, net	8,879	9,338
Goodwill	11,544	11,544
Note receivable	4,286	—
Other assets	879	403
Non-current assets of discontinued operations (Note 17)	—	4,788
Total Assets	<u>\$ 72,840</u>	<u>\$ 81,246</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands, except number of shares and par value data)

	<u>June 30, 2026</u>	<u>December 31, 2025</u>
	(Unaudited)	
Liabilities, Mezzanine Equity, and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	\$ 2,590	\$ 5,212
Accrued expenses and other current liabilities	7,738	6,556
Customer deposits	1,916	3,071
Warrant liability	56,482	22,561
Operating lease obligation, current	630	550
Note payable-related party	450	—
Acquisition-related promissory note-related party	4,431	7,931
Asset-based revolving line of credit	8,760	—
Income tax payable	1,241	—
Current liabilities of discontinued operations (Note 17)	—	1,722
Total Current Liabilities	<u>84,238</u>	<u>47,603</u>
Note payable-related party	—	450
Operating lease obligation, noncurrent	909	2,427
Non-current liabilities of discontinued operations (Note 17)	—	322
Total Liabilities	<u>85,147</u>	<u>50,802</u>
Commitments and Contingencies (Note 13)		
Mezzanine Equity		
Representative and placement agent warrants, net of issuance costs	2,701	2,701
Stockholders' Equity (Deficit)		
Preferred Stock - \$0.001 par value; 5,000,000 shares authorized	—	—
Series 4 Convertible Preferred Stock - 10,415 shares authorized; 1 share issued and outstanding as of June 30, 2026 and December 31, 2025	—	—
Series 5 Convertible Preferred Stock - 12,000 shares authorized; 126 shares issued and outstanding as of June 30, 2026 and December 31, 2025	—	—
Series 9 Convertible Preferred Stock - 20,000 shares authorized; 0 shares issued and outstanding as of June 30, 2026 and December 31, 2025, respectively	—	—
Series 10 Convertible Preferred Stock - 25,000 shares authorized; 0 and 25,000 shares issued and outstanding as of June 30, 2026 and December 31, 2025, respectively	—	21,793
Common Stock - \$0.001 par value; 500,000,000 shares authorized; 38,477,789 and 32,786,816 shares issued and outstanding as of June 30, 2026 and December 31, 2025, respectively	38	33
Additional paid-in capital	174,720	157,354
Accumulated other comprehensive loss	—	881
Accumulated deficit	(200,347)	(162,323)
Total Stockholders' Equity (Deficit)	<u>(25,589)</u>	<u>17,738</u>
Noncontrolling interest – Class B Units of XTI Drones Holdings, LLC	10,581	10,005
Total Equity (Deficit)	<u>(15,008)</u>	<u>27,743</u>
Total Liabilities, Mezzanine Equity, and Equity (Deficit)	<u>\$ 72,840</u>	<u>\$ 81,246</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(Unaudited)		(Unaudited)	
Revenues	\$ 32,449	\$ —	\$ 60,145	\$ —
Cost of Revenues	26,806	—	49,356	—
Gross Profit	5,643	—	10,789	—
Operating Expenses				
Research and development	577	1,380	1,774	2,504
Sales and marketing	1,975	934	4,338	1,209
General and administrative	11,855	3,474	23,601	10,270
Merger and acquisition transaction costs	90	—	90	—
Amortization of intangible assets	228	8	458	16
Total Operating Expenses	14,725	5,796	30,261	13,999
Loss from Operations	(9,082)	(5,796)	(19,472)	(13,999)
Other Income (Expense)				
Interest expense, net	(148)	(1)	(302)	(218)
Loss on extinguishment of debt	—	—	—	(421)
Warrant issuance expense	—	(3,779)	—	(5,795)
Change in fair value of warrant liability	8,413	(5,934)	(13,034)	(5,431)
Other	(33)	(5)	212	(349)
Total Other Income (Expense)	8,232	(9,719)	(13,124)	(12,214)
Loss from Continuing Operations Before Income Taxes	(850)	(15,515)	(32,596)	(26,213)
Income tax (expense) benefit	—	(9)	—	6
Net Loss from Continuing Operations, net of tax	(850)	(15,524)	(32,596)	(26,207)
Loss from operations of discontinued component, inclusive of tax	(1,600)	(5,334)	(4,852)	(7,523)
Net loss	(2,450)	(20,858)	(37,448)	(33,730)
Net income attributable to noncontrolling interest	304	—	576	—
Net Loss Attributable to XTI Aerospace, Inc.	(2,754)	(20,858)	(38,024)	(33,730)
Less: Preferred stock dividends	—	—	42	29
Net Loss Attributable to Common Stockholders	\$ (2,754)	\$ (20,858)	\$ (38,066)	\$ (33,759)
Net Loss Per Share – Basic and Diluted:				
Continuing operations	\$ (0.03)	\$ (2.18)	\$ (0.90)	\$ (4.98)
Discontinued operations	\$ (0.04)	\$ (0.75)	\$ (0.13)	\$ (1.43)
Net loss per share	\$ (0.07)	\$ (2.93)	\$ (1.03)	\$ (6.41)
Weighted Average Shares Outstanding, Basic and Diluted	38,476,439	7,121,837	36,857,677	5,263,609

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(Unaudited)		(Unaudited)	
Net Loss	\$ (2,450)	\$ (20,858)	\$ (37,448)	\$ (33,730)
Unrealized foreign currency translation adjustments relating to discontinued operations	—	1,039	—	884
Comprehensive loss	\$ (2,450)	\$ (19,819)	\$ (37,448)	\$ (32,846)
Comprehensive income attributable to noncontrolling interest	304	—	576	—
Total Comprehensive Loss attributable to XTI Aerospace, Inc.	<u>\$ (2,754)</u>	<u>\$ (19,819)</u>	<u>\$ (38,024)</u>	<u>\$ (32,846)</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(In thousands, except share data)

	Series 4 Convertible Preferred Stock at Redemption Value		Series 5 Convertible Preferred Stock at Redemption Value		Series 9 Convertible Preferred Stock at Redemption Value		Series 10 Convertible Preferred Stock at Redemption Value		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)	Non- Controlling Class B Units	Total Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance - January 1, 2026	1	\$ —	126	\$ —	—	\$ —	25,000	\$21,793	32,786,816	\$ 33	\$ 157,354	\$ 881	\$ (162,323)	\$ 17,738	\$ 10,005	\$ 27,743
Conversion of Series 10 Preferred Stock to common shares and pre-funded warrants	—	—	—	—	—	—	(25,000)	(21,793)	1,721,980	1	(1,945)	—	—	(23,737)	—	(23,737)
Stock-based compensation – Options	—	—	—	—	—	—	—	—	—	—	4,847	—	—	4,847	—	4,847
Common shares issued for exercise of liability classified warrants, net of costs	—	—	—	—	—	—	—	—	3,963,408	4	10,734	—	—	10,738	—	10,738
Series 10 Convertible Preferred Stock dividend accrual	—	—	—	—	—	—	—	—	—	—	(42)	—	—	(42)	—	(42)
Disposition of the Inpixon Business (Note 17)	—	—	—	—	—	—	—	—	—	—	—	(881)	—	(881)	—	(881)
Net loss attributable to parent	—	—	—	—	—	—	—	—	—	—	—	—	(35,270)	(35,270)	—	(35,270)
Net income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	272	272
Balance – March 31, 2026	1	\$ —	126	\$ —	—	\$ —	—	\$ —	38,472,204	\$ 38	\$ 170,948	\$ —	\$ (197,593)	\$ (26,607)	\$ 10,277	\$ (16,330)
Stock-based compensation – Options	—	—	—	—	—	—	—	—	—	—	3,772	—	—	3,772	—	3,772

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) - CONTINUED
(Unaudited)
(In thousands, except share data)

	Series 4 Convertible Preferred Stock at Redemption Value		Series 5 Convertible Preferred Stock at Redemption Value		Series 9 Convertible Preferred Stock at Redemption Value		Series 10 Convertible Preferred Stock at Redemption Value		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)	Non- Controlling Class B Units	Total Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Stock option exercise	—	—	—	—	—	—	—	—	5,585	—	—	—	—	—	—	—
Net loss attributable to parent	—	—	—	—	—	—	—	—	—	—	—	—	(2,754)	(2,754)	—	(2,754)
Net income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	304	304
Balance – June 30, 2026	1	\$ —	126	\$ —	—	\$ —	—	\$ —	38,477,789	\$ 38	\$ 174,720	\$ —	\$ (200,347)	\$ (25,589)	\$ 10,581	\$ (15,008)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(In thousands, except share data)

	Series 4 Preferred Stock at Redemption Value		Series 5 Preferred Stock at Redemption Value		Series 9 Preferred Stock at Redemption Value		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance - January 1, 2025	1	\$ —	126	\$ —	1,331	\$ 1,331	1,685,021	\$ 2	\$ 99,425	\$ (622)	\$ (93,562)	\$ 6,574
Common shares issued for net cash proceeds of ATM offering	—	—	—	—	—	—	169,299	—	1,667	—	—	1,667
Common shares issued for net cash proceeds of public offerings	—	—	—	—	—	—	2,219,746	2	17,900	—	—	17,902
Common shares issued for conversion of debt	—	—	—	—	—	—	240,229	—	750	—	—	750
Common shares issued for exercise of liability classified warrants	—	—	—	—	—	—	300,000	—	408	—	—	408
Redemption of Series 9 preferred stock	—	—	—	—	(1,331)	(1,331)	—	—	(96)	—	—	(1,427)
Stock-based compensation	—	—	—	—	—	—	—	—	455	—	—	455
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	467	—	467
Other	—	—	—	—	—	—	173,245	1	4	—	—	5
Net loss	—	—	—	—	—	—	—	—	—	—	(12,872)	(12,872)
Balance - March 31, 2025	1	—	126	—	—	—	4,787,540	5	120,513	(155)	(106,434)	13,929
Common shares issued for net cash proceeds of public offerings	—	—	—	—	—	—	6,231	6	(457)	—	—	(451)
Common shares issued for exercise of liability classified warrants	—	—	—	—	—	—	6,772	7	18,002	—	—	18,009
Stock-based compensation	—	—	—	—	—	—	125	—	722	—	—	722
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	1,039	—	1,039
Other	—	—	—	—	—	—	—	—	15	—	—	15
Net loss	—	—	—	—	—	—	—	—	—	—	(20,858)	(20,858)
Balance - June 30, 2025	1	—	126	—	—	—	17,915,340	18	138,795	884	(127,292)	12,405

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2026	2025
(amounts in thousands, unaudited)		
Cash Flows Used in Operating Activities		
Net loss	\$ (37,448)	\$ (33,730)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	110	68
Amortization of intangible assets	458	152
Amortization of right-of-use asset	390	76
Non-cash interest (income) expense, net	(206)	145
Stock-based compensation	8,619	1,177
Impairment of goodwill	—	4,049
Impairment of intangible assets	—	631
Loss on extinguishment of debt	—	421
Warrant issuance expense	—	5,795
Change in fair value of warrant liability	13,034	5,431
Loss on sale of Inpixon Business	831	—
Other income	(250)	—
Other	257	(291)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	203	401
Inventories	(3,673)	(4)
Prepaid expenses and other current assets	(1,582)	(264)
Other assets	(19)	362
Accounts payable	(2,648)	(1,814)
Related party payables	—	(51)
Accrued expenses and other current liabilities	2,256	(4,838)
Customer deposits	(980)	376
Operating lease obligation	(360)	(75)
Net Cash Used in Operating Activities	(21,008)	(21,983)
Cash Flows Used in Investing Activities		
Purchase of property and equipment	(170)	(103)
Net cash paid on disposal of the Inpixon Business	(694)	—
Net Cash Used in Investing Activities	(864)	(103)
Cash Provided by Financing Activities		
Proceeds from the exercise of liability classified warrants	7,927	3,771
Payment of offering costs and commissions in connection with exercise of liability classified warrants	(488)	—
Net proceeds from sale of common stock and pre-funded warrants via public offerings	—	36,396
Net proceeds from ATM stock offering	—	1,667
Redemption of Series 9 preferred stock	—	(1,427)
Borrowings on Asset-Based Revolving Line of Credit (Drone Nerds)	45,008	—
Repayment of borrowings on Asset-Based Revolving Line of Credit (Drone Nerds)	(36,248)	—
Payment of debt issuance costs	(565)	—
Repayments of promissory notes-related party	(3,500)	(2,719)
Net Cash Provided by Financing Activities	12,134	37,688
Effect of Foreign Exchange Rate on Changes on Cash	33	339
Net (Decrease) Increase in Cash and Cash Equivalents	(9,705)	15,941
Cash and Cash Equivalents - Beginning of period	16,919	4,105
Cash and Cash Equivalents - End of period	\$ 7,214	\$ 20,046

	Six Months Ended June 30,	
	2026	2025
(amounts in thousands, unaudited)		
Supplemental Disclosure of cash flow information:		
Cash paid for interest	\$ 487	\$ 282
Cash paid for income taxes	\$ —	\$ 9
Non-cash investing and financing activities		
Common shares issued for conversion of debt and accrued interest	\$ —	\$ 750
Warrant liabilities exchanged for common stock	\$ 3,299	\$ —
Conversion of Series 10 Preferred Stock to pre-funded warrants	\$ 24,186	\$ —

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

XTI AEROSPACE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Description of Business and Organization

The following describes the Company's business and organizational structure:

Business

XTI Aerospace, Inc. (the "Company") is a U.S.-based aerospace company focused on unmanned aircraft systems ("UAS") and related services. The Company provides UAS solutions through a combination of product distribution and service offerings, including the sale and support of UAS platforms, payloads, sensors, batteries, accessories and related equipment, as well as operator training, program enablement, repair and maintenance, and other fleet lifecycle support services for enterprise, public safety, government, and defense-related customers.

Effective in fiscal year 2026, as part of the Company's strategic shift from the TriFan 600 development program towards the design and development of unmanned platforms, the Company revised its operating segments to remove the commercial aviation segment and replace it with the advanced defense systems ("ADS") segment. In June 2026, the Company wound down all ADS spending and implemented a reduction in force. Management shifted capital away from the non-revenue-generating ADS segment to concentrate resources on the UAS platform, establishing a stronger operational focus. For the three and six months ended June 30, 2026, the Company operated as two reportable segments: UAS and ADS, refer to Note 11 – Segments.

Organization

In November 2025, the Company completed the acquisition of Drone Nerds, LLC and Anzu Robotics, LLC (collectively, "Drone Nerds") through XTI Drones Holdings, LLC, a Texas limited liability company ("XTI Drones Holdings"). The Company holds an 83.403% controlling equity interest in XTI Drones Holdings through its ownership of Class A Units, and the remaining 16.597% equity interest is held by other Class B unitholders. The results of Drone Nerds have been included in the Company's consolidated financial statements from November 10, 2025, the acquisition date, and the ownership interest not held by the Company is reflected as noncontrolling interest. Drone Nerds represents the Company's UAS solutions and services operations.

During December 2025, the Company committed to a plan to dispose of its historical Industrial IoT / real-time location systems ("RTLS") operations (the "Inpixon Business") and retroactively classified the business as held for sale. The disposition of the Inpixon Business was completed on February 3, 2026. The Inpixon Business historically comprised the Company's Industrial IoT operations, which previously represented the Company's Industrial IoT reportable segment. The results of the Inpixon Business have been presented as discontinued operations in the accompanying condensed consolidated financial statements for all periods presented. Unless otherwise indicated, the information included in the accompanying notes relates to the Company's continuing operations. See Note 17 for additional information regarding discontinued operations.

Liquidity

These consolidated financial statements have been prepared in accordance with US generally accepted accounting principles (GAAP) assuming the Company will continue as a going concern. The going concern assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, the Company is likely to require additional liquidity to meet its obligations and support ongoing operations over the next year. As a result, management has concluded that substantial doubt exists about the Company's ability to continue as a going concern for a period of one year from the issuance date of these unaudited condensed consolidated financial statements.

The Company has a history of operating losses and negative cash flows from operations. Cash on hand decreased \$9.7 million during the six months ended June 30, 2026, as a result of negative cash flows from operations of \$21.0 million, negative cash flows from investing activities of \$0.9 million and positive cash flows from financing of \$12.1 million. Additionally, as of June 30, 2026, the Company's obligations include \$4.4 million of current debt maturities (See Acquisition-Related Promissory Notes under Note 8 – Debt), and the Company is likely to require additional liquidity in order to meet this obligation and support ongoing operations over the next year. Additionally, the Company acquired Drone Nerds in 2025, which continues to face regulatory headwinds, including the announcement of the Section 232 tariffs taking effect on September 3, 2026, and consumer hesitation around the macro economy and other pending drone-related regulations.

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Note 2 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results for the three and six months ended June 30, 2026 are not necessarily indicative of the results for the full year ending December 31, 2026. These interim unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes for the years ended December 31, 2025 and 2024 included in the annual report on Form 10-K for the year ended December 31, 2025, filed with the SEC on April 15, 2026.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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Note 3 - Summary of Significant Accounting Policies

The Company's complete accounting policies are described in Note 3 to the Company's audited consolidated financial statements and notes included in the annual report on Form 10-K for the year ended December 31, 2025.

Credit Risk and Concentrations

Financial instruments that subject the Company to credit risk consist principally of trade accounts receivable and cash and cash equivalents. Cash equivalents are measured at fair value on a recurring basis using quoted prices in active markets for identical assets and are classified within Level 1 of the fair value hierarchy. The Company maintains its cash and cash equivalents primarily with high-credit-quality financial institutions in the United States. Cash balances maintained with financial institutions in the United States are generally in excess of federally insured limits. The Company mitigates its credit risk by limiting its exposure to any single financial institution and by monitoring the credit quality of its counterparties. The Company places its cash with financial institutions that have long-term credit ratings of at least A- or equivalent, as assigned by major credit rating agencies.

In connection with the Company's credit facility, certain depository accounts of the Company are swept into a blocked account with the lender and shall be used to reduce amounts owed under the credit facility. The Company classifies the balances of these accounts as restricted cash, as of June 30, 2026 and December 31, 2025, \$0.5 million and \$0.0 million of restricted cash is included in prepaid and other current assets in the accompanying unaudited condensed consolidated balance sheets.

The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for credit losses.

As of June 30, 2026 and December 31, 2025, the Company's provision for credit losses related to its trade accounts receivable is immaterial. As of June 30, 2026 and December 31, 2025 the provision for credit losses of \$2.1 million is related to a convertible promissory note receivable, which is fully reserved. There was no change in the provision for credit losses during the three and six months ended June 30, 2026.

In connection with the sale of Inpixon in February 2026, the Company issued a note receivable for EUR 4,640,000 that bears interest of 5% until the fourth anniversary of the Closing Date, as defined below. The Company has the right (the "Unwind Option") to require the Purchaser to transfer back all shares of Inpixon and its subsidiaries at any time during that fifteen (15) month period beginning on the first day of the thirty-seventh month following the Signing Date and continuing to the end of the fifty-second month following the Signing Date for no consideration by the Company. If exercised, all unpaid amounts of the purchase price will be forgiven. If not exercised within the specified period, the unpaid purchase price will also be forgiven. As of June 30, 2026 the balance of the note receivable was \$4.3 million.

The customers from continuing operations who account for 10% or more of the Company's revenue for the three and six months ended June 30, 2026 or 10% or more of the Company's outstanding receivable balance as of June 30, 2026 are presented as follows:

Customer	Percentage of revenues		Percentage of accounts receivable	
	Three Months Ended			
	June 30, 2026	Six Months Ended June 30, 2026	June 30, 2026	December 31, 2025
A	14 %	10 %	42 %	47 %
B	**	**	14%	**
C	**	**	10%	**

** Represents less than 10% of the total for the respective period.

For the three and six months ended June 30, 2025, all revenue was generated by the Company's Inpixon Business, which has been classified as discontinued operations.

