

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2026

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

For the transition period from _____ to _____

Commission file number:

SPECTRAL AI, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

85-3987148

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

2515 McKinney Avenue,
Suite 1000

Dallas, Texas 75201

(Address of principal executive offices)

(972) 499-4934

(Issuer's telephone number)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	MDAI	The Nasdaq Stock Market LLC
Redeemable warrants, each whole warrant exercisable for one share of Common Stock at an exercise price of \$2.75	MDAIW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input checked="" type="checkbox"/>

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

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

As of May 11, 2026, there were 31,823,985 shares of Common Stock, \$0.0001 par value, issued and outstanding.

SPECTRAL AI, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2026

TABLE OF CONTENTS

	<u>Page</u>
<u>Part I. Financial Information</u>	1
<u>Item 1. Interim Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets as of March 31, 2026 and December 31, 2025</u>	1
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2026 and 2025</u>	2
<u>Unaudited Condensed Consolidated Statements of Changes in Stockholders' Deficit for the three months ended March 31, 2026 and 2025</u>	3
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2026 and 2025</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3. Defaults Upon Senior Securities</u>	31
<u>Item 4. Mine Safety Disclosures</u>	31
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31
<u>Part III. Signatures</u>	32

PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

SPECTRAL AI, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	<u>March 31,</u> <u>2026</u>	<u>December 31,</u> <u>2025</u>
Assets		
Current assets:		
Cash	\$ 11,655	\$ 15,394
Accounts receivable, net	1,185	1,267
Inventory	831	838
Prepaid expenses	738	821
Other current assets	1,577	1,133
Total current assets	<u>15,986</u>	<u>19,453</u>
Non-current assets:		
Property and equipment, net	228	258
Right-of-use assets	1,260	1,407
Other assets	260	287
Total Assets	<u>\$ 17,734</u>	<u>\$ 21,405</u>
Commitments and contingencies (Note 7)		
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 1,422	\$ 3,010
Accrued expenses	2,649	2,341
Deferred revenue	-	154
Lease liabilities, short-term	755	734
Notes payable	3,912	2,854
Warrant liabilities	12,535	11,533
Total current liabilities	<u>21,273</u>	<u>20,626</u>
Notes payable, long-term	4,502	5,538
Lease liabilities, long-term	769	968
Total Liabilities	<u>26,544</u>	<u>27,132</u>
Stockholders' Deficit		
Preferred stock (\$0.0001 par value); 1,000,000 shares authorized; no shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	-	-
Common stock (\$0.0001 par value); 80,000,000 shares authorized; 31,823,895 and 30,688,895 shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	3	3
Additional paid-in capital	50,369	50,030
Accumulated other comprehensive income	30	40
Accumulated deficit	(59,212)	(55,800)
Total Stockholders' Deficit	<u>(8,810)</u>	<u>(5,727)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 17,734</u>	<u>\$ 21,405</u>

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

SPECTRAL AI, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2026	2025
Research and development revenue	\$ 3,991	\$ 6,707
Cost of revenue	(1,964)	(3,539)
Gross profit	<u>2,027</u>	<u>3,168</u>
Operating costs and expenses:		
General and administrative	3,998	4,064
Total operating costs and expenses	<u>3,998</u>	<u>4,064</u>
Operating loss	<u>(1,971)</u>	<u>(896)</u>
Other income (expense):		
Net interest (expense) income	(258)	(20)
Financing related costs	(7)	(581)
Amortization of debt discount	(179)	-
Change in fair value of warrant liability	(1,002)	4,253
Change in fair value of notes payable		(220)
Foreign exchange transaction loss, net	(5)	(8)
Total other income (expense), net	<u>(1,451)</u>	<u>3,864</u>
Income (loss) before income taxes	<u>(3,422)</u>	<u>2,968</u>
Income tax provision	10	(71)
Net income (loss)	<u>\$ (3,412)</u>	<u>\$ 2,897</u>
Net income (loss) per share of common stock		
Basic	\$ (0.11)	\$ 0.13
Diluted	\$ (0.11)	\$ 0.11
Weighted-average common shares outstanding		
Basic	31,756,649	22,986,350
Diluted	<u>31,756,649</u>	<u>24,030,518</u>
Other comprehensive income (loss):		
Foreign currency translation adjustments	\$ (10)	\$ 17
Total comprehensive income (loss)	<u>\$ (3,422)</u>	<u>\$ 2,914</u>

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

SPECTRAL AI, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
Balance at December 31, 2025	30,688,895	\$ 3	\$ 50,030	\$ 40	\$ (55,800)	\$ (5,727)
Stock-based compensation	-	-	183	-	-	183
Stock option exercises	150,000	-	156	-	-	156
Vesting of restricted stock units	50,000	-	-	-	-	-
Cumulative translation adjustment	-	-	-	(10)	-	(10)
Pre-funded warrant exercises	935,000	-	-	-	-	-
Net loss	-	-	-	-	(3,412)	(3,412)
Balance at March 31, 2026	<u>31,823,895</u>	<u>3</u>	<u>50,369</u>	<u>30</u>	<u>(59,212)</u>	<u>(8,810)</u>