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The vendors from continuing operations who account for 10% or more of the Company's purchases for the three and six months ended June 30, 2026 or 10% or more of the Company's outstanding accounts payable balance as of June 30, 2026 are presented as follows:

Vendor	Percentage of purchases		Percentage of accounts payable	
	Three Months Ended June 30, 2026	Six Months Ended June 30, 2026	June 30, 2026	December 31, 2025
A	32%	41 %	**	**
B	28 %	13 %	**	**
C	17 %	**	**	**
D	**	**	20 %	10 %
E	**	**	13 %	**
F	**	**	**	19 %

** Represents less than 10% of the total for the respective period.

Recently Issued Accounting Standards Not Yet Adopted

In November 2024, the FASB issued ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. This ASU requires public entities to provide enhanced disaggregation of certain expense categories presented on the income statement, including disclosure of specific types of expenses such as employee compensation, depreciation, and amortization. The standard is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its condensed consolidated financial statement disclosures.

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Note 4 - Disaggregation of RevenueDisaggregation of Revenue

Revenue presented for the three and six months ended June 30, 2026 represents revenue from continuing operations and excludes revenue from the Inpixon Business, which has been classified as discontinued operations. Revenue presented for the three and six months ended June 30, 2025 relates entirely to the Inpixon Business and has been reclassified to discontinued operations in the accompanying unaudited condensed consolidated financial statements. Revenue is primarily generated in the United States.

Revenues arise substantially from the Company's UAS offerings through the following channels (in thousands):

	Three Months Ended June 30, 2026	Six Months Ended June 30, 2026
Wholesale	\$ 20,752	\$ 37,223
Direct Sales	7,880	15,584
Retail	3,817	7,338
Total revenue	\$ 32,449	\$ 60,145

Wholesale revenue represents sales through resellers and channel partners.

Direct sales revenue represents sales to enterprise, commercial, and governmental end customers, including public safety agencies, that utilize drones as part of their operations.

Retail revenue represents sales to consumers, including those transacted through the Company's e-commerce platform, and revenues from the Company's service center. Service center revenues are less than 10% of total retail sales.

Enterprise, commercial, and governmental customers may also purchase through the Company's e-commerce platform; such transactions are classified as direct sales based on customer type.

Note 5 – Unaudited Pro Forma Financial Information

As described in the notes to the financial statements included in the Company's annual report on Form 10-K, on November 10, 2025, the Company acquired Drone Nerds, LLC and Anzu Robotics, LLC (collectively, the "Acquisition").

The following unaudited pro forma consolidated financial information presents the combined results of operations of the Company and Drone Nerds as if the Acquisition had occurred on January 1, 2025. The pro forma financial information has been prepared for comparative purposes only and does not necessarily reflect the results of operations that would have occurred had the Acquisition been completed on that date, nor is it indicative of future results of operations.

The unaudited pro forma information reflects adjustments that are directly attributable to the acquisition and are factually supportable, including:

- Incremental amortization expense related to identifiable intangible assets acquired;
- Interest expense associated with acquisition-related indebtedness;
- Conforming accounting policy adjustments, where applicable.

The pro forma financial information does not include any anticipated cost savings, operating synergies, or other integration effects of the acquisition.

The following unaudited pro forma consolidated financial information presents the combined results of continuing operations of the Company and Drone Nerds (in thousands, except per share amounts):

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For the three and six months ending June 30, 2025

	Three Months Ended June 30, 2025	Six Months Ended June 30, 2025
Revenues	\$ 25,130	\$ 55,717
Net loss from continuing operations	\$ (13,267)	\$ (20,532)
Net loss attributable to common stockholders from continuing operations	\$ (13,706)	\$ (21,632)
Net loss per share from continuing operations – basic and diluted	\$ (1.92)	\$ (4.11)
Weighted average common shares outstanding – basic and diluted	7,121,837	5,263,609

Note 6 - Goodwill and Intangible Assets

Goodwill

As of June 30, 2026 and December 31, 2025, the Company had goodwill of approximately \$11.5 million related to the acquisition of Drone Nerds and included as a part of the UAS segment. There were no changes in the carrying amount of goodwill during the three and six months ended June 30, 2026, and no impairment indicators were identified.

Intangible Assets

Intangible assets consist primarily of patents, trade names and trademarks, and customer relationships acquired in the Drone Nerds acquisition. The following table presents intangible assets associated with continuing operations as of June 30, 2026 and December 31, 2025 (in thousands):

As of June 30, 2026:

	Gross Amount	Accumulated Amortization	Net Carrying Amount	Remaining Weighted Average Useful Life
Patents	\$ 468	\$ (223)	\$ 245	8.4
Trade Names / Trademarks	4,000	(197)	3,803	12.4
Customer Relationships	5,200	(369)	4,831	8.4
Total	\$ 9,668	\$ (789)	\$ 8,879	

As of December 31, 2025

	Gross Amount	Accumulated Amortization	Net Carrying Amount	Remaining Weighted Average Useful Life
Patents	\$ 468	\$ (207)	\$ 261	8.8
Trade Names / Trademarks	4,000	(43)	3,957	12.9
Customer Relationships	5,200	(80)	5,120	8.9
Total	\$ 9,668	\$ (330)	\$ 9,338	

Amortization expense for the three and six months ended June 30, 2026 was approximately \$0.2 million and \$0.5 million, respectively. Amortization expense for the three and six months ended June 30, 2025 was primarily related to the Inpixon business, which is included in discontinued operations.

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. No impairment indicators were identified during the six months ended June 30, 2026. The UAS segment, which contains materially all goodwill and intangibles, continues to be profitable for the three and six months ended June 30, 2026.

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Note 7 - Other Balance Sheet Information
Prepaid expenses and other current assets

Prepaid expenses and other current assets as of June 30, 2026 and December 31, 2025 consisted of the following (in thousands):

	June 30, 2026	December 31, 2025
Vendor deposits	\$ 2,690	\$ 2,649
Prepaid expenses and other	3,174	1,340
Total prepaid expenses and other current assets	\$ 5,864	\$ 3,989

Inventories

Inventory as of June 30, 2026 and December 31, 2025 represents inventory on hand within the Drone Nerds (UAS) segment and consisted of the following (in thousands):

	June 30, 2026	December 31, 2025
Drones	\$ 8,917	\$ 7,725
Accessories	6,420	4,043
Service parts and components	3,755	3,632
Total inventories	\$ 19,092	\$ 15,400

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities as of June 30, 2026 and December 31, 2025 consisted of the following (in thousands):

	June 30, 2026	December 31, 2025
Bonuses and commissions	\$ 2,054	\$ 2,839
Compensation and benefits	844	996
Inventory received not invoiced	1,594	1,404
Accrued Disposition Obligation	1,920	—
Other	1,326	1,317
Total accrued expenses and other current liabilities	\$ 7,738	\$ 6,556

Note 8 - Debt

Short-Term Debt	Maturity	June 30, 2026	December 31, 2025
Acquisition-Related Promissory Notes	11/10/2026	\$ 4,431	\$ 7,931
Asset-Based Revolving Line of Credit (Drone Nerds)	2/11/2029	8,760	—
Total Short-Term Debt		\$ 13,191	\$ 7,931

Interest expense on outstanding debt totaled approximately \$0.3 million and \$0.5 million for the three and six months ended June 30, 2026, respectively, and \$0.0 million and \$0.2 million for the three and six months ended June 30, 2025, respectively.

Acquisition-Related Promissory Notes

In connection with the November 2025 acquisition of Drone Nerds (the “Acquisition”), XTI Drones Holdings, LLC issued promissory notes to The Origin Group DN, Inc. and The Origin Group AZ, Inc. (collectively the “Sellers”) with an aggregate original principal amount of approximately \$11.9 million (the “Notes”). The Sellers also own 6,524,576 Class B

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Units, representing 16.597% ownership, of XTI Drones Holdings, LLC. The terms of the Notes and the issuance of the Class B Units were negotiated together in connection with the Acquisition. See Note 9 — Capital Structure for further discussion of the Class B Units.

The Notes bear interest at a rate of 7.25% per annum, calculated on a 365-day year. Accrued interest is payable in accordance with the terms of the Notes, and unpaid interest is added to principal if not paid when due.

During the three and six months ended June 30, 2026, the Company made aggregated principal payments of \$1.5 million and \$3.5 million, respectively. The Notes require remaining scheduled principal repayments as follows:

- \$1.5 million in the aggregate due no later than September 30, 2026; and
- The remaining outstanding principal and accrued interest due on or before the one-year anniversary of the Notes.

The Notes may be prepaid at any time without premium or penalty, provided that accrued and unpaid interest is paid through the prepayment date. The outstanding principal balance of the Notes is subject to reduction in connection with indemnification obligations under the applicable purchase agreements.

The Notes contain customary events of default, including bankruptcy-related events, upon which the outstanding principal and accrued interest may become immediately due and payable.

As of June 30, 2026 and December 31, 2025, the aggregate outstanding principal balance of the Notes was approximately \$4.4 million and \$7.9 million, respectively.

See Note 18, Subsequent Events for an update on the September 30, 2026 payment and the status of the Notes.

Asset-Based Revolving Line of Credit (Drone Nerds)

On February 11, 2026, Drone Nerds, LLC and Anzu Robotics, LLC (collectively, the “Borrowers”) entered into a Credit Agreement with JPMorgan Chase Bank, N.A. (the “Lender”), (the “Credit Agreement”), providing for a secured revolving credit facility with aggregate commitments of up to \$20.0 million, subject to certain borrowing base limitations based on a percentage of eligible accounts receivable and inventory (the “ABL Facility”). The ABL Facility matures on February 11, 2029.

As of June 30, 2026, the borrowing base was calculated to be approximately \$18.7 million, and the Company had \$8.8 million outstanding in addition to letters of credit in the amount of \$0.8 million, with \$9.1 million of remaining availability. Borrowings under the ABL Facility bear interest at Secured Overnight Financing Rate or a base rate, plus a margin of 2.0%, subject to adjustment in certain circumstances. The average unused commitment under the ABL Facility is subject to an unused commitment fee of 0.25% to 0.375%. Borrowings under the ABL Facility as of June 30, 2026 incurred interest at a weighted average of 5.7%.

The Credit Agreement is subject to a cash dominion arrangement, whereby funds deposited into any depository account of the borrower are swept into a blocked account with the Lender and shall be used to reduce amounts owed under the Credit Facility. Because of the nature of the cash dominion arrangement, borrowings under the Credit Agreement are classified as current liabilities despite a maturity date that is more than twelve months from the balance sheet date.

The Credit Agreement is secured by substantially all of the assets of the Borrowers and certain affiliated guarantors. The Credit Agreement contains customary affirmative and negative covenants, including limitations on additional indebtedness, liens, asset sales, investments and restricted payments. The Borrowers are required to maintain a minimum Fixed Charge Coverage Ratio as of the end of any calendar month of no less than 1.0 to 1.0, subject to certain cure rights. Proceeds of the ABL Facility may be used for general corporate purposes, refinancing certain existing indebtedness and permitted investments.

During the six months ended June 30, 2026, gross borrowings and repayments under the ABL facility are presented within cash flows from financing activities. During the three months ended March 31, 2026 these amounts were incorrectly netted within cash flows from financing and have been corrected within the six-month ended June 30, 2026 as an immaterial correction.

See Note 18, Subsequent Events for an update on the Credit Facility.

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Note 9 – Capital Structure

AUTHORIZED CAPITAL

The Company is authorized to issue 500,000,000 shares of common stock, \$0.001 par value per share, and 5,000,000 shares of preferred stock, \$0.001 par value per share. The Board of Directors is authorized to establish the rights, preferences and privileges of any series of preferred stock.

REVERSE STOCK SPLIT

On January 10, 2025, the Company effected a 1-for-250 reverse stock split of its outstanding stock. All share and per share amounts presented in these condensed consolidated financial statements have been retroactively adjusted to reflect the reverse stock splits.

PREFERRED STOCK

Automatic Conversion of Series 10 Preferred Stock

On January 5, 2026, all outstanding shares of the Company's Series 10 Convertible Preferred Stock automatically converted in accordance with their terms following shareholder approval.

The conversion was based on a stated value of \$1,000 per share, plus accrued and unpaid dividends, divided by a conversion price of \$1.492 per share.

Upon conversion, the Company issued 1,721,980 shares of common stock and a pre-funded warrant with a \$0.0001 exercise price to purchase 15,307,735 shares of common stock. The pre-funded warrant was issued in lieu of additional shares of common stock due to beneficial ownership limitations contained in the Series 10 Preferred Stock. The pre-funded warrant is immediately exercisable at an exercise price of \$0.0001 per share. The pre-funded warrant was determined to be a liability-classified instrument under ASC 815 due to adjustment and settlement provisions and, as such, upon conversion, the Company recorded the pre-funded warrant liability at a fair value of \$24.2 million based on the listed price of the Company's common stock along with a reduction of additional paid-in capital of \$4.2 million for the difference between the carrying value of the preferred stock plus accrued and unpaid dividends.

Series 9 Preferred Stock

During March 2024, the Company issued Series 9 Preferred Stock in connection with debt exchanges and cash financing. During 2024 9,790 shares were exchanged for common stock, and 757 shares were redeemed. During the three months ended March 31, 2025, the remaining shares were redeemed for approximately \$1.4 million. As of June 30, 2026 and December 31, 2025, no shares remain outstanding.

WARRANTS

The following table summarizes the activity of warrants outstanding:

	Number of Warrants	Weighted Average Exercise
Outstanding at January 1, 2026	25,213,417	\$ 2.94
Conversion of Series 10 Preferred Stock to Pre-funded Warrants	15,307,735	\$ 0.0001
Exercised	(3,963,408)	\$ 2.00
Outstanding at June 30, 2026	36,557,744	\$ 1.81
Exercisable at June 30, 2026	36,556,987	\$ 1.81

Warrant Exercises

During the six months ended June 30, 2026, holders of certain warrants issued in connection with the Company's 2025 public offerings exercised warrants to purchase an aggregate of 3,963,408 shares of the Company's common stock, resulting in gross cash proceeds of approximately \$7.9 million.

In connection with the solicitation of such warrant exercises, the Company paid commissions and other fees to a third party financial advisor of approximately \$0.5 million. Net cash proceeds to the Company from these warrant exercises during the six months ended June 30, 2026 were approximately \$7.4 million.

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NONCONTROLLING INTEREST – CLASS B UNITS OF XTI DRONES HOLDINGS, LLC

In connection with the November 2025 acquisition of Drone Nerds, the Company issued 6,524,576 Class B Units of XTI Drones Holdings, LLC to the Sellers as part of the purchase consideration. The Company holds Class A Units representing an 83.403% controlling interest in XTI Drones Holdings, LLC. The Class B Units represent the remaining 16.597% ownership interest and are reflected as noncontrolling interest in the condensed consolidated financial statements.

Exchange features of the Class B Units:

- Are exchangeable into shares of the Company’s common stock on a one-for-one basis at the option of the holder at any time after May 1, 2026;
- All outstanding Class B Units will automatically be exchanged into shares of the Company’s common stock on a one-for-one basis fifteen months after the acquisition closing date; and
- Require no additional consideration upon exchange.

Because the Class B Units are equity interests in a consolidated subsidiary and are convertible into shares of the Company’s common stock, they are considered potentially dilutive securities for earnings per share purposes when applicable. Upon exchange of the Class B Units into shares of the Company’s common stock, the related noncontrolling interest will be reclassified to stockholders’ equity attributable to the Company with no impact on the consolidated statements of operations.

Note 10 - Stock Award Plans and Stock-Based Compensation

Legacy XTI adopted the 2017 Employee and Consultant Stock Ownership Plan, which was assumed by the Company in connection with the XTI Merger. The plan permits grants of stock options and other equity awards to employees, directors and consultants. As of June 30, 2026, no shares remain available for future issuance under the 2017 Plan.

The Company’s 2018 Equity Incentive Plan, as amended and restated in August 2025, authorizes the grant of incentive stock options, nonqualified stock options, restricted stock, RSUs and other equity-based awards to employees, officers, directors and consultants. The 2018 Plan permits the Board to delegate limited grant authority to designated officers. Options generally vest over periods ranging from immediate to four years and have contractual terms of up to ten years.

As of June 30, 2026, there are no unvested Restricted Stock or Restricted Stock Units outstanding under the 2018 Plan.

The aggregate number of shares that may be awarded under the 2018 Plan as of June 30, 2026 was 80,105,687. As of June 30, 2026, 59,965,772 shares of common stock were available for future grant under the 2018 Plan, of which 57,209,296 shares are registered.

See below for a summary of the stock options granted under the 2011, 2017 and 2018 plans:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2026	15,941,550	\$ 2.80	9.8	\$ —
Granted	5,017,127	\$ 1.79		
Forfeitures	(817,221)	\$ 10.20		
Exercises	(37,500)	\$ 2.00		
Outstanding at June 30, 2026	20,103,956	\$ 2.25	9.2	\$ 3.4
Exercisable at June 30, 2026	10,703,597	\$ 2.45	9.0	\$ 1.7

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The following assumptions were used in estimating the fair values of options awarded during the six months ended June 30, 2026:

Fair value of common stock	\$1.43 - \$2.35
Exercise price	\$1.43 - \$2.35
Expected term	5 – 7 years
Volatility	134.52% - 153.30%
Risk-free interest rate	3.51% - 4.43%
Dividend yield	—%

Stock-based Compensation Expense

Stock-based compensation charges for the periods indicated below (in thousands) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Research and development	\$ —	\$ 147	\$ 205	\$ 294
Sales and marketing	83	—	465	—
General and administrative	3,691	520	7,779	785
Total	\$ 3,774	\$ 667	\$ 8,449	\$ 1,079

As of June 30, 2026, the total unrecognized compensation expense related to unvested awards was approximately \$13.9 million, which the Company expects to recognize over an estimated weighted average period of 1.0 years.

Note 11 - Segments

The Company's Chief Executive Officer ("CEO"), acting as the Chief Operating Decision Maker ("CODM") regularly reviews and manages certain areas of its businesses, resulting in the Company identifying two reportable segments for the three and six months ended June 30, 2026: Unmanned Aircraft Systems ("UAS") and Advanced Defense Systems ("ADS"). The Company manages and reports its operating results through these two reportable segments. During the three months ended June 30, 2026, the Company decided to wind-down the ADS segment as it would require substantial additional time and capital in order to generate revenue. While the Company completes the wind-down operations, the CODM continues to review the financial information of these two reportable segments, and this decision does not result in a change to Company's reporting segments.

For the three and six months ended June 30, 2025, the Company operated as two segments: Internet of Things ("IoT") and Commercial Aviation, which included the TriFan 600 development program. During fourth quarter of the prior year, in connection with the sale of the Inpixon Business, the IoT segment was retroactively reclassified to discontinued operations, as a result the financial information for the IoT segment is not presented below. Additionally, in early 2026, the TriFan 600 program was paused and replaced with the ADS segment. Given the strategic shift, the disposal of the IOT segment, and the addition of the UAS segment in the fourth quarter of the prior year, the Company did not recast the segment financial information for the three and six months ended June 30, 2025.

The UAS segment includes the operating results of Drone Nerds and Anzu Robotics, which are owned by the Company's majority-owned subsidiary, XTI Drones Holdings, which provides an integrated suite of UAS solutions across hardware distribution, training, compliance management support, repair and maintenance, fleet sustainment, and related services. This segment is focused on revenue generation and lifecycle support for enterprise, public safety, and government related customers.

Beginning in the second quarter of 2026, the Company changed the measure of segment profit or loss used by its CODM from income (loss) from operations to Adjusted EBITDA. The change reflects a change in the manner in which the Company's CODM evaluates segment performance and allocates resources.

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The Company has presented Adjusted EBITDA as the measure of segment profit or loss for the three and six months ended June 30, 2026. The Company has not recast prior-period segment information to present Adjusted EBITDA because Adjusted EBITDA was not the measure of segment profit or loss used by the CODM during those prior periods. The CODM used net loss to evaluate segment performance and allocate resources during the first quarter of 2026 and prior periods.

The CODM uses Segment Adjusted EBITDA as management's primary segment measure of profit or loss in assessing segment performance and in deciding how to allocate the Company's resources. Segment Adjusted EBITDA is calculated as segment revenues less significant segment expenses, specifically, cost of revenue, research and development (excluding stock-based compensation expense), sales and marketing (excluding stock-based compensation expense), and general and administrative (excluding stock-based compensation and depreciation expense). Significant segment expenses also exclude certain costs that are nonrecurring, non-cash or are not related to the segments' underlying business performance. A reconciliation of total Segment Adjusted EBITDA to consolidated loss from continuing operations before income taxes for the three and six months ended June 30, 2026 is included in the tables below. Unallocated operating expenses include costs that are not specific to a particular segment include administrative and accounting staff, public company costs, general liability and other insurance, professional fees, and other similar corporate expenses.

During the three and six months ended June 30, 2025 the CODM managed the business as two reportable segments. The CODM used consolidated net loss to measure segment performance. Unallocated operating expenses include costs that are not specific to a particular segment include administrative and accounting staff, public company costs, general liability and other insurance, professional fees, and other similar corporate expenses. The UAS segment reflects the results of Drone Nerds beginning in November 2025, there were no UAS segment operations during the three and six months ended June 30, 2025. Segment operating results are presented on a consolidated basis prior to the allocation of net income (loss) attributable to noncontrolling interests.

Substantially all revenues and long-lived assets for continuing operations are located in the United States. Segment assets are not provided because the Company's chief operating decision maker does not regularly review or receive asset information by reportable segment for purposes of allocating resources or assessing segment performance.

The following tables reflect the results of operations from our business segments for the periods indicated below (in thousands):

	Three Months Ended June 30, 2026			
	UAS	ADS	Unallocated Costs	Total
Revenue	\$ 32,449	\$ —	\$ —	\$ 32,449
Less:				
Cost of revenue	26,806	—	—	26,806
Research and development	61	516	—	577
Sales and marketing (1)	1,584	22	285	1,891
General and administrative (2)	1,840	362	5,920	8,122
Segment Adjusted EBITDA	<u>\$ 2,158</u>	<u>\$ (900)</u>	<u>\$ (6,205)</u>	<u>(4,947)</u>
<i>Reconciling items to consolidated loss from continuing operations before income taxes</i>				
Depreciation and amortization				(271)
Interest expense, net				(148)
Merger and acquisition transaction costs				(90)
Stock-based compensation expense				(3,774)
Change in fair value of warrant liability				8,413
Other				(33)
Consolidated loss from continuing operations before income taxes				<u>\$ (850)</u>

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(1) The difference between this significant segment expense and “Sales and marketing” within the Company’s Consolidated Statements of Operations relates to stock-based compensation (\$0.08 million).

(2) The difference between this significant segment expense and “General and administrative” within the Company’s Consolidated Statements of Operations relates to stock-based compensation (\$3.7 million) and depreciation (\$0.04 million).

Six Months Ended June 30, 2026				
	UAS	ADS	Unallocated Costs	Total
Revenue	\$ 60,145	\$ —	\$ —	\$ 60,145
Cost of revenue	49,356	—	—	49,356
Research and development (1)	108	1,408	—	1,516
Sales and marketing (2)	3,010	31	799	3,840
General and administrative (3)	3,707	725	11,384	15,816
Segment Adjusted EBITDA	<u>\$ 3,964</u>	<u>\$ (2,164)</u>	<u>\$ (12,183)</u>	<u>(10,383)</u>
<i>Reconciling items to consolidated loss from continuing operations before income taxes</i>				
Depreciation and amortization				(550)
Interest expense, net				(302)
Merger and acquisition transaction costs				(90)
Stock-based compensation expense				(8,449)
Change in fair value of warrant liability				(13,034)
Other				212
Consolidated loss from continuing operations before income taxes				<u>\$ (32,596)</u>

(1) The difference between this significant segment expense and “Research and development” within the Company’s Consolidated Statements of Operations relates to stock-based compensation (\$0.3 million).

(2) The difference between this significant segment expense and “Sales and marketing” within the Company’s Consolidated Statements of Operations relates to stock-based compensation (\$0.5 million).

(3) The difference between this significant segment expense and “General and administrative” within the Company’s Consolidated Statements of Operations relates to stock-based compensation (\$7.7 million) and depreciation (\$0.09 million).

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	Three Months Ended June 30, 2025		
	Commercial Aviation	Unallocated Costs	Total
Operating expenses			
Research and development	\$ 1,380	\$ —	\$ 1,380
Sales and marketing	280	654	934
General and administrative ⁽¹⁾	138	3,336	3,474
Other expenses ⁽²⁾	8	—	8
Total operating expenses	1,806	3,990	5,796
Loss from operations	(1,806)	(3,990)	(5,796)
Other expense	—	(9,719)	(9,719)
Net loss from continuing operations before income tax	(1,806)	(13,709)	(15,515)
Income tax expense	—	(9)	(9)
Net loss from continuing operations	\$ (1,806)	\$ (13,718)	\$ (15,524)

	Six Months Ended June 30, 2025		
	Commercial Aviation	Unallocated Costs	Total
Operating expenses			
Research and development	\$ 2,504	\$ —	\$ 2,504
Sales and marketing	333	876	1,209
General and administrative ⁽¹⁾	687	9,583	10,270
Other expenses ⁽²⁾	16	—	16
Total operating expenses	3,540	10,459	13,999
Loss from operations	(3,540)	(10,459)	(13,999)
Other expense	—	(12,214)	(12,214)
Net loss from continuing operations before income tax	(3,540)	(22,673)	(26,213)
Income tax benefit	—	6	6
Net loss from continuing operations	\$ (3,540)	\$ (22,667)	\$ (26,207)

(1) Unallocated general and administrative costs primarily consist of stock compensation, personnel expenses, professional fees, and public company costs.

(2) Other expenses include amortization of intangibles.

Note 12- Fair Value Measurements and Fair Value of Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis. The Company determines fair value based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy. These levels are:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs which are supported by little or no market activity and values determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, warrant liability, line of credit, and notes payable. Cash and cash equivalents, accounts receivable and accounts payable are stated

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at their respective carrying amounts, which approximate fair value due to their short-term nature. As of June 30, 2026 and December 31, 2025, the Company had no financial instruments that met the definition of cash equivalents outstanding.

The change in fair value of the warrant liability is presented within ‘Change in fair value of warrant liability’ in the accompanying unaudited condensed consolidated statements of operations.

The fair value of the Level 3 warrant liability was determined using a pricing model with certain significant unobservable market data inputs.

Warrant Liability – Fair Value Measurement

The Company’s warrant liability is classified as a Level 3 liability within the fair value hierarchy as the valuation utilizes significant unobservable inputs.

The fair value of the warrants was estimated using a Black-Scholes option pricing model. The model requires the use of significant assumptions, including:

- The Company’s stock price at the valuation date
- The contractual exercise price
- Expected volatility
- Risk-free interest rate
- Expected term
- Dividend yield

Expected volatility was based on the historical volatility of the Company’s common stock. The risk-free interest rate was based on U.S. Treasury yields commensurate with the expected term of the warrants. The expected term was based on the contractual remaining life of the warrants. The Company assumed a dividend yield of zero, as it does not expect to declare dividends in the foreseeable future.

As of June 30, 2026, the significant assumptions used in the Black-Scholes model were as follows:

- Stock price: \$1.81
- Exercise prices: \$1.36 – \$2.00
- Expected volatility: 135%
- Risk-free interest rate: 4.10% – 4.11%
- Remaining term: 3.75 – 4.21 years
- Dividend yield: —%

Changes in these assumptions could result in a material change in the fair value of the warrant liability.

Fair Value Tables

As of June 30, 2026, the Company did not have any assets measured at fair value on a recurring basis. The Company’s liabilities measured at fair value consisted of the following at June 30, 2026:

	Fair Value as of June 30, 2026			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Warrant liability	\$ 56,482	\$ —	\$ —	\$ 56,482
Total liabilities	<u>\$ 56,482</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 56,482</u>

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The table below provides a summary of changes in the estimated fair value of the Company's Level 3 assets and liabilities:

	Warrant Liability
Balance at January 1, 2026	\$ 22,561
Pre-funded Warrants issued in connection Series 10 Preferred Stock conversion	24,186
Exercise of Warrants	(3,299)
Change in fair value	13,034
Balance at June 30, 2026	\$ 56,482

Note 13 - Commitments and Contingencies

Litigation

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. Except as described below, the Company is not currently a party to any other material legal proceedings.

Xeriant Litigation

In December 2023, Xeriant, Inc. filed a lawsuit in the United States District Court for the Southern District of New York against Legacy XTI alleging, among other things, breach of contract, fraud, unjust enrichment, and misappropriation of confidential information in connection with agreements relating to the TriFan 600 aircraft and the XTI Merger. Xeriant's third amended complaint in this litigation is seeking \$20 million (among other relief) in damages. Legacy XTI has asserted counterclaims alleging breach of contract, breach of fiduciary duty, and seeking declaratory relief regarding ownership of intellectual property and termination of the joint venture agreement, and Legacy XTI filed a Motion for Summary Judgement in this matter in July 2026.

The Company believes the claims against Legacy XTI are without merit and is vigorously defending against them. The outcome of this matter cannot presently be predicted.

Auctus Litigation

In May 2025, Auctus Fund, LLC filed a lawsuit in Colorado state court against Legacy XTI alleging breach of contract and asserting that Legacy XTI is obligated to repay approximately \$9 million under a promissory note allegedly assumed in connection with a prior letter agreement. Legacy XTI disputes these claims and has asserted affirmative defenses. The case is ongoing.

State of Texas Petition Against Anzu Robotics, LLC

In February 2026, the State of Texas filed a petition in the District Court of Collin County, Texas, against Anzu Robotics, LLC ("Anzu"), a subsidiary of the Company, alleging violations of the Texas Deceptive Trade Practices–Consumer Protection Act ("DTPA") in connection with the marketing and sale of certain drone products. The petition seeks injunctive relief, civil penalties, and attorneys' fees and costs. Trial is set for November 8, 2027. In May 2026, the State of Texas also issued a civil investigative demand to Drone Nerds LLC pursuant to the DTPA. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

State of Florida Subpoena to Anzu Robotics, LLC

In April 2026, the State of Florida issued a subpoena to Anzu Robotics, LLC ("Anzu"), a subsidiary of the Company pursuant to the Florida Deceptive and Unfair Trade Practices Act in connection with the marketing and sale of certain drone products. The Company responded to the subpoena. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any. Accordingly, the Company has not recorded an accrual for this matter because a loss, if any, cannot be reasonably estimated at this time.

State of Florida Subpoena to XTI Aerospace, Inc.

In October 2026, the State of Florida issued a subpoena duces tecum to XTI Aerospace, Inc. pursuant to the Florida Deceptive and Unfair Trade Practices Act, Chapter 501, Part II, Florida Statutes, seeking information concerning XTI's relationship with Anzu Robotics, LLC, Drone Nerds, and other related information concerning the sale of certain drones and Anzu products in the State of Florida. The Company intends to respond. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

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State of Florida Subpoena to Drone Nerds, LLC

In October 2026, the State of Florida issued a subpoena to Drone Nerds LLC pursuant to the Florida Deceptive and Unfair Trade Practices Act in connection with the marketing and sale of certain drone products. The Company has not yet responded to the subpoena. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

FCC request for documents

In May 2026, the Federal Communications Commission issued a request for documents to Anzu Robotics LLC under the Communications Act of 1934, inquiring as to whether the Company directly or indirectly marketed with the United States any radio frequency equipment produced in a manner that may be a violation of the Act. The Company responded to the request. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

Legal and Other Contingencies

From time to time, the Company may be involved in legal proceedings, claims and contractual disputes arising in the ordinary course of business. The Company evaluates these matters in accordance with ASC 450, Contingencies, and records liabilities when losses are considered probable and reasonably estimable.

Assessment

The Company is unable to predict the ultimate outcome of these matters, and the Company is unable to reasonably estimate the amount of any potential loss, if any. Accordingly, no accrual has been recorded as of June 30, 2026. An adverse outcome in any of these matters could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

Note 14 - Net Loss Per Share Attributable to Common Stockholders

The following table presents the calculation of basic and diluted loss per share attributable to common stockholders (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Net loss from continuing operations	\$ (850)	\$ (15,524)	\$ (32,596)	\$ (26,207)
Net loss from discontinued operations	(1,600)	(5,334)	(4,852)	(7,523)
Net loss	(2,450)	(20,858)	(37,448)	(33,730)
Less: Net income attributable to noncontrolling interest	304	—	576	—
Net loss attributable to XTI Aerospace, Inc.	(2,754)	(20,858)	(38,024)	(33,730)
Less: Preferred stock dividends	—	—	42	29
Net Loss Attributable to Common Stockholders	\$ (2,754)	\$ (20,858)	\$ (38,066)	\$ (33,759)
Net loss per share – basic and diluted:				
Continuing operations	\$ (0.03)	\$ (2.18)	\$ (0.90)	\$ (4.98)
Discontinued operations	\$ (0.04)	\$ (0.75)	\$ (0.13)	\$ (1.43)
Net loss per share	\$ (0.07)	\$ (2.93)	\$ (1.03)	\$ (6.41)
Weighted Average Shares Outstanding Basic and Diluted	38,476,439	7,121,837	36,857,677	5,263,609

Net loss per share from continuing and discontinued operations is calculated based on net loss attributable to common stockholders. Preferred stock dividends are allocated to continuing operations.

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The following weighted average potentially dilutive shares were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented, because including them would have been anti-dilutive (on an as-converted basis):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Options	19,025,916	50,341	18,448,775	50,761
Warrants	36,557,744	3,104,234	37,658,493	1,593,397
Convertible Preferred Stock	2	2	470,436	2
Noncontrolling Interest – Class B Units	6,524,576	—	6,524,576	—
Total	62,108,238	3,154,577	63,102,280	1,644,160

Note 15 – Income Taxes

The Company recorded a provision for income taxes during the six months ended June 30, 2026, of \$1.2 million, included in results from discontinued operations, related to the Inpixon sale, discussed below. The income tax provision for the three and six months ended June 30, 2025 was immaterial.

The effective tax rate, inclusive of discrete items, was 0.00% and (0.02)% for the six months ended June 30, 2026 and 2025, respectively, which was driven by a combination of permanent adjustments related to partnership income, 162(m) compensation limitations, and acquisition costs and a valuation allowance.

The Company evaluated and considered all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for its deferred tax assets was needed. The deferred tax assets are composed primarily of net operating loss carryforwards. The Company determined that a full valuation allowance against all deferred tax assets was appropriate for the three and six months period ended June 30, 2026 and June 30, 2025.

Note 16 – Related Parties

Jeremy Schneiderman, CEO of Drone Nerds, an employee of the Company since November 10, 2025, and interim CEO of the Company effective August 17, 2026, also serves as CEO of and has an economic stake in the Sellers. As discussed under Note 8—Debt and Note 9—Capital Stock, the Sellers hold acquisition-related promissory notes issued by the Company and 6,524,576 Class B Units of XTI Drones Holdings, LLC, representing a 16.597% ownership of XTI Drones Holdings, LLC. During the three and six months ended June 30, 2026, the Company made aggregated principal payments of \$1.5 million and \$3.5 million, respectively. Additionally, the Company paid interest of \$0.1 million and \$0.2 million during the three and six months ended June 30, 2026, respectively. As of June 30, 2026 and December 31, 2025, the principal balance outstanding on the Notes was \$4.4 million and \$7.9 million, respectively. The Notes mature on November 10, 2026. See Note 18, Subsequent Events for an update on the Related Parties.

Note 17 – Discontinued Operations

Disposition of the Inpixon Business

On February 3, 2026 (the “Signing Date” and “Closing Date”), the Company completed the disposition of its Inpixon Business pursuant to a Share Purchase and Transfer Agreement (the “SPA”) entered into with EVO 467. GmbH (the “Purchaser”). Pursuant to the SPA, the Company sold all of the shares of Inpixon GmbH for a purchase price of EUR 4,640,000 (approximately \$5.5 million based on the exchange rate on the Signing Date).

Inpixon GmbH is the sole shareholder of Aware RTLS, Inc. and IntraNav GmbH. The Inpixon Business, which provides indoor positioning, real-time localization and sensor technology solutions, was conducted through Inpixon GmbH.

The purchase price of EUR 4,640,000 bears interest of 5% per annum from the Signing Date until the fourth anniversary of the Closing Date. The Company has the right (the “Unwind Option”) to require the Purchaser to transfer back all shares of Inpixon and its subsidiaries at any time during that fifteen (15) month period beginning on the first day of the thirty-seventh month following the Signing Date and continuing to the end of the fifty-second month following the Signing Date for no consideration by the Company. If exercised, all unpaid amounts of the purchase price will be forgiven. If not exercised within the specified period, the unpaid purchase price will also be forgiven.

The Company evaluated the Unwind Option in accordance with ASC 810-10-40, *Consolidation—Deconsolidation*, and concluded that control of the Inpixon Business transferred to the Purchaser upon closing. Based on management’s evaluation of the facts and circumstances surrounding the transaction, including the Purchaser’s business plan and other

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qualitative considerations, the likelihood of exercise of the Unwind Option is considered remote. Additionally, the purchase price terms, including the potential forgiveness provisions, were also considered in the Company's assessment of whether the transaction qualified for sale accounting. Finally, the Company has no continuing involvement in the operations of the Inpixon Business following the Closing Date. Accordingly, the transaction was accounted for as a complete sale and the Inpixon Business was derecognized as of the Closing Date.

The Company recorded the purchase price as a note receivable with fair value determined to be \$4.2 million, as of the Closing Date, in the accompanying unaudited condensed consolidated balance sheets. As discussed above, the note receivable accrues interest at 5% per annum and matures on February 3, 2030. Subject to provisions discussed related to the Unwind Option, the note receivable may be forgiven. The Company determined the fair value of the note receivable based on the perceived credit risk of the counterparty and time value of money, going forward the note receivable will be evaluated for risk of credit loss and will not be remeasured.

The following table presents the results of discontinued operations related to the sale of the Inpixon Business for the three and six months ended June 30, 2026 and 2025 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Revenues	\$ —	\$ 600	\$ 253	\$ 1,084
Cost of revenues	—	117	56	266
Research and development	—	570	126	1,160
Sales and marketing	—	571	174	1,317
General and administrative	—	474	1,077	1,059
Impairment of goodwill and intangible assets	—	4,149	—	4,680
Other expense, net	—	53	—	125
Net loss, before tax	—	(5,334)	(1,180)	(7,523)
Income tax provision	—	—	1,241	—
Loss from discontinued operations, before disposition	\$ —	\$ (5,334)	\$ (2,421)	\$ (7,523)
Loss on sale of discontinued component	1,600	—	2,431	—
Net loss from discontinued operations	<u>\$ (1,600)</u>	<u>\$ (5,334)</u>	<u>\$ (4,852)</u>	<u>\$ (7,523)</u>
Net Loss Per Share, Basic and Diluted:				
Discontinued Operations Before Disposition	\$ (0.04)	\$ (0.75)	\$ (0.07)	\$ (1.43)
Loss on Sale of Discontinued Component	—	—	(0.07)	—
Total Discontinued Operations	<u>\$ (0.04)</u>	<u>\$ (0.75)</u>	<u>\$ (0.13)</u>	<u>\$ (1.43)</u>
Weighted Average Shares Outstanding, Basic and Diluted	38,476,439	7,121,837	36,857,677	5,263,609

The estimated fair value of the purchase price to be received from the Purchaser as of the Closing Date was \$4.2 million resulting in a loss on disposal of approximately \$0.8 million during the three months ended March 31, 2026, which is included in discontinued operations.