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
Balance at December 31, 2024	22,594,877	\$ 2	\$ 40,973	\$ 3	\$ (48,229)	\$ (7,251)
Stock-based compensation	-	-	200	-	-	200
Issuance of Common Stock from debt offering (net of \$158K issuance costs)	2,028,846	-	377	-	-	377
Issuance of common stock to pay convertible debt	610,426	-	1,433	-	-	1,433
Sale of common stock (net of \$19K issuance costs)	310,925	-	543	-	-	543
Exercise of stock options	43,047	-	158	-	-	158
Cumulative translation adjustment	-	-	-	17	-	17
Net income	-	-	-	-	2,897	2,897
Balance at March 31, 2025	<u>25,588,121</u>	<u>2</u>	<u>43,684</u>	<u>20</u>	<u>(45,332)</u>	<u>(1,626)</u>

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

SPECTRAL AI, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended	
	March 31,	
	2026	2025
Cash flows from operating activities:		
Net income (loss)	\$ (3,412)	\$ 2,897
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	30	2
Amortization of debt issuance costs	179	-
Stock-based compensation	183	200
Amortization of right-of-use assets	147	141
Change in fair value of warrant liabilities	1,002	(4,253)
Change in fair value of notes payable	-	(220)
Issuances of shares for borrowing related costs	-	241
Changes in operating assets and liabilities:		
Accounts receivable	82	402
Inventory	7	(12)
Prepaid expenses	110	2
Other assets	(444)	(94)
Accounts payable	(1,588)	(947)
Accrued expenses	308	502
Deferred revenue	(154)	(297)
Lease liabilities	(178)	(69)
Net cash used in operating activities	<u>(3,728)</u>	<u>(1,505)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants	-	3,080
Proceeds from notes payable	-	8,285
Payments for notes payable	(157)	(1,131)
Stock option exercises	156	158
Net cash provided by financing activities	<u>(1)</u>	<u>10,392</u>
Effect of exchange rate changes on cash	(10)	17
Net increase in cash	(3,739)	8,904
Cash, beginning of period	15,394	5,157
Cash, end of period	<u>\$ 11,655</u>	<u>\$ 14,061</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 278</u>	<u>\$ 11</u>
Cash paid for taxes	<u>\$ 5</u>	<u>\$ 11</u>
Noncash investing and financing activities disclosure:		
Tenant improvement allowance payments made by the lessor directly to a third party	\$ -	\$ 164
Issuance of common stock to settle notes payable	\$ -	\$ 1,192
Capitalized and unpaid debt issuance costs	\$ -	\$ (25)

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

SPECTRAL AI, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF THE BUSINESS AND PRESENTATION

Overview

Spectral AI, Inc., a Delaware corporation (the “Company”) is an Artificial Intelligence (“AI”) company focused on predictive medical diagnostics. Our DeepView[®] System uses proprietary AI algorithms to distinguish between healthy, partially damaged and fully damaged human tissue characteristics invisible to the naked eye, at the initial time of wound presentation. The DeepView System delivers a binary prediction on the wound’s capacity to heal or not-heal by a specified time in the future. Our DeepView System’s output is specifically engineered to assist the physician in making a more accurate, timely and informed diagnostic decision regarding the treatment of the patient’s wounds. Our focus is on our burn indication.

In February 2024, our DeepView System, comprised of the multispectral imaging (“MSI”) component integrated with the predictive AI-Burn[®] software component, received United Kingdom Conformity Assessed (“UKCA”) marking for use in the United Kingdom for burn indications. In June 2025, we filed a De Novo application for the DeepView System with the United States Food and Drug Administration (“FDA”) so that it may achieve Class II medical device designation. Following our anticipated receipt of additional necessary commercial market authorization, our business will have two primary revenue streams, a SaaS (software as a service) offering aligned with SaMD (software as a medical device) regulatory framework, and the imaging device component. The SaaS component will feature a software licensing fee that includes maintenance, image hosting, and access to algorithmic updates. The proprietary imaging device acquires the images for the AI algorithms and is a universal platform to house multiple clinical indications including burn wound healing analysis and other tissue indication assessments. Pricing for these components will be evaluated and strategically set per country and site-of-service for heightened customer adoption.

The DeepView System is comprised of the DeepView-AI Burns[®] software and the DeepView SnapShot[®] imaging device, and it is intended to be used as an adjunctive tool to aid health care providers in the assessment of burn wound healing potential by differentiating non-healing from healing tissue within an image. The MSI imaging technology within the DeepView SnapShot imaging device consists of patented proprietary multi-spectral optics and sensors, capturing injured tissue images ranging from near ultraviolet light, through the human visible wavelengths, and into the near infrared range. The broad wavelength ranges go beyond what the human eyes can see and capture what medical professionals cannot observe with their naked eyes. This wide range of wavelength images contains wound tissue physiology and captures the viability of various biomarkers within the skin and from the injured tissue spectral signatures. The imaging technology extracts appropriate clinical data and processes the image data to provide the injured tissue spectral signatures to the DeepView AI Burns software AI model and algorithms. The AI algorithm classifies various severities of the injuries as (i) fully damaged (non-healing), (ii) partially damaged or (iii) healthy tissue (healing) and displays a comparison of the original image next to an image with a color overlay of the non-healing portions of the wound. The image acquisition takes 0.2 seconds, and all image processing and AI model classification takes approximately 20 to 25 seconds. Our DeepView System’s proprietary optics can extract millions of pixels of data or AI model features from each group of raw images. This information is then used to advance algorithm optimization, which is trained and tested against a proprietary and clinically validated database of over 340 billion pixels of image data as of December, 2024.

The Company has not generated any product revenue to date. The Company currently generates revenue from contract development and research services by providing such services to governmental agencies, primarily to the Biomedical Advanced Research and Development Authority (“BARDA”) and under a contract with the Medical Technology Enterprise Consortium (“MTEC”).

We have received substantial support from the U.S. government for our DeepView System’s application for burn wounds from BARDA, which is part of the Department of Health and Human Services Office of the Assistant Secretary for Preparedness and Response in the United States, established to aid in securing the United States from chemical, biological, radiological, and nuclear threats, as well as from pandemic influenza and emerging infectious diseases. We have also received funding from the National Science Foundation, the National Institute of Health and the Defense Health Agency (“DHA”), an agency within the Department of Defense. On September 27, 2023, the Company executed a new contract with BARDA, providing the Company with additional funding of up to approximately \$150.0 million. This includes an initial award of approximately \$54.9 million to support the clinical validation study and the distribution of up to 30 DeepView Systems in various burn centers and emergency departments to support the study and approximately another \$95.0 million for further follow-on development and procurement activities related to the DeepView System. The funding also supported the Company’s FDA De Novo submission of our DeepView AI – Burn software, which was completed on June 30, 2025. In March 2026, BARDA exercised a portion of its contractual options under the contract, providing the Company with (i) a no-cost extension of the base phase of the contract from March, 2026 to June 2026 and (ii) accelerated funding of approximately \$31.7 million for further follow-on development and procurement activities related to the DeepView System. The contract continues to provide additional options, similar to our prior BARDA contracts, with an additional \$63.4 million which can be exercised for additional product development, and the expanded procurement and deployment of DeepView Systems at emergency rooms, trauma and burn centers. These deployments will enable the Company to conduct health economic and outcome research studies to support the broader clinical adoption of the DeepView System. As part of this funding advance, the Company has committed to fund \$9.7 million of the total overall development costs associated with these feature advancements.

Subject to our receipt of the necessary regulatory market authorizations, we intend to initially sell the DeepView System throughout the United States and the UK for its burn indication. Given our receipt of the UKCA authorization for our burn indication we anticipate initial sales in UK to begin in 2026 with an expanded labeling in the UK to include the FDA submitted DeepView System algorithm and features. The sales channel for our burn indication will be supported by existing and future governmental contracts, primarily from agencies such as BARDA and the DHA. In the United States, there are approximately 100 burn centers, 700 trauma centers and 5,400 federal and community hospitals with emergency rooms where the burn patients are most likely to present upon injury. The DeepView System provides a quick clinical diagnostic decision tool for emergency room clinicians. It can be used to quickly assess the healing potential for burn wounds so decisions regarding whether patients need routine care or should be transferred to trauma centers or burn centers for advanced care and accurate surgical planning can be made in a much more timely fashion. The DeepView System provides an advanced diagnostic assessment of the non-healing areas of a burn in emergency rooms, trauma centers and burn centers. For the DeepView System’s burn application and following receipt of any future contract awards, we plan to partner with the U.S. governmental agency sponsors to implement the distribution of our DeepView System throughout the United States into key regions to support the United States’ mass casualty countermeasure directives, with the goal of making our country better prepared for mass casualty events and saving scarce healthcare resources.

Basis of Presentation

The Company's condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") or an Accounting Standards Update ("ASU").

These condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's audited consolidated financial statements as of and for the years ended December 31, 2025 and 2024. The condensed consolidated balance sheet as of December 31, 2025 included herein was derived from the audited consolidated financial statements as of that date.

The accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods. The results for the three months ended March 31, 2026 are not necessarily indicative of the results to be expected for any subsequent quarter, the year ending December 31, 2026, or any other period.

Except as described elsewhere in Note 2 under the heading "Recently accounting pronouncements," there have been no material changes to the Company's significant accounting policies as described in the audited consolidated financial statements as of December 31, 2025.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Spectral MD Holdings LLC, Spectral MD, Inc., Spectral MD UK Limited ("Spectral MD UK"), and Spectral IP, Inc. ("Spectral IP"). Inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company's balance sheets and the amounts of expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, revenue recognition (including the measure of progress of completion), warrant liabilities, the fair value of certain debt, stock-based compensation expense, stock issued for transaction costs, the net realizable value of inventory, right-of-use assets, and income tax valuation allowances. Actual results could differ from these estimates.

Segments

Operating segments are defined as components of an enterprise for which separate and discrete information is available for evaluation by the chief operating decision-maker in deciding how to allocate resources and assess performance. The Chairman of the Board in conjunction with the Company's executive management team manages the Company's operations on an aggregate basis for the purpose of allocating resources.

The Company has one operating segment. The accounting policies of the Company's single operating and reportable segment are the same as those described in the summary of significant accounting policies.