During the three months ended June 30, 2026, the Company recognized an additional \$1.6 million of loss on sale of discontinued component related to certain matters associated with the previously disposed business. The adjustment primarily reflects estimates of contractual obligations related to the disposal. The additional loss is included in loss from discontinued operations, net of tax, in the accompanying condensed consolidated statements of operations. As it relates to the total \$1.6 million recognized in the three months ended June 30, 2026, the Company recorded a liability of \$1.9 million within accrued expenses and other liabilities and a partially offsetting asset of \$0.3 million within prepaid expenses and other current assets.

As a result of the sale, the Company expects to owe income taxes in Germany, the Company recorded a tax provision of \$1.2 million, included in the loss from discontinued operations, for the three and six months ended June 30, 2026.

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The following table presents the major classes of cash flows related to discontinued operations of the Inpixon Business (in thousands):

	Six Months Ended June 30,	
	2026	2025
Net cash used in operating activities	\$ (144)	\$ (1,939)
Net cash used in investing activities	(695)	(2)
Net cash provided by (used in) financing activities	—	—
Total	\$ (839)	\$ (1,941)

Note 18 - Subsequent Events

Debt Defaults and Restructuring Discussions

On September 30, 2026, XTI Drones Holdings, LLC (“XTI Drones Holdings”), a majority-owned subsidiary of the Company, did not make scheduled principal payments totaling \$1.5 million, together with accrued interest, under the promissory notes issued on November 10, 2025 in connection with the acquisitions of Drone Nerds, LLC and Anzu Robotics, LLC (the “Seller Notes”), resulting in events of default on October 11, 2026. As of October 11, 2026, approximately \$4.5 million in aggregate principal and capitalized interest remained outstanding under the Seller Notes. These defaults also triggered cross-defaults under the Company’s \$20.0 million secured revolving credit facility with JPMorgan Chase Bank, N.A. (“JP Morgan”), under which approximately \$8.4 million was outstanding as of October 16, 2026.

On October 16, 2026, XTI Drones Holdings entered into Limited Waiver Agreements (the “Waivers”) with The Origin Group DN, Inc. and The Origin Group AZ, Inc., the holders of the Seller Notes and entities in which the Company’s Interim Chief Executive Officer has an economic interest (see Note 16 – Related Party Transactions). Under the Waivers, the holders agreed, during a waiver period that began on September 30, 2026, not to accelerate the Seller Notes, charge default interest, charge costs of collection or exercise other remedies as a result of the missed September 30, 2026 installments. They also agreed that nonpayment of the balance due at maturity on November 10, 2026 will not constitute an event of default during the waiver period. The waiver period ends on the earliest of (i) the execution of definitive documents restructuring the Seller Notes, (ii) the tenth day after either party notifies the other in writing that it is ending restructuring negotiations and (iii) December 31, 2026. If the waiver period ends without a restructuring, an event of default will be deemed to exist, and the missed installments and the maturity payment, together with interest at the default rate of 9.25% per annum from October 10, 2026, will become due on the last day of the waiver period.

The Waivers do not address the cross-defaults under the credit facility. The Company is engaged in discussions with the holders regarding a restructuring of the Seller Notes. The Company has also notified JP Morgan of the defaults under the credit facility as a result of the Seller Note defaults, and intends to seek a waiver of the credit agreement defaults from JP Morgan. While the cross-defaults continue, JP Morgan may decline to make further advances under the credit facility and may declare all amounts outstanding immediately due and payable. There can be no assurance that satisfactory agreements will be reached, and failure to restructure these obligations could result in acceleration of the indebtedness and materially adversely affect the Company’s liquidity and financial condition.

Tariff Refunds

Pursuant to the terms of the November 10, 2025 acquisition agreement, XTI Drones Holdings, LLC is contractually obligated to remit to the former owners of Drone Nerds, LLC certain customs tariff refunds attributable to periods preceding the acquisition. On October 5, 2026, the Company paid \$1.9 million to the former owners, satisfying its contractual obligations with respect to tariff refunds received to date, with additional refunds anticipated in future periods.

Valkyrie Note

On October 19, 2026, the Company entered into an agreement to sell \$1.0 million of its \$2.0 million convertible promissory note receivable from Valkyrie Sciences Holdings LLC to a third party for \$1.0 million in cash. In connection with the transaction, the Company agreed to forgive approximately \$0.05 million of accrued interest, retain the remaining

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\$1.0 million principal balance plus approximately \$0.15 million of accrued interest, and extend the maturity date of its retained note to January 15, 2027.

Evaluation

The Company has evaluated subsequent events through the date the condensed consolidated financial statements were issued and, except as described above and in Note 13, has identified no subsequent events requiring recognition or disclosure in the condensed consolidated financial statements.

See Note 13 for a description of litigation contingencies.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q and with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2025, as filed with the SEC. In addition to our historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Form 10-Q, particularly in Part II, Item 1A, “Risk Factors.”

OVERVIEW OF BUSINESS

XTI Aerospace, Inc. is a U.S.-based aerospace company focused on unmanned aircraft systems and related services. The Company provides UAS solutions through a combination of product distribution and service offerings, including the sale and support of UAS platforms and related equipment, as well as operator training, program enablement, repair and maintenance, and other fleet lifecycle support for enterprise, public safety, and government-related customers.

RECENT DEVELOPMENTS

Recent Leadership Changes

On August 17, 2026, Scott Pomeroy resigned effective immediately as the Chairman and Chief Executive Officer and director of the Company and his resignation was accepted by the Company’s board of directors. On August 17, 2026, the Company’s board of directors elected current director Jonathan Ornstein as the Interim Chairman of the Board. Additionally, the Company’s board of directors appointed Jeremy Schneiderman as Interim Chief Executive Officer.

Effective October 14, 2026, the Company appointed Dr. Allan Evans as a Class I director, for a term expiring at the Company’s 2027 annual meeting of stockholders, to fill an existing vacancy on the Board. The Board also appointed Dr. Evans to serve as Chairman of the Board. In connection with Dr. Evans’ appointment as Chairman, the Board designated Jonathan G. Ornstein, who previously served as Interim Chairman of the Board, as Vice Chairman of the Board.

In July 2026, a committee of independent directors of our Board of Directors, represented by independent counsel, initiated an internal review of matters relating to our former Chief Executive Officer and related corporate governance matters. The committee completed its review in October 2026, and the review did not identify any misstatement of our financial statements.

Recent Strategic Transactions and Operating Profile

During the six months ended June 30, 2026, the Company continued executing its strategy to build a more focused and financially disciplined business, reducing its cost structure and concentrating resources on its commercial and enterprise drone solutions platform. The Company also ceased investment in its vertical take-off and landing aircraft development activities and took steps to wind down its Advanced Defense Systems (“ADS”) division as it shifts capital and management attention towards its revenue-generating UAS business. The Company launched its UAS platform following the November 2025 acquisition of Drone Nerds, and since then the UAS business has served as the Company’s primary source of revenue.

During the first quarter of 2026, the Company completed the sale of its Inpixon Business, refer to Note 17—Discontinued Operations to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report. During the second quarter of 2026, the Company reduced the headcount of and ceased investment in the ADS business, which included the legacy TriFan 600 and advanced defense systems development programs. Management did not foresee near term revenue-generating opportunities from the ADS business and concluded that a concentration of resources on the UAS platform would create a better foundation for success.

As a result of this evolution, our current operating profile differs materially from prior periods, and historical results may not be fully comparable. Accordingly, in addition to reviewing our GAAP results, management evaluates performance and allocates capital with an emphasis on:

- Revenue growth and channel mix within the UAS platform.
- Gross margin expansion through service attachment and lifecycle support.
- Working capital efficiency and liquidity management.

UAS Solutions Platform

Through Drone Nerds, we operate an established enterprise-focused UAS solutions platform in the United States. Our operating model is designed to provide end-to-end UAS lifecycle capabilities across hardware distribution, operator training, compliance management support, repair and maintenance, fleet sustainment, and related support services.

We operate an OEM-agnostic, multi-vendor ecosystem supporting more than 50 hardware and software manufacturers. This positioning enables us to serve enterprise and public sector customers navigating evolving regulatory requirements, supply chain considerations, and procurement restrictions.

We believe the UAS market is undergoing structural evolution driven by:

- Increasing enterprise adoption of drones for inspection, safety, and operational efficiency
- Regulatory developments affecting fleet eligibility and operational approvals
- Growing emphasis on secure and compliant procurement in government and defense channels
- Customer demand for integrated lifecycle solutions rather than standalone hardware transactions

Our integrated model is designed to address these trends by positioning us as a long-term solutions partner rather than a transactional reseller.

Advanced Technology and Manufacturing (ATM)

In addition to its UAS business, the Company is in the early stages of developing a domestic manufacturing and technology division (referred to as the ATM division) focused on facilitating partnerships with domestic manufacturers to increase access to NDAA-compliant products. The division's goal is to develop and expand a domestically sourced supply chain designed to support compliance with applicable federal procurement and sourcing requirements, including Section 848 of the NDAA for unmanned aerial systems, addressing the growing demand from federal agencies, defense contractors, and enterprise customers for platforms and components that meet applicable government procurement requirements. The ATM division does not currently meet the criteria for a reportable segment under ASC 280 as it is in a pre-operational stage and has no discrete financial information reviewed by the CODM for purposes of resource allocation.

The ATM division has not yet generated any revenues, and the division's ability to generate revenues will depend on its success in establishing manufacturing partnerships on acceptable terms, securing NDAA-compliant production capacity, and converting that capacity into customer relationships and contract awards, each of which is subject to significant uncertainty. There can be no assurance that manufacturing partnerships will be established on acceptable terms or that the division will generate revenues within the timeframe the Company anticipates, or at all.

Growth Strategy and Potential Acquisitions

As part of our growth strategy, we continue to evaluate potential acquisitions and strategic transactions that we believe could complement or expand our UAS solutions platform. We may from time to time engage in preliminary discussions or negotiations with potential acquisition targets or their representatives, conduct due diligence, and explore various transaction structures. There can be no assurance that any such discussions will result in a definitive agreement or a completed transaction.

We expect to fund potential acquisitions through a combination of debt financing (which may include borrowings under our existing or new credit facilities, term loans or other debt instruments), seller financing, the issuance of our common stock or other equity or equity-linked securities, including equity interests in our subsidiaries. The specific terms and financing structure of any potential acquisition would depend on the size, nature, and strategic fit of the target, as well as prevailing market conditions at the time of any such transaction. Any acquisition financed in whole or in part with equity securities could result in dilution to our existing stockholders.

We may incur costs related to potential acquisitions, including legal, financial advisory, accounting, and due diligence expenses, regardless of whether any such transaction is ultimately consummated. Such costs could be material in the periods in which they are incurred.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In connection with the preparation of our condensed consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our condensed consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our condensed consolidated financial statements are presented fairly and in

accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

The significant accounting policies of the Company are described in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” section of the Company’s annual report on Form 10-K for the year ended December 31, 2025. There have been no significant changes to the Company’s critical accounting policies and estimates.

RESULTS OF OPERATIONS

Overview and Comparability Considerations

The Company’s results of operations for the three and six months ended June 30, 2026 reflect the full period of operations from its UAS platform following the acquisition of Drone Nerds in November 2025, the ADS division, as well as the absence of the Inpixon Business following its disposition in February 2026. As a result, the Company’s results from continuing operations for the three and six months ended June 30, 2025 do not reflect the current scale of the Company’s UAS operations, and period-to-period comparisons may not be indicative of future performance. The results of the Inpixon Business have been presented as discontinued operations for all periods presented.

Key Drivers of Operating Results

The Company’s operating results are primarily driven by the performance of its UAS platform, including revenue growth, product and channel mix, service attachment rates, and inventory availability.

Gross margins are influenced by product mix, pricing, vendor costs, and the relative contribution of higher-margin service offerings. The Company continues to focus on expanding service-based revenue and improving margin consistency.

Operating expenses reflect investments in scaling the UAS platform, as well as development costs associated with the now discontinued ADS program. General and administrative expenses also include public company costs and stock-based compensation, which may vary period to period.

Other income (expense) may be impacted by changes in the fair value of certain financial instruments, interest expense, and other non-operating items, which can introduce variability that is not directly related to core operating performance.

Three Months Ended June 30, 2026 compared to the Three Months Ended June 30, 2025

The following table sets forth selected consolidated financial data and as a percentage of period-over-period change:

(in thousands, except percentages)	Three Months Ended June 30,		\$	%
	2026	2025		
	Amount	Amount	Change	Change*
Revenues	\$ 32,449	\$ —	\$ 32,449	**
Cost of revenues	26,806	—	26,806	**
Gross profit	5,643	—	5,643	**
Operating expenses	14,725	5,796	8,929	154%
Loss from operations	(9,082)	(5,796)	(3,286)	57%
Other income (expense), net	8,232	(9,719)	17,951	**
Provision for income taxes	—	(9)	9	**
Net loss from continuing operations	\$ (850)	\$ (15,524)	\$ 14,674	(95%)

* Comparisons between positive and negative numbers and with a zero are not meaningful.

Revenues

Revenues for the three months ended June 30, 2026 were \$32.4 million, reflecting revenue generated by our UAS solutions platform following the acquisition of Drone Nerds in November 2025.

There were no revenues for the three months ended June 30, 2025.

Cost of Revenues and Gross Profit

Cost of revenues for the three months ended June 30, 2026 were \$26.8 million, resulting in gross profit of \$5.6 million and a gross margin of approximately 17%. The gross margin reflects the product mix and operating model of the UAS distribution and services business, which includes hardware sales, accessories, and related support services.

There were no revenues or cost of revenues for the three months ended June 30, 2025.

Future gross margin performance will be influenced by product mix, service attachment rates, pricing discipline, vendor cost dynamics, and channel mix.

Operating Expenses

Operating expenses for the three months ended June 30, 2026 were \$14.7 million, an increase of \$8.9 million, or 154%, compared to \$5.8 million for the comparable period ended June 30, 2025. Operating expenses for the three months ended June 30, 2026 and 2025 include \$3.8 million and \$0.7 million of stock-based compensation, respectively.

This increase was due primarily to increased personnel-related expenses, including stock-based compensation, and operating expenses incurred at the Drone Nerds business which was acquired in the fourth quarter of 2025 and therefore has no activity reflected in the three months ended June 30, 2025. Operating expenses for the three months ended June 30, 2026 and 2025 include \$1.0 million and \$1.8 million, respectively, related to the ADS and Commercial Aviation operating segments which were wound down during the three months ended June 30, 2026. The Company expects future expenses related to ADS to be immaterial.

Other Income (Expense), net

The Company recognized other income, net of \$8.2 million for the three months ended June 30, 2026, compared to other expense, net of \$9.7 million for the three months ended June 30, 2025. Other income (expense), net is primarily comprised of the change in fair value of the warrant liability, for which the Company recorded a gain of \$8.4 million for the three months ended June 30, 2026 compared to a loss of \$5.9 million for the three months ended June 30, 2025. Other expense, net for the three months ended June 30, 2025 also included \$3.8 million of warrant issue expense, compared to \$0 in the current period.

Provision for Income Taxes

The provision for income tax for the three months ended June 30, 2026 and 2025 was immaterial. As the Company has a history of recognizing a net taxable loss, the Company records a valuation allowance against substantially all deferred tax assets.

Six Months Ended June 30, 2026 compared to the Six Months Ended June 30, 2025

The following table sets forth selected consolidated financial data and as a percentage of period-over-period change:

(in thousands, except percentages)	Six Months Ended June 30,		\$	%
	2026	2025		
	Amount	Amount	Change	Change*
Revenues	\$ 60,145	\$ —	\$ 60,145	**
Cost of revenues	49,356	—	49,356	**
Gross profit	10,789	—	10,789	**
Operating expenses	30,261	13,999	16,262	116%
Loss from operations	(19,472)	(13,999)	(5,473)	39%
Other expense, net	(13,124)	(12,214)	(910)	7%
Income tax benefit	—	6	(6)	**
Net loss from continuing operations	<u>\$ (32,596)</u>	<u>\$ (26,207)</u>	<u>\$ (6,389)</u>	<u>24%</u>

* Comparisons between positive and negative numbers and with a zero are not meaningful.

Revenues

Revenues for the six months ended June 30, 2026 were \$60.1 million, reflecting revenue generated by our UAS solutions platform following the acquisition of Drone Nerds in November 2025.

There were no revenues for the six months ended June 30, 2025.

Cost of Revenues and Gross Profit

Cost of revenues for the six months ended June 30, 2026 were \$49.4 million, resulting in gross profit of \$10.8 million and a gross margin of approximately 18%. The gross margin reflects the product mix and operating model of the UAS distribution and services business, which includes hardware sales, accessories, and related support services.

There were no revenues or cost of revenues for the six months ended June 30, 2025.

Future gross margin performance will be influenced by product mix, service attachment rates, pricing discipline, vendor cost dynamics, and channel mix.

Operating Expenses

Operating expenses for the six months ended June 30, 2026 were \$30.3 million, an increase of \$16.3 million, or 116%, compared to \$14.0 million for the comparable period ended June 30, 2025. Operating expenses for the six months ended June 30, 2026 and 2025 include \$8.4 million and \$1.1 million of stock-based compensation, respectively.

This increase was due primarily to increased personnel-related expenses, including stock-based compensation, and operating expenses incurred at the Drone Nerds business which was acquired in the fourth quarter of 2025 and therefore has no activity reflected in the three months ended June 30, 2025. Operating expenses for the six months ended June 30, 2026 and 2025 include \$2.7 million and \$3.5 million, respectively, related to the ADS and Commercial Aviation operating segments which were wound down during the three months ended June 30, 2026. The Company expects future expenses related to ADS to be immaterial.

Other Expense, net

The Company recognized other expense, net of \$13.1 million for the six months ended June 30, 2026, compared to \$12.2 million for the six months ended June 30, 2025. Other expense, net is primarily comprised of the change in fair value of the warrant liability, for which the Company recorded a loss of \$13.0 million and \$5.4 million for the six months ended June 30, 2026 and 2025, respectively. Other expense, net for the six months ended June 30, 2025 also included \$5.8 million of warrant issue expense, compared to \$0 in the current period.

Income Tax Benefit

The income tax benefit for the three and six months ended June 30, 2026 and 2025 was immaterial. As the Company has a history of recognizing a net taxable loss, the Company records a valuation allowance against substantially all deferred tax assets.

Discontinued Operations

During December 2025, the Company committed to a plan to dispose of its Inpixon Business and initiated a process to identify a buyer. The Company completed the sale of its Inpixon Business on February 3, 2026 for total consideration of approximately \$5.5 million. The Inpixon Business is presented as discontinued operations for all periods presented.

Loss from discontinued operations was \$1.6 million and \$5.3 million for the three months ended June 30, 2026 and 2025, respectively. Loss from discontinued operations was \$4.9 million and \$7.5 million for the six months ended June 30, 2026 and 2025, respectively. Loss from discontinued operations for the six months ended June 30, 2026 includes a loss on sale of discontinued component of \$2.4 million and \$1.2 million in income tax expense related to estimated taxes due in foreign jurisdictions as a result of the sale.

The disposition of the Inpixon Business represents a strategic shift that allows the Company to focus its resources on its core UAS and aerospace development operations.