The Company's method for measuring profitability includes net loss, which the chief operating decision-maker uses to assess performance and make decisions for resource allocation, consistent with the measurement principals for net income(loss) as reported on the Company's consolidated statement of operations. The significant expenses regularly reviewed by the chief operating decision-maker are consistent with those reported on the Company's consolidated statement of operations as well as research and development expenses which are disclosed in the footnotes to these financial statements. Certain expenses are reviewed for purposes of assessing operating activities and resource allocation for the Company. The measure of segment assets is reported on the consolidated balance sheets as total assets.

Income Taxes

The Company recorded an income tax provision for Texas Franchise Tax of approximately \$10,000 during the three-month period ended March 31, 2026. The Company recorded an income tax provision of approximately \$71,000 three month period ended March 31, 2025. The effective tax rate was (0.3)% for the three-month period ended March 31, 2026, and 2.4% for the three-month period ended March 31, 2025.

The tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items arising in that quarter. The Company's effective tax rate differs from the U.S. statutory tax rate in the three months ended March 31, 2026, primarily due to changes in valuation allowances on deferred tax assets as it is more likely than not that the Company's deferred tax assets will not be realized.

The Company evaluates its tax positions on a quarterly basis and revises its estimate accordingly.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist principally of cash and accounts receivable. Primarily all cash is held in US financial institutions which, at times, exceed federally insured limits. The Company has not recognized any losses from credit risks on such accounts. The Company believes it is not exposed to significant credit risk on cash.

Additional credit risk is related to the Company's concentration of accounts receivable. As of March 31, 2026 and December 31, 2025, accounts receivable were concentrated from one customer (which is a US. government agency) representing 100% in each period. No allowance for expected credit losses was recorded as of March 31, 2026 and December 31, 2025.

One customer (which is a U.S. government agency) accounted for 83% for the three months ended March 31, 2026 and 95% for the three months ended March 31, 2025 of the recognized research and development revenue.

Risks and Uncertainties

The Company is subject to a number of risks common to development stage companies in the medical technology industry, including, but not limited to, risks of failure of preclinical studies and clinical trials, dependence on key personnel, protection of proprietary technology, reliance on third party organizations, risks of obtaining regulatory approval for any products that it may develop, development by competitors of technological innovations, compliance with government regulations and the need to obtain additional financing.

Liquidity

As of March 31, 2026 and December 31, 2025, the Company had approximately \$11.7 million and \$15.4 million, respectively, in cash, and an accumulated deficit of \$59.2 million and \$55.8 million, respectively. As of March 31, 2026 and December 31, 2025, the Company had approximately \$8.4 million and \$8.4 million, respectively, of debt outstanding of which \$4.5 million and \$5.5 million represented long-term debt as of such periods.

On March 24, 2025, the Company completed an equity financing and entered into a long-term debt financing agreement with Avenue Venture Opportunities Fund II, L.P., a fund of Avenue Capital Group (the "Avenue Financing"), which provides for the ability to borrow up to \$15.0 million with an initial draw-down of \$8.5 million, and the remaining availability is contingent upon, among other things, FDA clearance of the DeepView System, see Note 6.

The Avenue Financing also included warrant coverage equal to 8.5% of the total funding commitment from Avenue, with an exercise price equal to the lower of (i) average of the daily volume weighted average price of Common Stock as reported for each of five (5) consecutive trading days, determined as of the end of the trading on the last trading day before the date of issuance, which was \$1.66 and (ii) the lowest price per share paid to the Company by cash investors for Common Stock issued in any sale of Common Stock in a bona-fide equity raising that closes at any time commencing from March 21, 2025 through (but excluding) December 31, 2025.

On March 21, 2025, as a condition to the Avenue Financing, the Company entered into securities purchase agreements with certain investors in the United States and the United Kingdom for the sale of an aggregate of 2,076,923 shares of the Company's Common Stock, at an offering price of \$1.30 per Share which raised an additional \$2.7 million.

On October 22, 2025, the Company entered into a securities purchase agreement with Hudson Bay Master Fund Ltd., which provided for the issuance and sale of 3.1 million shares of Common Stock, at an offering price of \$1.90 per share. In addition, in a concurrent private placement, the Company issued and sold warrants for the purchase of up to 4.0 million shares of Common Stock and pre-funded warrants to purchase up to 0.9 million shares of common stock, for aggregate gross proceeds of \$7.6 million (such transaction, the "Hudson Bay Financing"). Each warrant has an exercise price per share of \$2.51 and will be exercisable on the earlier of (a) the effective date of stockholder approval for the issuance of shares of Common Stock underlying the warrants and (b) the date that is six months following the issuance date of the warrants and will have a term of five (5) years from the initial issuance date. See Note 2 for further information.

On March 18, 2026, the Company announced that it has received a contract modification from BARDA for the acceleration of \$31.7 million from its existing contract with BARDA which included (i) a no-cost extension of the base phase of the contract, and (ii) the acceleration of certain parts of the next phase of such contract. As part of this funding advance, the Company has committed to fund \$9.7 million of the total overall development costs associated with these feature advancements. This funding comes as part of an ongoing partnership with BARDA, which has committed \$86.6 million to date under the contract with an overall value of approximately \$150 million.

As of March 31, 2026, based on our current operating plan, we believe that our cash and cash equivalents, together with the PBS BARDA Contract, the MTEC Agreement, the Avenue Financing, the Hudson Bay Financing, the Yorkville SEPA and certain research and development cost-saving measures, the Company believes it has, sufficient working capital to fund operations for at least one year beyond the release date of the condensed consolidated financial statements. We have based this determination on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Changing circumstances could also cause us to consume capital significantly faster than we currently anticipate, and we may need to raise capital sooner or in greater amounts than currently expected because of circumstances beyond our control. To the extent additional capital is necessary, there are no assurances that we will be able to raise additional capital on favorable terms or at all, and therefore we may not be able to execute our business plans and the continued work on indications beyond expanding our burn indication.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

In July 2025, the FASB issued ASU No. 2025-05, Measurement of Credit Losses for Accounts Receivable and Contract Assets, (“ASU 2025-05”) which provides a practical expedient to measure credit losses on accounts receivable and contract assets. The Company adopted this guidance prospectively in the three months ended March 31, 2026. The adoption of ASU 2025-05 did not have a material impact on the consolidated financial statements and related disclosures.

Recently Issued Accounting Standards

In October 2023, the FASB issued ASU 2023-06 Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative (“ASU 2023-06”), which modifies certain disclosure and presentation requirements of a variety of Topics in the Codification and is intended to both clarify or improve such requirements and align the requirements with the SEC’s regulations. The effective date for each amendment is the effective date of the removal of the related disclosure from Regulation S-X or Regulation S-K, with early adoption prohibited. The Company will apply the provisions prospectively as such provisions become effective and does not expect ASU 2023-06 to have a material impact on the consolidated financial statements.

In November 2024, the FASB issued ASU No. 2024-03, Income Statement- Reporting Comprehensive Income- Expense Disaggregation Disclosures (Subtopic 220-40), requiring public business entities to disclose additional information about specific expense categories in the notes to financial statements at interim and annual reporting periods. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027, with early adoption permitted. The disclosures required under the guidance can be applied either prospectively to financial statements issued for reporting periods after the effective date or retrospectively to any or all periods presented in the financial statements. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements and disclosures.

3. FAIR VALUE MEASUREMENTS

The following table presents information about the Company’s financial liabilities that are measured at fair value on a recurring basis as of March 31, 2026 and December 31, 2025, by level within the fair value hierarchy (in thousands):

	Fair value measured as of March 31, 2026			
	Fair value at March 31, 2026	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liabilities	\$ 12,535	\$ 4,723	\$ -	\$ 7,812
	\$ 12,535	\$ 4,723	\$ -	\$ 7,812

	Fair value measured as of December 31, 2025			
	Fair value at December 31, 2025	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liabilities	\$ 11,533	\$ 3,795	\$ -	\$ 7,738
	\$ 11,533	\$ 3,795	\$ -	\$ 7,738

There were no transfers between Level 1, 2 or 3 during the three months ended March 31, 2026.

Fair values of cash, accounts receivable, accounts payable, accrued expenses, and short-term debt are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The fair value of the Public Warrants, which trade in active markets, is based on quoted market prices and classified in Level 1 of the fair value hierarchy. The Angel Warrants, Avenue Warrants, Investor Warrants, and Hudson Warrants are classified within Level 3 of the fair value hierarchy because their fair values are based on significant inputs that are unobservable in the market.

The fair value of the Angel Warrants and Avenue Warrants at March 31, 2026 were estimated using a Black-Scholes option pricing model. The fair value of the Investor Warrants and Hudson Warrants were estimated using a simulation model.

The following table presents changes in Level 3 liabilities measured at fair value for the three months ended March 31, 2026 and 2025 (in thousands):

Balance - January 1, 2026	\$ 7,738
Change in fair value	74
Balance - March 31, 2026	\$ 7,812
Balance - January 1, 2025	\$ 41
Issuance	2,908
Change in fair value	(37)
Balance - March 31, 2025	\$ 2,912

Both observable and unobservable inputs were used to determine the fair value of warrants that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

The following table provides quantitative information regarding Level 3 fair value measurements inputs at their measurement:

Valuation Method	March 31, 2026			
	Angel Warrants	Investor Warrants	Avenue Warrants	Hudson Warrants
	Black Scholes	Monte Carlo	Black Scholes	Monte Carlo
Strike price (per share)	\$ 7.32	\$ 1.80	\$ 1.66	\$ 2.51
Contractual term (years)	1.2	4.0	3.3	4.6
Volatility (annual)	93.1%	80.0%	78.1%	80.0%
Risk-free rate	3.7%	3.8%	3.8%	3.9%
Dividend yield (per share)	0.0%	0.0%	0.0%	0.0%
Probability assessment ⁽¹⁾	n/a	10%-30%	n/a	10%-30%
Valuation Method	December 31, 2025			
	Angel Warrants	Investor Warrants	Avenue Warrants	Hudson Warrants
	Black Scholes	Monte Carlo	Black Scholes	Monte Carlo
Strike price (per share)	\$ 7.32	\$ 1.80	\$ 1.66	\$ 2.51
Contractual term (years)	1.5	4.2	3.5	4.8
Volatility (annual)	92.1%	80.0%	79.0%	70.0%
Risk-free rate	3.5%	3.6%	3.6%	3.6%
Dividend yield (per share)	0.0%	0.0%	0.0%	0.0%
Probability assessment ⁽¹⁾	n/a	10%-30%	n/a	10%-30%