Unaudited Pro Forma Financial Information (Supplemental)

The Company completed its acquisition of a controlling interest in Drone Nerds on November 10, 2025, as such the consolidated results for the three and six months ended June 30, 2025 do not include the results of operations. The following unaudited pro forma combined financials present the combined results of operations of the Company and the acquired business as if the acquisition had occurred on January 1, 2025, the beginning of the earliest period presented. The pro forma financial information has been prepared for comparative purposes only and does not necessarily reflect the results of operations that would have occurred had the acquisition been completed on that date, nor is it indicative of future operating results of operations.

The pro forma results reflect adjustments that are directly attributable to the acquisition and are factually supportable, including:

- Incremental amortization expense related to identifiable intangible assets acquired;
- Interest expense associated with acquisition-related indebtedness;
- Conforming accounting policy adjustments, where applicable.

The unaudited pro forma financial information does not include any anticipated cost savings, operating synergies, or other integration effects of the acquisition.

Pro Forma Non-GAAP Measure

We also present Pro Forma EBITDA, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin, all non-GAAP measures. Management defines Pro Forma EBITDA as pro forma net loss before interest, income taxes, depreciation and amortization. Pro Forma Adjusted EBITDA is defined as Pro Forma EBITDA further adjusted for certain items including, (i) non-cash stock based compensation expense; (ii) severance and restructuring charges; (iii) changes in fair value of warrant liabilities; and (iv) selected charges that are unusual or non-recurring. Pro Forma Adjusted EBITDA Margin is defined as Pro Form Adjusted EBITDA as a percentage of pro forma revenue.

The Company believes that EBITDA and Adjusted EBITDA financial measures assist our board of directors, management, investors, and lenders in comparing our operating performance and establishing operational goals on a consistent basis across periods by removing the effects of our capital structure and other items that impact the comparability of financial results from period to period. We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP.

These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. The calculation of Pro Forma EBITDA, Pro Forma Adjusted EBITDA, and Pro Forma Adjusted EBITDA Margin are included in the table below.

The following unaudited pro forma combined financial information presents the combined results of operations of the Company and Drone Nerds as if the acquisition had occurred on January 1, 2025:

(in thousands, except percentages)	Three Months Ended June 30,			
	2026	2025	\$ Change	% Change
Revenues	\$ 32,449	\$ 25,130	\$ 7,319	29 %
Cost of revenues	26,806	19,083	7,723	40 %
Gross profit	5,643	6,047	(404)	(7)%
Operating expenses	14,725	9,209	5,516	60 %
Loss from operations	(9,082)	(3,162)	(5,920)	187 %
Other expense, net	8,232	(10,096)	18,328	(182)%
Income tax expense	—	(9)	9	(100)%
Pro forma net loss from continuing operations	\$ (850)	\$ (13,267)	\$ 12,417	(94)%
Reconciliation of Pro Forma EBITDA and Pro Forma Adjusted EBITDA				
Pro form net loss from continuing operations	(850)	(13,267)		
Interest expense, net	148	418		
Income tax expense	—	9		
Depreciation and amortization	271	262		
Pro Forma EBITDA	\$ (431)	\$ (12,578)	\$ 12,147	(97)%
Change in fair value of warrant liability	(8,413)	5,934		
Severance and restructuring charges	91	—		
Stock-based compensation expense	3,774	667		
Selected charges that are unusual or non-recurring (1)	90	3,779		
Pro Forma Adjusted EBITDA	\$ (4,889)	\$ (2,198)	\$ (2,691)	122 %
Pro forma Margins:				
Gross margin	17 %	24 %		
Pro Forma Adjusted EBITDA Margin	(15)%	(9)%		

(1) Includes warrant issue expense, change in fair value of investment, loss on extinguishment of debt, and other adjustments that management believes are non-recurring.

Interpretation of Pro Forma Results

For the three months ended June 30, 2026, revenue was \$32.4 million, a 29% increase from pro forma revenue of \$25.1 million in the same period of 2025. The increase reflects management's efforts to grow the UAS business. During the three months ended June 30, 2026, the Company saw increased sales to its wholesale customers.

Gross profit for the three months ended June 30, 2026 was \$5.6 million, or 17% of revenue, compared to pro forma gross profit of \$6.0 million, or 24% of revenue, in the same period of 2025. The decline was primarily due to customer mix; while the Company increased sales to wholesale customers, the gross profit margin on these sales tend to be lower than its direct sales transactions.

Operating expenses for the three months ended June 30, 2026 were \$14.7 million, compared to pro forma operating expenses of \$9.2 million for the three months ended June 30, 2025. The increase reflects continued investment in personnel and public company costs. Operating expenses primarily consist of stock-based compensation, personnel expenses, professional fees, and public company costs.

The Company recognized a loss from continuing operations of \$0.9 million for the three months ended June 30, 2026, compared to a pro forma loss from continuing operations of \$13.3 million for the three months ended June 30, 2025. Loss from continuing operations includes stock based compensation expense of \$3.8 million and a gain on remeasurement of warrant liabilities of \$8.4 million for the three months ended June 30, 2026, compared to stock-based compensation expense of \$0.7 million and loss on remeasurement of warrant liabilities of \$5.9 million for the three months ended June 30, 2025.

Pro Forma EBITDA was \$(0.4) million and \$(12.6) million for the three months ended June 30, 2026 and 2025, respectively, and Pro Forma Adjusted EBITDA was \$(4.9) million and \$(2.2) million for the three months ended June 30, 2026 and 2025. Pro Forma Adjusted EBITDA Margin for the same periods was (15)% and (9)%, respectively. The change in these measures is a result of the above-mentioned factors.

(in thousands, except percentages)	Six Months Ended June 30,		\$ Change	Change*
	2026	2025		
Revenues	\$ 60,145	\$ 55,717	\$ 4,428	8 %
Cost of revenues	49,356	42,442	6,914	16 %
Gross profit	10,789	13,275	(2,486)	(19)%
Operating expenses	30,261	20,790	9,471	46 %
Loss from operations	(19,472)	(7,515)	(11,957)	159 %
Other expense, net	(13,124)	(13,023)	(101)	1 %
Income tax benefit	—	6	(6)	(100)%
Pro forma net loss from continuing operations	\$ (32,596)	\$ (20,532)	\$ (12,064)	59 %
Reconciliation of Pro Forma EBITDA and Pro Forma Adjusted EBITDA				
Pro form net loss from continuing operations	(32,596)	(20,532)		
Interest expense, net	302	1,081		
Income tax benefit	—	(6)		
Depreciation and amortization	550	519		
Pro Forma EBITDA	\$ (31,744)	\$ (18,938)	\$ (12,806)	68 %
Change in fair value of warrant liability	13,034	5,431		
Severance and restructuring charges	354	—		
Stock-based compensation expense	8,449	1,079		
Selected charges that are unusual or non-recurring (1)	90	6,560	(1)	
Pro Forma Adjusted EBITDA	\$ (9,817)	\$ (5,868)	\$ (3,949)	67 %
Pro forma Margins:				
Gross margin	18 %	24 %		
Pro Forma Adjusted EBITDA Margin	(16)%	(11)%		

(1) Includes warrant issue expense, change in fair value of investment, loss on extinguishment of debt, and other adjustments that management believes are non-recurring.

Interpretation of Pro Forma Results

For the six months ended June 30, 2026, revenue was \$60.1 million, up 8% from pro forma revenue of \$55.7 million for the same period of 2025. The increase reflects management's efforts to grow the UAS business. During the six months ended June 30, 2026 the Company recognized an increase in revenue from its wholesale customers.

Gross profit for the six months ended June 30, 2026 was \$10.8 million, or 18% of revenue, compared to pro forma gross profit of \$13.3 million, or 24% of revenue, in the same period of 2025. The decline was primarily due to unusually strong margins in the first half of 2025, when limited product availability from earlier supply constraints allowed the Company to sell inventory at higher margins and focus on higher-margin sales as products became available.

Operating expenses for the six months ended June 30, 2026 were \$30.3 million, compared to pro forma operating expenses of \$20.8 million for the six months ended June 30, 2025. The increase reflects continued investment in personnel and public company costs. Approximately 75% of the increase was from stock-based compensation expense.

The Company recognized a loss from continuing operations of \$32.6 million for the six months ended June 30, 2026, compared to a pro forma loss from continuing operations of \$20.5 million for the six months ended June 30, 2025. Loss from continuing operations includes a \$13.0 million loss on the remeasurement of warrant liabilities and stock based compensation expense of \$8.4 million for the six months ended June 30, 2026, compared to a loss on the remeasurement of warrant liabilities of \$5.4 million and pro forma stock based compensation expense of \$1.1 million, as well as warrant issue expense of \$5.8 million for the six months ended June 30, 2025.

Pro Forma EBITDA was \$(31.7) million and \$(18.9) million for the six months ended June 30, 2026 and 2025, respectively, and Pro Forma Adjusted EBITDA was \$(9.8) million and \$(5.9) million for the six months ended June 30, 2026 and 2025, respectively. Pro Forma Adjusted EBITDA Margin for the same periods was (16)% and (11)%, respectively. The change in these measures is a result of the above-mentioned factors.

LIQUIDITY AND CAPITAL RESOURCES

Recent Developments

During the six months ended June 30, 2026:

- The Company received approximately \$7.4 million in net proceeds from the exercise of warrants
- The Company completed the disposition of the Inpixon Business in February 2026
- The Company entered into a \$20.0 million asset-based revolving credit facility, subject to a borrowing base
- The Company wound down the ADS division in June 2026

Overview

As of June 30, 2026 and December 31, 2025, the Company had cash and cash equivalents of approximately \$7.2 million and \$16.7 million, respectively, and \$8.8 million drawn and \$9.1 million of remaining availability on the borrowing base under its credit facility (subject to the cross-defaults described below under “Subsequent Defaults”), see Note 8—Debt for further detail on the Company’s credit facility. Additionally, as of June 30, 2026 and December 31, 2025, the Company had working capital, excluding cash, warrant liabilities, obligations under the acquisition-related promissory note and revolving credit facility, and current assets and liabilities of discontinued operations, of approximately \$23.6 million and \$16.1 million as of June 30, 2026 and December 31, 2025, respectively. The primary increases in working capital were due to a \$3.7 million increase in inventory and a \$1.4 million decrease in accounts payable and other current liabilities. Other changes include increases in accounts receivable and prepaid and other current assets, as well as a decrease in customer deposits.

Cash on hand decreased \$9.5 million during the six months ended June 30, 2026, as a result of negative cash flows from operations of \$21.0 million offset by cash flows from financing of \$12.1 million.

The Company has a history of operating losses and negative cash flows from operations. Additionally, as of June 30, 2026, the Company’s obligations include \$4.4 million of current debt maturities (See Acquisition-Related Promissory Notes under Note 8 – Debt), operating lease liabilities of approximately \$1.5 million, including approximately \$0.6 million that is expected to be paid in the next twelve months, and \$8.8 million drawn on its credit facility, which matures on February 11, 2029.

The Company continues to focus on improving operating efficiencies in its UAS business, however, its results remain subject to variability in sales volumes, gross margins, inventory turnover, and broader market conditions affecting demand in the enterprise and commercial drone markets, as well as risks associated with the integration of acquired operations. The Company also expects to recognize cost savings from the wind down of the TriFan 600 and ADS development programs. Further, management may continue to pursue a range of potential funding alternatives, including equity or debt financing, strategic partnerships, joint ventures, government incentives and other potential sources of capital in connection with any potential acquisitions.

The Company is likely to require additional liquidity in order to meet these obligations and support ongoing operations over the next year. As a result, management has concluded that substantial doubt exists about the Company’s ability to continue as a going concern for a period of one year from the issuance date of these unaudited condensed consolidated financial statements.

Management’s plans to address these capital requirements include implementing cost optimization measures, including the wind-down of the ADS division; renegotiating vendor contract terms; restructuring the Seller Notes; seeking a waiver of the cross-defaults and relief from certain borrowing base limitations under the Credit Agreement; and pursuing additional debt or equity financing. There can be no assurance that these plans will be successfully implemented or that they will alleviate the substantial doubt about the Company’s ability to continue as a going concern.

Credit Facility

In February 2026, the Company entered into a secured asset-based revolving credit facility providing for borrowings of up to \$20.0 million, subject to a borrowing base of eligible accounts receivable and inventory. The facility matures on February 11, 2029 and is intended to support working capital and general corporate purposes.

As of June 30, 2026, the borrowing base was calculated to be \$18.7 million, and the Company had \$8.8 million outstanding and a letter of credit in the amount of \$0.8 million, with approximately \$9.1 million of remaining availability. As described under “Subsequent Defaults” below, our ability to borrow this remaining availability is subject to the lender’s discretion while the cross-defaults under the Credit Agreement continue.

The Credit Agreement is subject to a cash dominion arrangement, whereby funds deposited into any depository account of the borrower are swept into a blocked account with the Lender and shall be used to reduce amounts owed under the Credit Facility. Because of the nature of the cash dominion arrangement, borrowings under the Credit Agreement are classified as current liabilities despite a maturity date that is more than twelve months from the balance sheet date.

Subsequent Defaults

On September 30, 2026, XTI Drones Holdings did not make scheduled principal payments under the Seller Notes totaling \$1.5 million, together with accrued interest, that were due on September 30, 2026, and events of default occurred under the Seller Notes on October 11, 2026, following the expiration of the ten-day grace period. On October 16, 2026, XTI Drones Holdings entered into Limited Waiver Agreements (the “Waivers”) with The Origin Group DN, Inc. and The Origin Group AZ, Inc., the holders of the Seller Notes, entities in which our Interim Chief Executive Officer has an economic interest. Under the Waivers, the Holders agreed, during a waiver period that began on September 30, 2026, not to accelerate the Seller Notes, charge default interest, charge costs of collection or exercise other remedies as a result of the missed payments, and agreed that nonpayment of the balance due at maturity on November 10, 2026 will not constitute an event of default during the waiver period. The waiver period ends on the earliest of (i) the execution of definitive documents restructuring the Seller Notes, (ii) the tenth day after either party notifies the other in writing that it is ending restructuring negotiations and (iii) December 31, 2026. If the waiver period ends without a restructuring, an event of default will be deemed to exist, and the missed installments and the remaining balance of the Seller Notes (approximately \$4.5 million of principal in the aggregate), together with accrued interest, which will have accrued at the default rate of 9.25% per annum from October 10, 2026, will become due on the last day of the waiver period. The Waivers do not address the cross-defaults under the credit facility. JP Morgan has not waived the cross-defaults as of the date of this report. While the cross-defaults continue, JP Morgan may decline to make further advances, which would substantially limit our access to liquidity, and may declare the approximately \$8.4 million outstanding as of October 16, 2026 immediately due and payable. We are negotiating a restructuring of the Seller Notes with the holders. In addition, on October 5, 2026, we paid \$1.9 million to the former owners of Drone Nerds in respect of customs tariff refunds. As of September 30, 2026, we had cash of approximately \$5.1 million, on a preliminary basis subject to completion of our quarter-end closing procedures. See Note 18 – Subsequent Events.

Cash Requirements

Contractual Obligations and Commitments

The Company’s contractual obligations consist primarily of short-term debt, the acquisition-related promissory notes, operating lease liabilities, and vendor commitments incurred in the ordinary course of business.

As of June 30, 2026, the Company had acquisition-related promissory note obligations of \$4.4 million, representing scheduled principal payments due within one year, and \$8.8 million drawn on its credit facility, which matures on February 11, 2029. Additionally, as of June 30, 2026, total operating lease liabilities were approximately \$1.5 million, of which approximately \$0.6 million is expected to be paid in the next twelve months.

The Company also maintains customary vendor purchase commitments associated with inventory procurement and operating agreements within its Drone Nerds distribution business. These commitments are generally short-term in nature and consistent with normal operating requirements.

Customer Deposits

As of June 30, 2026, customer deposits totaled approximately \$1.9 million. Customer deposits consist of (i) refundable and conditional deposits received in connection with aircraft pre-orders and (ii) advance payments received in the ordinary course of business from customers of the Drone Nerds distribution operations. If a significant number of customers request refunds, it could adversely impact liquidity.

Deposits received in the Drone Nerds business are typically short-term in nature and relate to standard commercial sales arrangements, including advance payments for inventory orders. These deposits are recognized as revenue upon transfer of control of the related goods.

Potential Additional Funding Sources

As of June 30, 2026, the Company had approximately 21 million outstanding warrants with an exercise price ranging from \$1.36 to \$2.19 per share. If fully exercised for cash, these warrants would provide aggregate gross proceeds of approximately \$41.9 million; however, exercise is at the discretion of the holders and dependent on market conditions. These amounts exclude prefunded warrants and warrants that management does not expect to be redeemed due to the exercise price. During the six months ended June 30, 2026, certain warrant holders exercised warrants, resulting in net proceeds of approximately \$7.4 million. The timing and extent of any future warrant exercises are not within the Company's control.

Historical Cash Flows

The Company's net cash flows used in operating, investing and financing activities for the six months ended June 30, 2026 and 2025 and certain balances as of the end of those periods are as follows (in thousands):

	Six Months Ended June 30,	
	2026	2025
Net cash used in operating activities	\$ (21,008)	\$ (21,983)
Net cash used in investing activities	(864)	(103)
Net cash provided by financing activities	12,134	37,688
Effect of foreign exchange rate changes on cash	33	339
Net (decrease) increase in cash and cash equivalents	\$ (9,705)	\$ 15,941

	June 30, 2026	December 31, 2025
Cash and cash equivalents	\$ 7,214	\$ 16,696
Working capital (deficit)	\$ (38,898)	\$ 4,220
Adjusted Working Capital (1)	\$ 23,561	\$ 16,093

(1) The Company defines Adjusted Working Capital as current assets, excluding cash and current assets of discontinued operations, minus current liabilities, excluding warrant liabilities, acquisition-related promissory note-related party, asset-based revolving line of credit, and current liabilities of discontinued operations.

Operating Activities for the six months ended June 30, 2026

Net cash used in operating activities was approximately \$21.0 million for the six months ended June 30, 2026.

Included in operating cash flows for the six months ended June 30, 2026 is approximately \$0.1 million of cash used in operating activities related to discontinued operations (Inpixon Business). Excluding discontinued operations, net cash used in operating activities from continuing operations was approximately \$20.9 million. Additional information regarding cash flows from discontinued operations is included in Note 17 – Discontinued Operations.

Cash used in operating activities during the six months ended June 30, 2026 was primarily driven by the Company's consolidated net loss of \$37.4 million, off-set by adjustments for non-cash items of approximately \$23.2 million and changes in working capital resulting in a net use of cash of approximately \$6.8 million. The largest cash operating expenses include costs of goods sold and personnel related costs. The changes in working capital are primarily driven by increases in inventory and prepaid and other current assets, as well as a reduction in accounts payable, and decrease in customer deposits. The quarter's working capital activity reflects the integration of the Drone Nerds acquisition in the fourth quarter.

Management expects that the acquisition of Drone Nerds, a historically EBITDA-profitable business, will contribute positive operating cash flows going forward, although there can be no assurance that it will do so. However, operating cash flows will continue to be influenced by sales volumes, gross margins, inventory turnover, discretionary operating expenditures, and the pace of investment in the development of unmanned platforms for defense and commercial applications.

Operating Activities for the six months ended June 30, 2025

Net cash used in operating activities for the six months ended June 30, 2025 was approximately \$22.0 million, primarily driven by the Company's net loss and changes in working capital. Included in operating cash flows for the six months ended June 30, 2025 is approximately \$1.9 million of cash used in operating activities related to discontinued operations.

Excluding discontinued operations, net cash used in operating activities from continuing operations was approximately \$20.1 million.