(1) Probability assessment reflects management's estimate of the likelihood of an event that could accelerate exercisability or modify settlement mechanics under the warrant agreements

Warrant Liabilities

On September 11, 2023, in conjunction with the Business Combination, the Company assumed the Public Warrants which had an exercise price of \$11.50 per share, are exercisable 30 days after the Business Combination and expire five years after the Business Combination or upon redemption. The Company may redeem the Public Warrants if the Company's common stock, \$0.0001 par value ("Common Stock") equals or exceeds \$18.00 per share for 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption to the holders of Public Warrants. In November 2024, the Company amended the Public Warrants to have an exercise price of \$2.75 per share. As of March 31, 2026, there are 8,433,333 Public Warrants outstanding. Each warrant entitles the registered holder to purchase one share of Common Stock at an exercise price of \$2.75 per full share. Pursuant to the Warrant Agreement, a holder of Public Warrants may exercise its Public Warrants only for a whole number of shares of Common Stock. This means that only a whole warrant may be exercised at any given time by a holder of Public Warrants. The Company maintains a redemption right with respect to the Public Warrants in that the Company can redeem some or all of the Public Warrants for \$0.10 per Public Warrant based on certain market conditions and the market price of the Company Common Stock.

In September 2021, the Company issued 73,978 warrants, with a strike price of \$7.32 and a five-year life, to SP Angel Corporate Finance LLP ("SP Angel"), who acted as nominated adviser and broker to the Company for the purposes of the AIM Rules relating to the London Stock Market (the "Angel Warrants"). In conjunction with the Business Combination, the Angel Warrants were converted into warrants to purchase Common Stock based on the exchange ratio as set forth in the Business Combination agreements. As of March 31, 2026, there are 77,017 Angel Warrants to purchase Common Stock outstanding. In December 2025, SP Angel was issued 3,039 additional Angel Warrants due to an anti-dilution right that was implicated in a Qualifying Financing (as defined in the warrant agreement). The Hudson Bay transaction, which closed in October 2025, qualified as a Qualifying Financing. Following the adjustment, there were 77,017 Angel Warrants Outstanding.

Investor Warrants: On March 21, 2025, the Company entered into the purchase agreements with certain stockholders for the sale of an aggregate of 2,068,846 shares of Common Stock, at an offering price of \$1.30 per Share (the "Purchase Agreements"). In a concurrent private placement pursuant to the Purchase Agreements (the "Private Placement"), the Company agreed to sell to the investors an aggregate of 2,068,846 warrants to purchase shares of Common Stock at an exercise price of \$1.80 per share (the "Investor Warrants"). The Investor Warrants, along with the shares of Common Stock issuable upon the exercise of the Investor Warrants, were offered pursuant to the exemptions provided in Section 4(a)(2) under the Securities Act of 1933, as amended (the "Securities Act"). No consideration was received by the Company for the issuance of the Investor Warrants.

The Investor Warrants issued in connection with the Purchase Agreements are exercisable any time on or after March 20, 2025 (the "Issuance Date") and on or prior to the close of business on the third anniversary of the Issuance Date. Additionally, the Investor Warrants issued in connection with the Purchase Agreements contain adjustment provisions in the event of (i) stock dividends and split, (ii) reclassifications of securities, (iii) issuance of Common Stock or Common Stock Equivalents (as defined in the Purchase Agreements), (iv) pro rata distributions, (v) Fundamental Transactions (as defined in the Warrants), and (vi) subsequent equity sales of shares of common stock or common stock equivalents for a consideration per share less than a price equal to \$1.30, subject to a floor of \$0.65 per share. The Investor Warrants issued in connection with the Purchase Agreements also include a "Most Favored Nation" clause which grants the holders of such Investor Warrants the right, in their sole discretion, to elect to receive more favorable terms and conditions given to a subsequent investor in a subsequent financing transaction (including, but not limited to, a lower purchase price per share, a higher warrant coverage percentage, a lower warrant exercise price, a longer warrant exercise period, more favorable anti-dilution protections, preferential liquidation rights, enhanced voting rights, reduced fees or commissions, more advantageous registration rights, or the inclusion of additional incentives such as cash bonuses, dividend preferences, or equity sweeteners). The Investor Warrants were determined to be liability classified instruments, as certain terms preclude them from being considered indexed to the Company's Common Stock. The gross proceeds of the Private Placement and Investor Warrants of \$2.7 million were allocated to the Investor Warrants based on their fair value at issuance of \$2.2 million, with the residual gross proceeds of \$0.5 million allocated to the Common Stock. Total issuance costs incurred of \$0.2 million were allocated between the Investor Warrants and Common Stock issued. Issuance costs allocated to the Investor Warrants of \$43,000 were expensed during the year ended December 31, 2025 as financing related costs in the consolidated statement of operations and comprehensive loss. Issuance costs allocated to the Common Stock of \$152,000 were recorded in additional paid-in-capital.

In May 2025, 915,000 Investor Warrants (the “Amended Investor Warrants”) were amended and restated. The amendment extended the contractual term such that the Amended Investor Warrants are exercisable any time on or prior to the close of business on the fifth anniversary of the Issuance Date and resulted in \$137,000 increase in the fair value of the warrants recognized as additional expense in the change in fair value of warrant liabilities in the consolidated statement of operations and comprehensive loss.

During the year ended December 31, 2025, 1,403,846 Investor Warrants were exercised. The warrants were remeasured to fair value immediately prior to exercise and the carrying amount of the warrant liability was derecognized and reclassified to additional paid-in-capital. Any proceeds received from exercise were recognized in stockholders’ equity. The exercise of warrants resulted in an increase to stockholders’ equity of \$4.7 million. For the three months ended March 31, 2026 no Investor Warrants were exercised. As of March 31, 2026, there were 665,000 Investor Warrants to purchase Common Stock outstanding.

Avenue Warrants: On March 24, 2025, the Company completed the Avenue Financing, with an initial draw-down of \$8.5 million. As part of the Avenue Financing, the Company issued 768,072 warrants to Avenue Capital Group which was equal to 8.5% of the total funding commitment (the “Avenue Warrants”). The Avenue Warrants have an exercise price equal to the lower of \$1.66 per share and the lowest price per share paid to the Company in cash for common stock through December 31, 2025. The Avenue Warrants were determined to be classified as a liability instrument as certain terms preclude them from being considered indexed to the Company’s Common Stock.

The net proceeds of the Avenue Financing of \$8.3 million were first allocated to the fair value of the Avenue Warrants, with the residual proceeds being allocated to the debt. The difference between debt proceeds and the amount of those proceeds allocated to debt gave rise to a debt discount of \$0.7 million. The discount amount due to the Avenue Warrants of \$0.7 million along with the loan fees allocated to the loan of \$1.0 million, which includes the final payment of \$0.8 million, for an aggregate debt discount and debt issuance costs of \$1.7 million, will be amortized as interest expense through maturity using the effective interest method. The portion of loan fees allocated to the Avenue Warrants, of \$22,000, were expensed during the year ended December 31, 2025 as financing related costs in the consolidated statement of operations and comprehensive loss.

As of March 31, 2026, there were 768,072 Avenue Warrants to purchase Common Stock outstanding.

Hudson Warrants: On October 22, 2025, the Company entered into a securities purchase agreement with a certain investor for the sale of 3,065,000 shares of Common Stock, at an offering price of \$1.90 per Share (the “Offering”). In a concurrent private placement pursuant to the purchase agreement, the Company agreed to sell to the investor (i) warrants (the “Hudson Warrants”) to purchase up to 4,000,000 shares of Common Stock, and (ii) pre-funded warrants (the “Pre-Funded Warrants”) to purchase up to 935,000 shares of Common Stock. Each Hudson Warrant has an exercise price per share of \$2.51, will exercisable on the earlier of (a) the effective date of stockholder approval for the issuance of shares of Common Stock underlying the warrants and (b) the date that is six months following the issuance date of the warrants and will have a term of five years from the initial issuance date. Each Pre-Funded Warrant has a purchase price of \$1.8999, an exercise price per share of \$0.0001, is exercisable immediately and may be exercised at any time until such Pre-Funded Warrant is exercised in full. The Hudson Warrants and the Pre-Funded Warrants, along with the shares of Common Stock issuable upon the exercise of the warrants, are being offered pursuant to the exemptions provided in Section 4(a)(2) under the Securities Act of 1933, as amended.

The Hudson Warrants and Pre-Funded Warrants contain adjustment provisions in the event of (i) stock dividends and split, (ii) pro rata distributions, and (iii) Fundamental Transactions (as defined in the warrant agreements). In the event of a Fundamental Transaction not in the Company's control, the holders of the Warrants have the right to require the Company or a successor entity to redeem the Hudson Warrants for cash in the amount of the Black Scholes Value (as defined in the warrant agreements). The Hudson Warrants contain further adjustment provisions in the event of the (i) subsequent equity sales of shares of common stock or common stock equivalents for a consideration per share less than a price equal to \$2.51 (ii) changes in the exercise price or rate of conversion of equity sales or convertible securities any time prior to the two-year anniversary of the stockholder approval date, subject to a floor of \$0.48 per share. The Hudson Warrants were determined to be liability classified instruments, as certain terms preclude them from being considered indexed to the Company's Common Stock. The Pre-Funded Warrants were determined to be equity classified instruments, as they are considered indexed to the Company's stock and do not contain any provisions that preclude equity classification. The gross proceeds of the Offering and private placement of \$7.6 million were allocated to the Hudson Warrants based on their fair value at issuance of \$7.5 million, with the residual gross proceeds of \$0.1 million allocated between the Common Stock and Pre-Funded Warrants based on their relative fair value. Total issuance costs of \$0.6 million were incurred and allocated between the warrants and Common Stock issued. Issuance costs allocated to the Hudson Warrants of \$0.6 million were expensed during the year ended December 31, 2025 as financing related costs in the consolidated statement of operations and comprehensive loss. Issuance costs allocated to the Common Stock and Pre-Funded Warrants of less than \$0.1 million were recorded in additional paid-in-capital.

As of March 31, 2026, there were 4,000,000 Hudson Warrants to purchase Common Stock outstanding.