Cash used in operating activities during six months ended June 30, 2025 was primarily driven by the Company's consolidated net loss of \$33.7 million, adjustments for non-cash items of approximately \$17.7 million and changes in working capital resulting in a net use of cash of approximately \$5.9 million. The largest cash operating expenses for the six months ended June 30, 2025 were professional services, personnel related costs, and legal fees. The increase in working capital was primarily driven by a decrease in accrued liabilities, related to transaction and employee bonuses and consulting fees, and accounts payable.

Cash Flows from Investing Activities for the six months ended June 30, 2026 and 2025

Net cash flows used in investing activities during the six months ended June 30, 2026 was approximately \$864,000, which included \$694,000 of cash used in investing activity from discontinued operations.

Net cash flows used in investing activities during the six months ended June 30, 2025 was approximately \$103,000.

Cash Flows from Financing Activities for the six months ended June 30, 2026 and 2025

Net cash flows from financing activities during the six months ended June 30, 2026 was approximately \$12.1 million. During the six months ended June 30, 2026, the Company received incoming cash flows of \$7.4 million from the exercise of warrants, net of commission and advisory fees, and had net borrowings on its credit facility of \$8.8 million, offset by \$3.5 million of principal paid on the promissory note entered into in connection with the Drone Nerds Acquisition and \$0.6 million of debt issuance costs associated with the credit facility.

Net cash flows from financing activities during the six months ended June 30, 2025 was approximately \$37.7 million. During the six months ended June 30, 2025, the Company received incoming cash flows of \$36.4 million from the sale of common stock and warrants via two public offerings, \$3.8 million from the exercise of warrants, and \$1.7 million from the now expired ATM. During the six months ended June 30, 2025, the Company paid \$2.7 million to fully settle two outstanding promissory note obligations and \$1.4 million to redeem the remaining outstanding Series 9 Preferred Stock.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. We do not engage in trading activities involving non-exchange traded contracts.

Recently Issued Accounting Standards

For a discussion of recently issued accounting pronouncements, please see Note 3 to our condensed consolidated financial statements, which are included in Part I, Item 1 of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized, recorded and reported; and (2) our assets are safeguarded against unauthorized or improper use, to permit the preparation of our condensed consolidated financial statements in conformity with GAAP.

We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2026.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended

June 30, 2026 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of the Effectiveness of Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations of any control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings as defined by Item 103 of Regulation S-K, to which we are a party or of which any of our property is the subject, other than ordinary routine litigation incidental to the Company's business and as described in Note 13 of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report under the heading "Litigation."

There are no proceedings in which any of the directors, officers or affiliates of the Company, or any registered or beneficial holder of more than 5% of the Company's voting securities, is an adverse party or has a material interest adverse to that of the Company.

Item 1A. Risk Factors

We are subject to various risks and uncertainties that may materially harm our business, prospects, financial condition and results of operations. An investment in our common stock and other securities is speculative and involves a high degree of risk. In addition to the risk factors set forth below and the other information set forth in this Form 10-Q, you should carefully consider the risk factors disclosed in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2025, filed with the SEC on April 15, 2026, which report is incorporated by reference herein, all of which could materially affect our business, financial condition and future results.

If any of the events described in the following risk factors actually occurs, or if additional risks and uncertainties later materialize, that are not presently known to us or that we currently deem immaterial, then our business, prospects, results of operations and financial condition could be materially adversely affected. In that event, the trading price of our common stock could decline, and investors in our securities may lose all or part of their investment. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. Moreover, these disclosures reflect the Company's beliefs and opinions as to factors that could materially and adversely affect the Company and its securities in the future. References to past events are provided by way of example only and are not intended to be a complete listing or a representation as to whether or not such factors have occurred in the past or their likelihood of occurring in the future.

Risks Related to Our Financial Condition, Liquidity and Capital Resources

We have a history of operating losses and negative cash flow and failure to improve our financial condition could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We have a history of operating losses and may continue to generate negative cash flows from operations. We incurred net operating losses from continuing operations of \$19.5 million and \$14.0 million for the six months ended June 30, 2026 and 2025, respectively. As a result, we face uncertainty regarding the adequacy of our long-term liquidity and capital resources. We cannot assure you that available cash on hand and cash generated from operations will be sufficient to continue to fund our operations.

Our liquidity, including our ability to meet our ongoing operational obligations, is dependent upon, among other things, our ability to maintain adequate cash on hand and our ability to generate cash flow from operations (including, but not limited to, our ability to grow our revenues amid challenges stemming from changes in regulatory requirements for and tariffs levied on unmanned systems).

If our financial condition does not improve organically and if we are unable to obtain adequate additional financing to meet our liquidity needs or consummate other appropriate strategic alternatives, we may need to seek relief from covenants and restrictions on distributions of funds under the Credit Agreement. In the event additional financing or covenant relief is required in the future, we may be required to pay additional fees to our creditors and/or agree to additional covenants that limit our ability to engage in specified types of transactions. There can be no assurance that additional financing and/or covenant relief will be available in the future on acceptable terms, or at all. Failure to improve our financial condition and/or failure to obtain covenant relief from our creditors in the future may require us to delay, limit or curtail our operations or otherwise impede our business strategy, which may have a material adverse effect on our business, financial condition, results of operations and liquidity and our ability to continue as a going concern.

We intend to pursue additional acquisitions as part of our growth strategy, which involve significant risks and may not achieve the anticipated benefits.

As part of our growth strategy, we intend to pursue acquisitions of businesses, technologies, or assets to expand our UAS solutions platform, strengthen our capabilities in unmanned systems development, and support the buildout of our domestic manufacturing operations. We may from time to time be engaged in discussions or negotiations regarding potential

acquisition opportunities. There can be no assurance that we will identify suitable acquisition candidates, negotiate acceptable terms, obtain financing on favorable terms or at all, receive any required regulatory approvals, or complete any such transaction. We may incur material costs related to potential acquisitions, including legal, financial advisory, accounting, and due diligence expenses, regardless of whether any such transaction is consummated.

We expect to fund potential acquisitions through a combination of debt financing, which may include borrowings under our existing asset-based revolving credit facility or new credit facilities, seller financing, and the issuance of our common stock or other equity or equity-linked securities, including equity interests in our subsidiaries. Any acquisition financed in whole or in part with equity securities could result in dilution to our existing stockholders. Acquisition-related indebtedness could reduce our available working capital and financial flexibility. See risk factor “— We may not be able to successfully integrate the business and operations of Drone Nerds or other entities that we have acquired or may acquire in the future” in the Company’s annual report on Form 10-K as filed with the SEC on April 15, 2026, for additional risks related to the integration of acquired businesses.

In connection with the disposition of our Inpixon Business, we received consideration in the form of a note receivable that is subject to forgiveness provisions and an Unwind Option, and we may not collect the full amount of the note receivable.

On February 3, 2026, we completed the disposition of our former Industrial IoT / Real-Time Location Systems operations (the “Inpixon Business”) for a purchase price of EUR 4,640,000 (approximately \$5.5 million), payable over time and bearing interest at 5% per annum. We recorded the note receivable at an estimated fair value of approximately \$4.2 million as of the closing date.

The note receivable is unsecured and subject to features that may result in our receiving less than the stated purchase price, including (i) our right (the “Unwind Option”) to require the purchaser to transfer back the Inpixon Business for no consideration during a specified window beginning thirty-seven months after closing, in which case any unpaid amounts of the purchase price will be forgiven, (ii) automatic forgiveness of any unpaid portion of the purchase price if the Unwind Option is not exercised within the specified window, and (iii) the credit risk of the purchaser, a privately held foreign entity over which we have limited visibility. If we are unable to collect amounts owed under the note receivable, are required to record additional credit loss reserves or impairment charges, or exercise the Unwind Option and incur losses or liabilities upon the return of the Inpixon Business, our financial condition and results of operations could be adversely affected.

Risks Related to Our Commercial Drone Solutions Division (UAS Business)

New or increased tariffs or other trade restrictions on imported unmanned aircraft systems and related components could adversely affect our business, financial condition and results of operations.

The United States government has initiated trade measures and national security reviews under Section 232 of the Trade Expansion Act of 1962, as amended, relating to imports of unmanned aircraft systems (“UAS”), commonly referred to as drones, and certain related components. These actions, as well as other existing or potential tariffs, import restrictions and changes in U.S. trade policy, could increase the costs of products and components used in our operations and create additional uncertainty regarding our supply chain.

We may rely on foreign suppliers for certain drones, components, materials and equipment used in our products and operations. The imposition of additional tariffs, expansion of existing tariffs or implementation of other import restrictions on UAS and related components could increase our procurement and manufacturing costs, disrupt established supply arrangements, limit the availability of certain products or components and result in longer lead times. We may be unable to fully mitigate these impacts through alternative sourcing arrangements, operational efficiencies or increases in the prices charged to our customers.

In addition, changes in U.S. trade policy, including the scope, timing or implementation of tariffs and other trade restrictions, could adversely affect demand for our products, our ability to compete with other manufacturers and suppliers, and our relationships with customers and vendors. Efforts to identify alternative suppliers or modify our supply chain could result in additional costs, delays or operational inefficiencies.

The ultimate impact of these measures will depend on future government actions, the products and components subject to tariffs or restrictions, applicable tariff rates, the availability of exemptions or alternative sources of supply, and our ability to respond to changes in the regulatory and trade environment. Any of these developments could materially adversely affect our business, financial condition, cash flows and results of operations.

The nature of our UAS business involves significant risks and uncertainties, including product liability exposure, that may not be covered by insurance or indemnification.

Our UAS business involves significant operational and legal risks and uncertainties, and insurance or indemnification may not be available in all circumstances. We develop, distribute, service and support drones and other electronic products. As a result, claims could be brought against us if the use or misuse of one of the products we sell, service or develop causes, or merely appears to have caused, personal injury, death or property damage. In addition, defects, errors or failures in our products or services could lead to other potential life, health and property risks.

In our UAS operations, product liability risks may arise from equipment malfunctions, operator error, software failures, battery incidents, collisions or other operational incidents involving drones deployed by customers or service personnel. These incidents may result in personal injury, property damage, regulatory investigations, litigation or reputational harm. Because drone operations often occur in populated or industrial environments, even isolated incidents could lead to significant claims, increased insurance costs, operational restrictions or loss of customer confidence.

In addition, Drone Nerds has historically developed and sold products and services in circumstances where insurance or indemnification may be limited or unavailable, including in connection with the collection, processing and analysis of various types of information. Our UAS products and services may raise legal issues relating to privacy, data security, civil liberties, intellectual property, trespass, conversion and similar concepts, which may result in claims, regulatory scrutiny, enforcement actions or litigation.

Indemnification to cover potential claims or liabilities resulting from the failure of technologies we deploy may be available in certain circumstances but not in others. The uncrewed aerial systems industry continues to evolve, and insurance coverage for certain operational risks may be limited, unavailable, subject to significant exclusions, or prohibitively expensive. We may not be able to obtain or maintain product liability insurance or other insurance coverage in sufficient amounts, on commercially reasonable terms, or at all, and any such insurance may not be adequate to cover all potential liabilities.

Substantial claims resulting from an accident, product failure, or personal injury or property liability arising from our products and services in excess of any indemnity or insurance coverage (or for which indemnity or insurance coverage is not available or is not obtained) could harm our financial condition, cash flows and operating results. Any accident, even if fully covered or insured, could negatively affect our reputation among our customers and the public and make it more difficult for us to compete effectively.

Risks Related to Our Advanced Technology and Manufacturing Division

Our Advanced Technology and Manufacturing division is in an early stage of development and has not generated revenues, and we may not successfully develop U.S.-based production capabilities for NDAA-compliant unmanned systems components and technologies, and we may discontinue such division.

Our planned Advanced Technology and Manufacturing (“ATM”) division intends to focus on facilitating partnerships with domestic manufacturers to increase access to NDAA-compliant products. The division’s goal is to develop and expand a domestically sourced supply chain designed to support compliance with applicable federal procurement and sourcing requirements, including Section 848 of the NDAA for unmanned aerial systems, addressing the growing demand from federal agencies, defense contractors, and enterprise customers for platforms and components that meet applicable government procurement requirements. The ATM division is in an early stage of development and has not generated revenues. There can be no assurance that we will successfully develop domestic production partnerships on the timelines we anticipate, or at all. Our ability to do so will depend on a number of factors, including supply chain qualification, workforce recruitment, and process validation, each of which is subject to delays, cost overruns, and execution risk. If we are unable to develop a viable platform, we may be unable to generate revenues from the ATM division or to realize a return on our investment in this initiative.

The Company’s investment in the ATM division is subject to ongoing evaluation by management and the Board of Directors based on the division’s ability to achieve key operational and commercial milestones, including establishing manufacturing partnerships on acceptable terms, securing NDAA-compliant production capacity, and demonstrating a credible path to revenue generation. If the ATM division fails to achieve sufficient progress toward these objectives within the timeframes management considers reasonable, the Company may determine to significantly reduce investment in the division, restructure its operations, or discontinue the division entirely. Any such determination could result in asset impairments, the write-off of capitalized development costs, if any, employee severance costs, if any, early termination of manufacturing partnerships or facility commitments, and the loss of the Company’s investment in the division to date, including the ATM division’s allocated assets, and could materially adversely affect our business, financial condition, and results of operations. There can be no assurance that the Company will continue to fund the ATM division at current or

anticipated levels, or that the division will successfully establish manufacturing capabilities or generate revenues on the timeline anticipated, or at all.

We may be unable to establish manufacturing partnerships or arrangements necessary to support the ATM division's growth on acceptable terms, or at all.

The development of U.S.-based production capabilities for NDAA-compliant unmanned systems components may require us to enter into manufacturing partnerships, supply arrangements, joint ventures, contract manufacturing relationships, or other commercial arrangements with third parties. We may be unable to identify, negotiate, or maintain such relationships on commercially reasonable terms, or at all. If we are unable to establish or maintain manufacturing partnerships necessary to support the ATM division, we may be required to develop in-house manufacturing capabilities, which would require additional capital investment and time, or we may be unable to bring ATM division products to market on the timelines we anticipate, or at all.

Our ability to compete in the market for domestically sourced unmanned systems components depends on our ability to achieve and maintain NDAA compliance and other federal procurement and sourcing certifications, which is uncertain.

The market opportunity for our ATM division depends substantially on the ability of our products to qualify as NDAA-compliant or otherwise satisfy federal procurement and sourcing requirements applicable to defense, government, and enterprise customers. The standards governing these certifications and eligibility determinations are complex, evolving, and subject to interpretation by government agencies. We may be unable to obtain or maintain required certifications or eligibility determinations on commercially reasonable terms, within anticipated timeframes, or at all. Any failure or delay in obtaining or maintaining these qualifications, or any change in the underlying standards, could limit the addressable market for our ATM division's products and adversely affect our business, financial condition and results of operations.

Demand for our ATM division's products will depend on continued U.S. government policy support for domestic sourcing of unmanned systems components, and changes in such policies could materially reduce our addressable market.

The market for domestically sourced unmanned systems components is influenced by U.S. government policies favoring domestic manufacturing and supply chain security, including procurement preferences, NDAA compliance mandates, tariffs on foreign-manufactured components, and similar measures. Any reduction, repeal, or material change in these policies, or any change in the strategic priorities of the U.S. government with respect to domestic sourcing of unmanned systems components, could materially reduce demand for our ATM division's products and adversely affect our business, financial condition and results of operations.

The development and operation of U.S.-based manufacturing capabilities will require substantial capital investment, and we may be unable to obtain the financing necessary to fund our ATM division's growth.

Developing U.S.-based manufacturing capabilities is capital-intensive and may require substantial investment in facilities, equipment, inventory, qualified personnel, and working capital before the ATM division generates meaningful revenues. We may be required to raise additional capital through debt or equity financings, strategic partnerships, government incentives, or other sources to fund the development and operation of the ATM division. There can be no assurance that such financing will be available on acceptable terms, or at all. If we are unable to obtain sufficient financing, we may be required to delay, reduce or modify our ATM development plans, which could adversely affect our ability to compete in the market for domestically sourced unmanned systems components.

If and when our ATM division commences manufacturing operations, it will be subject to operational risks inherent in manufacturing, and any failure to manage these risks effectively could adversely affect our business.

If and when our ATM division commences manufacturing operations, it will be subject to a range of operational risks inherent in advanced manufacturing, including equipment failures, quality control issues, production yield variability, raw material and component shortages, workplace safety incidents, environmental compliance obligations, and labor disruptions. The successful operation of a manufacturing facility also requires personnel with specialized expertise in advanced manufacturing, quality engineering, supply chain management, and regulated production environments, and competition for such personnel is significant. Any failure to manage these operational and personnel-related risks effectively could increase our costs, delay deliveries, expose us to liability, or impair our ability to satisfy customer requirements, any of which could materially adversely affect our business, financial condition and results of operations.

Our ATM division may face significant competition from established domestic manufacturers and other entrants, which could limit our ability to win customer commitments or achieve targeted production volumes.

The market for domestically sourced unmanned systems components includes established domestic manufacturers, vertically integrated defense primes, and other new entrants, many of which have substantially greater resources,

manufacturing experience, customer relationships, and past performance records than we do. Our ability to compete will depend on our ability to differentiate on product performance, compliance, cost, scalability, and customer service, none of which is assured. If we are unable to compete effectively, we may be unable to win customer commitments or achieve targeted production volumes, which could adversely affect our business, financial condition and results of operations.

Risks Related to Legal, Regulatory and General Business Operations

Adverse judgments or settlements in legal proceedings, and regulatory investigations or enforcement actions by state authorities or other governmental agencies, could materially harm our business, financial condition, operating results, cash flows, and reputation.

We may be a party to claims that arise from time to time in the ordinary course of our business, including claims related to our products, securities offerings, contracts and subcontracts, protection of confidential information or trade secrets, adversary proceedings arising from customer bankruptcies, employment matters, immigration requirements, and compliance with various state and federal statutes, rules and regulations applicable to our business.

For example, we are currently involved in litigation relating to the XTI Merger. On December 6, 2023, Xeriant, Inc. (“Xeriant”) filed a complaint in the United States District Court for the Southern District of New York (the “S.D.N.Y.”) against Legacy XTI, two unnamed entities, and five unnamed individuals. On January 31, 2024, Xeriant filed an amended complaint adding the Company as a defendant. On February 29, 2024, Xeriant filed a second amended complaint, removing the Company and one of the unnamed entities as defendants. The second amended complaint alleges that Legacy XTI breached several agreements with Xeriant, including a Joint Venture Agreement dated May 31, 2021, a cross-patent license agreement, an operating agreement, and a letter dated May 17, 2022, which Xeriant claims arose from its introduction of Legacy XTI to a Nasdaq-listed company as a potential acquirer. Xeriant further alleges that it provided intellectual property, expertise, and capital in connection with Legacy XTI’s TriFan 600 aircraft and was improperly excluded from a subsequent transaction involving the TriFan 600 technology as part of Legacy XTI’s merger with the Company. Xeriant asserts causes of action for breach of contract, fraud, unjust enrichment, and misappropriation of confidential information, and seeks damages in excess of \$500 million, along with injunctive and other equitable relief. On March 13, 2024, Legacy XTI moved to dismiss portions of the second amended complaint. The S.D.N.Y. denied that motion on January 14, 2025. Legacy XTI filed an answer on January 28, 2025, and subsequently filed an amended answer and counterclaims on February 18, 2025. The amended counterclaims, further amended on April 14, 2025, allege that Xeriant breached the Joint Venture Agreement by failing to make required capital contributions of approximately \$4.6 million and by failing to deliver promised intellectual property and strategic support. Legacy XTI further alleges that Xeriant breached its fiduciary duty by engaging in coercive and self-dealing conduct, including conditioning a strategic introduction on the issuance of equity and assumption of debt. Legacy XTI seeks declaratory relief confirming that the joint venture has been terminated, that all intellectual property related to the TriFan 600 belongs solely to Legacy XTI, and that Xeriant has no rights in the TriFan 600 technology. On April 28, 2025, Xeriant moved to dismiss Legacy XTI’s second amended counterclaims. On September 23, 2025, the S.D.N.Y. denied Xeriant’s motion, concluding that Legacy XTI plausibly alleged claims against Xeriant for breach of contract, breach of fiduciary duty, and declaratory judgment. The S.D.N.Y. found that Legacy XTI had adequately pleaded that Xeriant was obligated to contribute \$10 million in funding to the joint venture and that it acted disloyally by leveraging a potential merger opportunity for its own benefit. Following the S.D.N.Y.’s September 23, 2025 denial of Xeriant’s motion to dismiss Legacy XTI’s counterclaims, the litigation has advanced into full discovery. The S.D.N.Y. has since compelled Xeriant to comply with its discovery obligations and warned that continued noncompliance would result in dismissal of its claims. While the Company continues to believe the allegations against Legacy XTI are meritless, the case remains in active discovery and subject to close judicial supervision, which may increase litigation costs and extend the duration of the proceedings. On December 9, 2025, Xeriant filed a Third Amended Complaint, voluntarily non-suiting five counts from the prior complaint and revising its damages demand from \$500 million to an unspecified amount. On December 23, 2025, Legacy XTI filed its Answer, Affirmative Defenses, and Counterclaims in response to the Third Amended Complaint. Discovery has concluded and both sides have filed summary judgment motions, which remain pending. The SDNY has also indicated that it is unlikely to rule before the November 16, 2026 Auctus trial. Xeriant further revised the Third Amended Complaint revising its damages demand to \$20 million (among other relief). The outcome of the litigation cannot presently be predicted, and any adverse determination could have a material impact on the Company.

In connection with the litigation matter described in the immediately preceding paragraph, on June 12, 2024, the Company received correspondence from legal counsel for Auctus Fund, LLC (“Auctus”), dated April 3, 2024, asserting that the Company and/or Legacy XTI may have assumed Xeriant’s obligations under a Senior Secured Promissory Note (the “Note”) issued by Xeriant to Auctus in the original principal amount of \$6,050,000, pursuant to a letter agreement dated May 17, 2022, between Xeriant and Legacy XTI (the “May 17 letter”). Auctus claimed that the outstanding amount due under the Note, including accrued interest, was \$8,435,008.81 as of April 3, 2024. In July 2024, Legacy XTI responded to Auctus’s claims, asserting that the May 17 letter is invalid and unenforceable on multiple grounds. Legacy XTI further

stated that, even if the May 17 letter were enforceable, it did not create or trigger any obligation for Legacy XTI to assume Xeriant's debt under the Note or otherwise. On May 13, 2025, Auctus filed a lawsuit against Legacy XTI in the District Court of Arapahoe County, Colorado, asserting a single claim for breach of contract based on its prior allegations. Auctus contends that Legacy XTI is contractually obligated to repay nearly \$9 million in principal and accrued interest, based on Legacy XTI's entry into a loan agreement with Legacy Inpixon in March 2023 and its subsequent merger with Legacy Inpixon in March 2024. On June 25, 2025, Legacy XTI filed a motion to dismiss or, in the alternative, to stay the proceedings pending resolution of the Xeriant litigation. Legacy XTI's motion asserts that Auctus' complaint should be dismissed: (i) for lack of standing, because Auctus is neither a party to, nor a third-party beneficiary of, the May 17 letter; (ii) for failure of a condition precedent, because no obligation ever arose in that the alleged triggering condition—a business combination involving Legacy XTI and Legacy Inpixon did not occur within the required one-year time frame; (iii) for lack of valid assignment, because Xeriant's unilateral assignment of debt to Legacy XTI is void because the underlying Note prohibits assignment without Auctus's prior written consent, which is not alleged. On August 5, 2025, Auctus filed a response arguing that it was an intended third-party beneficiary of the May 17 letter, that the anti-assignment clause does not bar its claims, and that the request for a stay is unwarranted because the Xeriant litigation involves different parties and broader claims. On September 12, 2025, Legacy XTI filed a Reply Brief reinforcing that Auctus lacks standing, that no obligation ever arose under the May 17 Letter because no qualifying transaction occurred within its one-year term, and that any purported transfer of debt is void under the Note's anti-assignment clause. The Reply also emphasized that the enforceability of the May 17 Letter is already before the S.D.N.Y. and urged dismissal or a stay to avoid inconsistent rulings. On October 2, 2025, Legacy XTI filed a Notice of Supplemental Authority submitting the September 23, 2025 Order of the S.D.N.Y., which denied Xeriant's motion to dismiss Legacy XTI's counterclaims and held that Legacy XTI had plausibly alleged that the May 17 Letter expired by its terms and is unenforceable. Legacy XTI asserted that the S.D.N.Y. ruling directly supports dismissal or a stay because it confirms that the same alleged contract and issues raised by Auctus are already being adjudicated in the federal case. On November 7, 2025, the court denied Legacy XTI's motion to dismiss or, in the alternative, stay the proceedings. The court held that, when viewing the allegations in the light most favorable to Auctus, the complaint plausibly stated claims for relief under Colorado's notice-pleading standard. The court further denied Legacy XTI's alternative request for a stay, reasoning that the parties were not identical to those in the federal action and therefore comity and judicial economy did not warrant a stay. The court nonetheless directed the parties to update it regarding the outcome of the federal case to the extent it may be dispositive of overlapping issues. On November 21, 2025, Legacy XTI filed its Answer and Affirmative Defenses to the Complaint. The parties have completed discovery and trial is scheduled for November 16, 2026, and the Company has renewed its request to stay the Colorado proceedings pending resolution of the SDNY litigation and confirm the status of that request before filing. The Company will continue to vigorously defend against the claims but cannot predict the timing or outcome of the proceedings or estimate any potential exposure.

In addition, in February 2026, the State of Texas filed a petition in the District Court of Collin County, Texas, against Anzu Robotics, LLC ("Anzu") alleging that Anzu violated the Texas Deceptive Trade Practices-Consumer Protection Act (the "DTPA") in connection with the marketing and sale of its drone products. The State contends, among other things, that Anzu misrepresented certain characteristics, origins, and security features of its products and failed to disclose certain alleged material facts relating to the products' development and components and Anzu's alleged business relationship with DJI. The State seeks temporary and permanent injunctive relief, civil penalties of up to \$10,000 per violation of the DTPA and up to an additional \$250,000 if the conduct was calculated to deprive a consumer age 65 or older of money or property, and attorneys' fees and costs. Trial is set for November 8, 2027.

In May 2026, the State of Texas also issued a civil investigative demand to Drone Nerds LLC pursuant to the DTPA. The Company cannot at this time predict the outcome of these matters or reasonably estimate a range of potential loss, if any.

In April 2026, the State of Florida issued a subpoena to Anzu pursuant to the Florida Deceptive and Unfair Trade Practices Act in connection with the marketing and sale of certain drone products. The Company responded to the subpoena. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

In May 2026, the Federal Communications Commission issued a request for documents to Anzu Robotics LLC under the Communications Act of 1934, inquiring as to the Company directly or indirectly marketed with the United States any radio frequency equipment produced in a manner that may be a violation of the Act. The Company responded to the request. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

In October 2026, the State of Florida issued a subpoena duces tecum to XTI Aerospace, Inc. pursuant to the Florida Deceptive and Unfair Trade Practices Act, Chapter 501, Part II, Florida Statutes, seeking information concerning XTI's relationship with Anzu Robotics, LLC, Drone Nerds, and other related information concerning the sale of certain drones.

and Anzu products in the State of Florida. The Company intends to respond. The Company cannot predict the likelihood or quantity of potential loss (if any) at this time.

In October 2026, the State of Florida issued a subpoena to Drone Nerds LLC pursuant to the Florida Deceptive and Unfair Trade Practices Act in connection with the marketing and sale of certain drone products. The Company has not yet responded to the subpoena. The Company cannot at this time predict the outcome of this matter or reasonably estimate a range of potential loss, if any.

The outcome of the foregoing matters cannot presently be predicted, and an adverse determination in any of these matters could have a material impact on our business, financial condition and results of operations. Regardless of the merits of any particular claim, responding to litigation may divert management's time and attention, result in significant legal expenses, and expose us to monetary damages, penalties or injunctive relief. Litigation and other legal proceedings are inherently uncertain, and adverse judgments or settlements could materially adversely affect our business, financial condition, results of operations and cash flows. Even if a claim is fully indemnified or insured, such litigation could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future.

Furthermore, while we maintain insurance for certain potential liabilities, such insurance does not cover all types and amounts of potential liabilities and is subject to exclusions, deductibles and caps. Insurers may dispute coverage, which may affect the timing or availability of insurance proceeds. Unexpected outcomes in legal proceedings, or changes in management's evaluation of the likely outcomes, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our failure to timely file this Quarterly Report on Form 10-Q resulted in noncompliance with Nasdaq's continued listing requirements, and a failure to maintain compliance with Nasdaq's continued listing requirements could result in the delisting of our common stock.

On August 26, 2026, we received a notice from the Listing Qualifications department of The Nasdaq Stock Market LLC ("Nasdaq") stating that, because the Company had not yet filed its Quarterly Report on Form 10-Q ("Form 10-Q") for the quarter ended June 30, 2026, the Company is no longer in compliance with Nasdaq Listing Rule 5250(c)(1). Nasdaq Listing Rule 5250(c)(1) requires listed companies to timely file all required periodic financial reports with the Securities and Exchange Commission (the "SEC").

We are filing this Quarterly Report on Form 10-Q to address the filing delinquency. However, until Nasdaq confirms that we have regained compliance with Nasdaq Listing Rule 5250(c)(1), we cannot provide assurance that Nasdaq will determine that we have regained compliance. If we fail to maintain compliance with Nasdaq's continued listing requirements, our common stock could be subject to delisting, which could adversely affect the liquidity and market price of our common stock and our ability to raise capital.

We do not currently satisfy Nasdaq's stockholders' equity requirement, which could result in the delisting of our common stock.

Nasdaq Listing Rule 5550(b)(1) requires companies listed on The Nasdaq Capital Market to maintain stockholders' equity of at least \$2.5 million (the "Stockholders' Equity Requirement"). The alternatives are a market value of listed securities of at least \$35 million, or net income from continuing operations of \$500,000 in the most recently completed fiscal year or in two of the three most recently completed fiscal years. As of June 30, 2026, we reported a stockholders' deficit of \$(25.6) million, largely as a result of the \$56.5 million fair value of our liability-classified warrants. We therefore do not satisfy the Stockholders' Equity Requirement. Based on the closing price of our common stock on October 16, 2026, the market value of our listed securities was approximately \$31 million, and we do not believe we satisfy either alternative standard.

We expect to receive a deficiency notice from Nasdaq following the filing of this Quarterly Report. Nasdaq generally permits a company 45 calendar days to submit a plan to regain compliance and, if it accepts the plan, may grant an extension of up to 180 calendar days from the date of the notice. However, if we also receive a delisting determination for failing the Minimum Bid Price Requirement, as described in the following risk factor, Nasdaq may treat the stockholders' equity deficiency as an additional basis for delisting in the same proceeding rather than providing a separate compliance period. Regaining compliance may require us to complete one or more equity financings, which could be highly dilutive to our stockholders. Changes in the fair value of our warrant liabilities, which depend in part on our stock price, could also make it more difficult to regain or maintain compliance. There can be no assurance that we will regain compliance with the Stockholders' Equity Requirement within any period Nasdaq provides, or at all. If we do not, our common stock could be delisted, with the consequences described in the following risk factor.

Our common stock has traded below \$1.00 per share since September 23, 2026. Because of our prior reverse stock splits, we will not be eligible for any compliance period if we fail to satisfy Nasdaq’s minimum bid price requirement, and our common stock could be suspended and delisted from Nasdaq.

Our common stock is listed on The Nasdaq Capital Market under the symbol “XTIA.” Nasdaq Listing Rule 5550(a)(2) requires that our common stock maintain a minimum closing bid price of \$1.00 per share (the “Minimum Bid Price Requirement”). A company fails this requirement if its closing bid price is below \$1.00 for 30 consecutive business days.

The closing bid price of our common stock has been below \$1.00 since September 23, 2026, and was \$0.80 on October 16, 2026. If the closing bid price remains below \$1.00 through November 3, 2026, we will fail the Minimum Bid Price Requirement. Because we effected a 1-for-250 reverse stock split on January 10, 2025, Nasdaq Listing Rule 5810(c)(3)(A)(iv) makes us ineligible for the automatic 180-day compliance period Nasdaq generally provides, and Nasdaq would instead issue a delisting determination. Our only recourse would be to request a hearing before a Nasdaq Hearings Panel, which may grant an exception of up to 180 days but is not required to do so.

If our common stock is suspended or delisted from Nasdaq, it would likely trade, if at all, on an over-the-counter market such as the OTC Markets, which is generally considered a less efficient market. Delisting would likely reduce the liquidity and market price of our common stock, could subject it to the SEC’s “penny stock” rules, and could impair our ability to raise capital on acceptable terms, or at all. Any of these consequences could materially and adversely affect our business, financial condition, results of operations, and the value of your investment.

We are in default under our credit facility, and if our lender accelerates our borrowings or stops making advances, we may not have sufficient liquidity to continue operations.

On September 30, 2026, our subsidiary XTI Drones Holdings, LLC failed to make scheduled principal payments totaling \$1.5 million on the Seller Notes issued in connection with the Drone Nerds acquisition. On October 16, 2026, the holders agreed to temporarily waive the resulting events of default during a waiver period that ends no later than December 31, 2026 and that either party may end on ten days’ notice. If the waiver period ends without a restructuring, the missed installments and the remaining balance of the Seller Notes, together with interest at the default rate from October 10, 2026, will become due. The defaults also caused cross-defaults under our Credit Agreement with JPMorgan Chase Bank, N.A., under which approximately \$8.4 million was outstanding as of October 16, 2026. JPMorgan has not waived these defaults. While they continue, JPMorgan may decline to make further advances, charge default interest, accelerate amounts outstanding and enforce its security interest in substantially all of the assets of Drone Nerds and Anzu. Approximately \$4.5 million remains outstanding under the Seller Notes, and we are negotiating a restructuring with the holders. We cannot assure you that we will obtain a waiver or a restructuring on acceptable terms, or at all. If our indebtedness is accelerated or we lose access to our credit facility, we may be unable to continue as a going concern.

Our Interim Chief Executive Officer has interests in the holders of our Seller Notes that may conflict with the interests of our stockholders.

Jeremy Schneiderman, our Interim Chief Executive Officer, is the chief executive officer of, and has an economic interest in, the Sellers, which hold the Seller Notes and 6,524,576 Class B Units of XTI Drones Holdings, LLC. The Sellers have agreed to a temporary waiver of the events of default under the Seller Notes that they may end on ten days’ notice, after which the Seller Notes, together with default interest, would become due, and we are negotiating a restructuring of the Seller Notes with them. This gives the Sellers significant leverage in those negotiations. Mr. Schneiderman’s interests in these matters may differ from, or conflict with, the interests of the Company and our other stockholders. There can be no assurance that any conflict will be resolved in a manner favorable to us.

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

a) Sales of Unregistered Securities

There were no sales of unregistered securities by the Company during the quarter ended June 30, 2026 that were not previously reported in current reports on Form 8-K filed with the SEC.

c) Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None of the Company's directors or officers adopted, modified or terminated a Rule 10b-5 trading arrangement or a non-Rule 10b-5 trading arrangement during the fiscal quarter ended June 30, 2026, as such terms are defined under Item 408(a) of Regulation S-K.

The information set forth below is included herein for the purpose of providing the disclosure required under "Item 1.01. Entry into a Material Definitive Agreement" and "Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant" of Form 8-K.

Limited Waiver Agreements

On October 16, 2026, XTI Drones Holdings, LLC ("XTI Drones Holdings"), our majority-owned subsidiary, entered into Limited Waiver Agreements, dated as of October 16, 2026 (the "Waivers") with The Origin Group DN, Inc. and The Origin Group AZ, Inc. (together, the "Holders"), the holders of the promissory notes issued by XTI Drones Holdings on November 10, 2025 in connection with its acquisition of Drone Nerds, LLC and Anzu Robotics, LLC (the "Seller Notes"). Jeremy Schneiderman, our Interim Chief Executive Officer, serves as chief executive officer of, and has an economic interest in, the Holders, which also hold 6,524,576 Class B Units of XTI Drones Holdings. On September 30, 2026, XTI Drones Holdings did not make scheduled principal payments under the Seller Notes totaling \$1.5 million, together with accrued interest, that were due on September 30, 2026, and events of default occurred under the Seller Notes on October 11, 2026, following the expiration of the ten-day grace period. Under the Waivers, the Holders agreed, during a waiver period that began on September 30, 2026, not to accelerate the Seller Notes, charge default interest, charge costs of collection or exercise other remedies as a result of the missed payments, and agreed that nonpayment of the balance due at maturity on November 10, 2026 will not constitute an event of default during the waiver period. The waiver period ends on the earliest of (i) the execution of definitive documents restructuring the Seller Notes, (ii) the tenth day after either party notifies the other in writing that it is ending restructuring negotiations and (iii) December 31, 2026. If the waiver period ends without a restructuring, an event of default will be deemed to exist, and the missed installments and the remaining balance of the Seller Notes (approximately \$4.5 million of principal in the aggregate), together with accrued interest, which will have accrued at the default rate of 9.25% per annum from October 10, 2026, will become due on the last day of the waiver period. The Waivers do not address the cross-defaults and other events of default under our credit facility with JPMorgan Chase Bank, N.A. that resulted from the missed payments, which have not been waived. The Waivers were reviewed and approved by the Audit Committee of our Board of Directors. The foregoing description is qualified in its entirety by reference to the Waivers, copies of which are filed as Exhibits 10.9 and 10.10 to this Quarterly Report and incorporated herein by reference.

Sale of Note Receivable

On October 19, 2026, the Company entered into a Consent, Exchange and Amendment Agreement with Valkyrie Sciences Holdings, LLC and Valkyrie Andromeda Corporation (collectively, "Valkyrie"), and Reliable Equity, LLC (the "Purchaser"), and an Amended and Restated Convertible Promissory Note with Valkyrie Sciences Holdings, LLC, pursuant to which the Company agreed to sell to the Purchaser \$1.0 million in principal amount of the \$2.0 million convertible promissory note issued to the Company by Valkyrie for a purchase price of \$1.0 million in cash. There is no relationship between Valkyrie and the Purchaser. In connection with the transaction, the Company agreed to forgive approximately \$0.05 million of accrued interest on the note. It also agreed to extend to January 15, 2027 the maturity date of the portion of the note it retains, which consists of the remaining \$1.0 million of principal plus approximately \$0.15 million of accrued interest. The sale closed on October 20, 2026. The foregoing description is qualified in its entirety by reference to the agreements memorializing this transaction, copies of which will be filed as an exhibit to the Company's next periodic report.

Item 6. Exhibits

See the Exhibit index following the signature page to this Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

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.

XTI AEROSPACE, INC

Date: October 20, 2026

By: /s/ Jeremy Schneiderman
Jeremy Schneiderman
Interim Chief Executive Officer
(Principal Executive Officer)

By: /s/ Brooke Turk
Brooke Turk
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1*	Share Purchase and Transfer Agreement, dated February 3, 2026, by and between XTI Aerospace, Inc. and EVO 467, GmbH.	8-K	001-36404	2.1	February 4, 2026	
3.1	Restated Articles of Incorporation.	S-1	333-190574	3.1	August 12, 2013	
3.2	Certificate of Amendment to Articles of Incorporation (Increase Authorized Shares).	S-1	333-218173	3.2	May 22, 2017	
3.3	Certificate of Amendment to Articles of Incorporation (Reverse Split).	8-K	001-36404	3.1	April 10, 2014	
3.4	Articles of Merger (renamed Sysorex Global).	8-K	001-36404	3.1	December 18, 2015	
3.5	Articles of Merger (renamed Inpixon).	8-K	001-36404	3.1	March 1, 2017	
3.6	Certificate of Amendment to Articles of Incorporation (Reverse Split).	8-K	001-36404	3.2	March 1, 2017	
3.7	Certificate of Amendment to Articles of Incorporation (authorized share increase).	8-K	001-36404	3.1	February 5, 2018	
3.8	Certificate of Amendment to Articles of Incorporation (Reverse Split).	8-K	001-36404	3.1	February 6, 2018	
3.9	Form of Certificate of Designation of Preferences, Rights and Limitations of Series 4 Convertible Preferred Stock.	8-K	001-36404	3.1	April 24, 2018	
3.10	Certificate of Amendment to Articles of Incorporation (Reverse Split).	8-K	001-36404	3.1	November 1, 2018	
3.11	Certificate of Designation of Series 5 Convertible Preferred Stock, dated as of January 14, 2019.	8-K	001-36404	3.1	January 15, 2019	
3.12	Certificate of Amendment to Articles of Incorporation, effective as of January 7, 2020 (Reverse Split).	8-K	001-36404	3.1	January 7, 2020	
3.13	Certificate of Amendment to the Articles of Incorporation increasing the number of authorized shares of Common Stock from 250,000,000 to 2,000,000,000 filed with the Secretary of State of the State of Nevada on November 18, 2021.	8-K	001-36404	3.1	November 19, 2021	
3.14	Certificate of Change filed with the Secretary of State of the State of Nevada on October 4, 2022 (effective as of October 7, 2022).	8-K	001-36404	3.1	October 6, 2022	
3.15	Certificate of Amendment to the Articles of Incorporation increasing the number of authorized shares of Common Stock from 26,666,667 to 500,000,000 filed with the Secretary of State of the State of Nevada on November 29, 2022.	8-K	001-36404	3.1	December 2, 2022	
3.17	Certificate of Amendment (Reverse Stock Split).	8-K	001-36404	3.2	March 15, 2024	
3.18	Certificate of Amendment (Name Change).	8-K	001-36404	3.3	March 15, 2024	

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.19	Certificate of Amendment to Articles of Incorporation, effective as of January 10, 2025.	8-K	001-36404	3.1	January 10, 2025	
3.20	Certificate of Designation of Preferences and Rights of Series 10 Convertible Preferred Stock.	8-K	001-36404	3.1	November 12, 2025	
3.21	Amended and Restated Bylaws of XTI Aerospace, Inc.	10-Q	001-36404	3.21	August 14, 2025	
4.1	Form of Pre-funded Warrant.	8-K	001-36404	4.1	September 15, 2025	
4.2	Form of Common Warrant.	8-K	001-36404	4.2	September 15, 2025	
4.3	Form of Placement Agent Warrant.	8-K	001-36404	4.3	September 15, 2025	
4.4	Revolving Promissory Note, dated July 10, 2025, issued by Drone Nerds Inc and Anzu Robotics, LLC to Banesco USA.	8-K	001-36404	4.1	November 12, 2025	
4.5	Promissory Note issued by XTI Drones Holdings, LLC to New Drone Nerds S-Corp, Inc., dated November 10, 2025.	8-K	001-36404	4.2	November 12, 2025	
4.6	Promissory Note issued by XTI Drones Holdings, LLC to New Anzu Robotics S-Corp, LLC, dated November 10, 2025.	8-K	001-36404	4.3	November 12, 2025	
4.7	Form of Placement Agent's Warrant.	8-K	001-36404	4.4	November 12, 2025	
4.8	Pre-Funded Warrant, dated January 5, 2026.	8-K	001-36404	4.1	January 9, 2026	
10.1*	Employment Agreement, dated January 9, 2026, by and between XTI Aerospace, Inc. and Tobin Arthur.	8-K	001-36404	10.1	January 9, 2026	
10.2*	Separation Agreement and Release, dated January 29, 2026, by and between XTI Aerospace, Inc. and Soumya Das.	8-K	001-36404	10.1	February 4, 2026	
10.3*	Director Services Agreement, dated February 1, 2026, by and between XTI Aerospace, Inc. and Jonathan Ornstein.	8-K	001-36404	10.2	February 4, 2026	
10.4†	Credit Agreement, dated as of February 11, 2026, by and among Drone Nerds, LLC, Anzu Robotics, LLC, the other Loan Parties party thereto, and JPMorgan Chase Bank, N.A.	8-K	001-36404	10.1	February 17, 2026	
10.5	Security Agreement, dated as of February 11, 2026, by and among Drone Nerds, LLC, Anzu Robotics, LLC, the other Loan Parties party thereto, any additional entities which become parties thereto, and JPMorgan Chase Bank, N.A.	8-K	001-36404	10.2	February 17, 2026	
10.6	Subordination Agreement, dated as of February 11, 2026, by and among Drone Nerds, LLC, the other Loan Parties party thereto, each of the creditors listed on the signatory page thereto, and JPMorgan Chase Bank, N.A.	8-K	001-36404	10.3	February 17, 2026	

10.7†	Intellectual Property Security Agreement, dated as of February 11, 2026, by and between JPMorgan Chase Bank, N.A. and Drone Nerds, LLC and Anzu Robotics, LLC.	10-K	001-36404	10.64	April 15, 2026	
10.8*	Consulting Agreement, dated as of February 1, 2026, by and between XTI Aerospace, Inc. and David E. Brody.	10-K	001-36404	10.67	April 15, 2026	
10.9	Limited Waiver Agreement between XTI Drone Holdings, LLC and The Origin Group DN, Inc., dated as of October 16, 2026.					X
10.10	Limited Waiver Agreement between XTI Drone Holdings, LLC and The Origin Group AZ, Inc., dated as of October 16, 2026.					X

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
31.1	Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2026.					X
31.2	Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2026.					X
32.1#	Certification of the Company's Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					X

† Exhibits, schedules and similar attachments have been omitted pursuant to Item 601 of Regulation S-K and the registrant undertakes to furnish supplemental copies of any of the omitted exhibits and schedules upon request by the SEC.

* Indicates a management contract or compensatory plan or arrangement.

This certification is deemed not filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

Limited Waiver of Payment Default – XTI Drones Seller Note

Limited Waiver Agreement

This Limited Waiver Agreement (this "**Waiver**") is entered into as of October 16, 2026 (the "**Effective Date**"), by and between **XTI Drones Holdings, LLC**, a Texas limited liability company (the "**Maker**"), and **The Origin Group DN, Inc.**, a Delaware corporation (the "**Payee**").

Recitals

A. The Maker issued to the Payee that certain Promissory Note, dated November 10, 2025, in the original principal amount of \$10,976,284.58 (the "**Note**"), in connection with that certain Membership Interest Purchase Agreement, dated November 10, 2025, by and among the Maker, the Payee, Drone Nerds, LLC and the other parties named therein (the "**Purchase Agreement**").

B. Under Section 1(d) of the Note, the Maker was required to pay to Payee \$1,380,000 of principal, together with accrued interest, on September 30, 2026 (the "**September Installment**"). The Maker did not pay the September Installment to Payee, and as a result an Event of Default occurred under Section 6(a) of the Note (the "**Specified Default**").

C. Under Section 1(e) of the Note, the remaining principal balance and all accrued interest are due on November 10, 2026 (the "**Maturity Payment**").

D. The Maker, the Payee and their affiliates are negotiating a resolution of the Specified Default and a restructuring of the Note, including a term sheet and the definitive documents relating to it (the "**Negotiations**").

E. The Maker has asked the Payee to temporarily waive the Specified Default while the parties conduct the Negotiations. The Payee is willing to do so on the terms of this Waiver.

NOW, THEREFORE, in consideration of the mutual agreements in this Waiver and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. Definitions

Capitalized terms used but not defined in this Waiver have the meanings given to them in the Note.

2. Waiver

(a) **Waiver of Specified Default.** The Payee waives the Specified Default for the duration of the Waiver Period (defined below). During the Waiver Period, the Payee will not, on account of the Specified Default: (i) charge or collect interest at the default rate under Section 2 of the Note; (ii) declare the Note immediately due and payable or otherwise accelerate the Note under Section 6 of the Note; (iii) charge or collect costs of collection under Section 7 of the Note; or (iv) exercise any other right or remedy under the Note or applicable law.

(b) **Maturity Payment.** The Maker's failure to pay the Maturity Payment during the Waiver Period will not be an Event of Default under Section 6(b) of the Note for the duration of the Waiver Period. During

the Waiver Period, the Payee will not, on account of the Maker's failure to pay the Maturity Payment on the Due Date: (i) charge or collect interest at the default rate under Section 2 of the Note; (ii) declare the Note immediately due and payable or otherwise accelerate the Note under Section 6 of the Note; (iii) charge or collect costs of collection under Section 7 of the Note; or (iv) exercise any other right or remedy under the Note or applicable law.

(c) **No Penalties for the Waiver Period.** No default interest, late charge or other penalty will accrue or be payable for any part of the Waiver Period. During the Waiver Period interest will continue to accrue on the outstanding principal balance of the Note at the non-default rate of 7.25% per annum under Section 2 of the Note (but subject to Section 3(b)).

3. Waiver Period

(a) **Term.** The "**Waiver Period**" begins on September 30, 2026 and ends on the earliest of:

1. the date on which the parties execute and deliver definitive documents restructuring the Note, which will then govern the September Installment and the Maturity Payment;
2. the tenth (10th) day after either the Maker or the Payee notifies the other in writing that it is ending the Negotiations; and
3. December 31, 2026.

(b) **End of Waiver Period.** If the Waiver Period ends under clause 3(a)(2) or 3(a)(3), then an Event of Default will be deemed to exist under the Note and the September Installment and the Maturity Payment, together with accrued interest (which will have accrued at the default rate of 9.25% per annum beginning as of October 10, 2026), will be due on the last day of the Waiver Period.

4. Limitations; Reservation of Rights

(a) **Limited Effect.** This Waiver applies only to the Specified Default and the Maturity Payment. It does not waive any other Event of Default, whether now existing or arising later, or any other term of the Note.

(b) **No Course of Dealing.** This Waiver does not obligate the Payee to grant any further waiver, consent or amendment, and it does not establish a course of dealing between the parties.

(c) **Reservation of Rights.** Except as expressly provided in this Waiver, each party reserves all of its rights and remedies under the Note, the Purchase Agreement and applicable law. Nothing in this Waiver waives, releases, settles or otherwise affects any claim, defense, right of indemnification or right of set-off that any party has under the Purchase Agreement.

(d) **No Obligation to Agree.** Nothing in this Waiver obligates any party to agree to any term sheet, restructuring or definitive documents.

5. Representations of the Maker

The Maker represents to the Payee that: (a) it has all requisite power and authority to execute, deliver and perform this Waiver; (b) this Waiver has been duly authorized, executed and delivered by the Maker; and (c) as of the Effective Date, to the Maker's knowledge, no Event of Default exists under the Note other than the Specified Default.

6. Miscellaneous

(a) **Note Remains in Effect.** Except to the extent any provision of the Note is temporarily waived by this Waiver, the Note remains unchanged and in full force and effect. Each reference in the Note to "this Note" means the Note to the extent any provision of the Note is temporarily waived by this Waiver.

(b) **Governing Law; Venue; Jury Waiver.** Section 10 of the Note (Texas governing law; venue in Dallas County, Texas; and waiver of jury trial) applies to this Waiver as if set out in full.

(c) **Counterparts; Electronic Signatures.** This Waiver may be executed in counterparts, each of which is an original and all of which together are one instrument. Signatures delivered by PDF, DocuSign or other electronic means are effective as originals.

(d) **Entire Agreement.** This Waiver is the entire agreement of the parties on its subject matter. It may be amended or waived only in a writing signed by the Maker and the Payee.

(e) **Final Agreement.** THIS WAIVER, THE NOTE, THE MEMBERSHIP INTEREST PURCHASE AGREEMENT AND THE OTHER AGREEMENTS CONTEMPLATED BY SUCH AGREEMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Waiver as of the Effective Date.

MAKER:

XTI DRONES HOLDINGS, LLC, a Texas limited liability company

By: /s/ Brooke Turk

Name: Brooke Turk

Title: Chief Financial Officer

PAYEE:

THE ORIGIN GROUP DN, INC., a Delaware corporation

By: /s/ Robert Weitzner

Name: Robert Weitzner

Title: Vice President

Limited Waiver of Payment Default – XTI Drones Seller Note

Limited Waiver Agreement

This Limited Waiver Agreement (this "**Waiver**") is entered into as of October 16, 2026 (the "**Effective Date**"), by and between **XTI Drones Holdings, LLC**, a Texas limited liability company (the "**Maker**"), and **The Origin Group AZ, Inc.**, a Delaware corporation (the "**Payee**").

Recitals

A. The Maker issued to the Payee that certain Promissory Note, dated November 10, 2025, in the original principal amount of \$954,459.53 (the "**Note**"), in connection with that certain Membership Interest Purchase Agreement, dated November 10, 2025, by and among the Maker, the Payee, Anzu Robotics, LLC and the other parties named therein (the "**Purchase Agreement**").

B. Under Section 1(d) of the Note, the Maker was required to pay to Payee \$120,000 of principal, together with accrued interest, on September 30, 2026 (the "**September Installment**"). The Maker did not pay the September Installment to Payee, and as a result an Event of Default occurred under Section 6(a) of the Note (the "**Specified Default**").

C. Under Section 1(e) of the Note, the remaining principal balance and all accrued interest are due on November 10, 2026 (the "**Maturity Payment**").

D. The Maker, the Payee and their affiliates are negotiating a resolution of the Specified Default and a restructuring of the Note, including a term sheet and the definitive documents relating to it (the "**Negotiations**").

E. The Maker has asked the Payee to temporarily waive the Specified Default while the parties conduct the Negotiations. The Payee is willing to do so on the terms of this Waiver.

NOW, THEREFORE, in consideration of the mutual agreements in this Waiver and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. Definitions

Capitalized terms used but not defined in this Waiver have the meanings given to them in the Note.

2. Waiver

(a) **Waiver of Specified Default.** The Payee waives the Specified Default for the duration of the Waiver Period (defined below). During the Waiver Period, the Payee will not, on account of the Specified Default: (i) charge or collect interest at the default rate under Section 2 of the Note; (ii) declare the Note immediately due and payable or otherwise accelerate the Note under Section 6 of the Note; (iii) charge or collect costs of collection under Section 7 of the Note; or (iv) exercise any other right or remedy under the Note or applicable law.

(b) **Maturity Payment.** The Maker's failure to pay the Maturity Payment during the Waiver Period will not be an Event of Default under Section 6(b) of the Note for the duration of the Waiver Period. During the Waiver Period, the Payee will not, on account of the Maker's failure to pay the Maturity Payment on the Due Date: (i) charge or collect interest at the default rate under Section 2 of the Note; (ii) declare the Note immediately due and payable or otherwise accelerate the Note under Section 6 of the Note; (iii)

charge or collect costs of collection under Section 7 of the Note; or (iv) exercise any other right or remedy under the Note or applicable law.

(c) **No Penalties for the Waiver Period.** No default interest, late charge or other penalty will accrue or be payable for any part of the Waiver Period. During the Waiver Period interest will continue to accrue on the outstanding principal balance of the Note at the non-default rate of 7.25% per annum under Section 2 of the Note (but subject to Section 3(b)).

3. Waiver Period

(a) **Term.** The "Waiver Period" begins on September 30, 2026 and ends on the earliest of:

1. the date on which the parties execute and deliver definitive documents restructuring the Note, which will then govern the September Installment and the Maturity Payment;
2. the tenth (10th) day after either the Maker or the Payee notifies the other in writing that it is ending the Negotiations; and
3. December 31, 2026.

(b) **End of Waiver Period.** If the Waiver Period ends under clause 3(a)(2) or 3(a)(3), then an Event of Default will be deemed to exist under the Note and the September Installment and the Maturity Payment, together with accrued interest (which will have accrued at the default rate of 9.25% per annum beginning as of October 10, 2026), will be due on the last day of the Waiver Period.

4. Limitations; Reservation of Rights

(a) **Limited Effect.** This Waiver applies only to the Specified Default and the Maturity Payment. It does not waive any other Event of Default, whether now existing or arising later, or any other term of the Note.

(b) **No Course of Dealing.** This Waiver does not obligate the Payee to grant any further waiver, consent or amendment, and it does not establish a course of dealing between the parties.

(c) **Reservation of Rights.** Except as expressly provided in this Waiver, each party reserves all of its rights and remedies under the Note, the Purchase Agreement and applicable law. Nothing in this Waiver waives, releases, settles or otherwise affects any claim, defense, right of indemnification or right of set-off that any party has under the Purchase Agreement.

(d) **No Obligation to Agree.** Nothing in this Waiver obligates any party to agree to any term sheet, restructuring or definitive documents.

5. Representations of the Maker

The Maker represents to the Payee that: (a) it has all requisite power and authority to execute, deliver and perform this Waiver; (b) this Waiver has been duly authorized, executed and delivered by the Maker; and (c) as of the Effective Date, to the Maker's knowledge, no Event of Default exists under the Note other than the Specified Default.

6. Miscellaneous

(a) **Note Remains in Effect.** Except to the extent any provision of the Note is temporarily waived by this Waiver, the Note remains unchanged and in full force and effect. Each reference in the Note to "this Note" means the Note to the extent any provision of the Note is temporarily waived by this Waiver.

(b) **Governing Law; Venue; Jury Waiver.** Section 10 of the Note (Texas governing law; venue in Dallas County, Texas; and waiver of jury trial) applies to this Waiver as if set out in full.

(c) **Counterparts; Electronic Signatures.** This Waiver may be executed in counterparts, each of which is an original and all of which together are one instrument. Signatures delivered by PDF, DocuSign or other electronic means are effective as originals.

(d) **Entire Agreement.** This Waiver is the entire agreement of the parties on its subject matter. It may be amended or waived only in a writing signed by the Maker and the Payee.

(e) **Final Agreement.** THIS WAIVER, THE NOTE, THE MEMBERSHIP INTEREST PURCHASE AGREEMENT AND THE OTHER AGREEMENTS CONTEMPLATED BY SUCH AGREEMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Waiver as of the Effective Date.

MAKER:

XTI DRONES HOLDINGS, LLC, a Texas limited liability company

By: /s/ Brooke Turk

Name: Brooke Turk

Title: Chief Financial Officer

PAYEE:

THE ORIGIN GROUP AZ, INC., a Delaware corporation

By: /s/ Robert Weitzner

Name: Robert Weitzner

Title: Vice President

CERTIFICATION

I, Jeremy Schneiderman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of XTI Aerospace, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 20, 2026

/s/ Jeremy Schneiderman

Jeremy Schneiderman
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Brooke Turk, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of XTI Aerospace, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 20, 2026

/s/ Brooke Turk

Brooke Turk
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

In connection with the Quarterly Report of XTI Aerospace, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2026 as filed with the Securities and Exchange Commission (the “Report”), we, Jeremy Schneiderman, Chief Executive Officer (Principal Executive Officer) and Brooke Turk, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: October 20, 2026

/s/ Jeremy Schneiderman

Jeremy Schneiderman
Chief Executive Officer
(Principal Executive Officer)

/s/ Brooke Turk

Brooke Turk
Chief Financial Officer
(Principal Financial and Accounting Officer)