The Company accounts for its Public Warrants, Angel Warrants, Investor Warrants and Hudson Warrants as derivative liabilities. Accordingly, the Company recognizes the instruments as liabilities at fair value, and adjusts the instruments to fair value at the end of each reporting period. The liabilities are subject to re-measurement at each balance sheet date until exercised, redeemed or expired, and any change in fair value is recognized in the Company's consolidated statements of operations within other income (expense).

4. RESEARCH AND DEVELOPMENT REVENUE

For the three months ended March 31, 2026 and 2025, the Company's revenues disaggregated by the major sources were as follows (in thousands):

	Three Months Ended March 31,	
	2026	2025
BARDA	\$ 3,311	\$ 6,382
Other U.S. governmental authorities	680	325
Total revenue	\$ 3,991	\$ 6,707

The following table presents the activity in the Company's contract liabilities during the three months ended March 31, 2026:

	December 31, 2025	Additions	Reductions	March 31, 2026
	Balance			Balance
(in thousands)				
Contract liabilities:				
Deferred revenue	\$ 154	\$ 5,104	\$ (5,258)	\$ -
Total contract liabilities	\$ 154	\$ 5,104	\$ (5,258)	\$ -

The following table presents the activity in the Company's contract assets during the three months ended March 31, 2026:

	December 31, 2025	Additions	Reductions	March 31, 2026
	Balance			Balance
	(in thousands)			
Contract assets:				
Unbilled revenue	\$ 849	\$ 447	\$ -	\$ 1,296
Total contract assets	\$ 849	\$ 447	\$ -	\$ 1,296

Research and Development Revenue

On March 18, 2026, the Company announced that it has received a contract modification from the Biomedical Advanced Research and Development Authority (BARDA) for the advancement of \$31.7 million from its existing contract with BARDA which included (i) a no-cost extension of the base phase of the contract, and (ii) the acceleration of certain parts of the next phase of such contract. As part of this funding advance, the Company has committed to fund \$9.7 million of the total overall development costs associated with these feature advancements. This funding comes as part of an ongoing partnership with BARDA, which has committed \$86.6 million to date under the contract with an overall value of approximately \$150 million.

Research and Development Expense

The Company expenses research and development costs as incurred. These expenses include salaries for research and development personnel, consulting fees, product development, pre-clinical studies, clinical trial costs, and other fees and costs related to the development of our technology. For the three months ended March 31, 2026 and 2025, research and development expense was \$2.0 million and \$3.6 million, respectively, of which \$2.0 million and \$3.4 million, respectively, is related to the combined BARDA contract and contracts with other U.S. governmental authorities and included in cost of revenue and \$64 thousand and \$0.2 million, respectively, is included in general and administrative expenses.

5. ACCRUED EXPENSES

Accrued expenses consist of the following as of March 31, 2026 and December 31, 2025 (in thousands):

	March 31, 2026	December 31, 2025
Salary and wages	\$ 2,017	\$ 1,762
Operating expenses	74	81
Benefits	402	340
Non-operating expenses	96	98
Taxes	60	60
Total accrued expenses	\$ 2,649	\$ 2,341

6. NOTES PAYABLE

The Company entered into the Avenue Financing and financing arrangements for a portion of its Directors and Officers (“D&O”) insurance premiums, as follows (in thousands):

	Amount Financed	Interest Rate	Principal Repayments		Outstanding Balance	
			Three Months Ended		March 31, 2026	December 31, 2025
			March 31,			
			2026	2025	2026	2025
Avenue Capital Note Principal and Final Payment Fee	\$ 8,500	Prime + 5.25%	\$ -	\$ -	\$ 9,250	\$ 9,250
Yorkville Convertible Notes, at fair value	11,500	0.0%	-	2,365	-	-
2025 Insurance Note	580	8.0%	157	-	269	426
2024 Insurance Note	596	8.4%	-	178	-	-
			<u>\$ 157</u>	<u>\$ 2,543</u>	<u>\$ 9,519</u>	<u>\$ 9,676</u>
Less: current portion of notes payable					(3,912)	(2,854)
Unamortized debt discounts and debt issuance costs					(1,105)	(1,284)
Notes payable, long term					<u>\$ 4,502</u>	<u>\$ 5,538</u>

Avenue Capital Financing

On March 24, 2025, the Company completed the Avenue Financing, with an initial draw-down of \$8.5 million.

The term of the Avenue Financing is for three years, with an interest-only payment period of no less than 15 months, which can be extended to 24 months upon achieving the milestones for the second financing tranche. The second financing tranche, which includes an additional \$6.5 million in debt financing from Avenue Capital Group is contingent upon; (i) FDA clearance of the DeepView System and (ii) the Company completing a \$7.0 million equity raise. The borrowings under the Avenue Financing accrue interest at a variable amount per annum equal to the greater of (i) the sum of (A) the Prime Rate plus (B) 5.25%, and (ii) 12.75%, and they mature on March 1, 2028 (the “Maturity Date”). In addition, on the Maturity Date a final payment of \$0.8 million is due to Avenue Capital Group and is accrued as debt as of March 31, 2026.

Up to \$2.0 million of the borrowings under the Avenue Financing are convertible at the lender’s option, into a number of shares of common stock at a price per share equal to 120% of the exercise price of the Avenue Warrants discussed below. Pursuant to the guidance in ASC 815-40, Contracts in Entity’s Own Equity, the Company evaluated whether the conversion feature needed to be bifurcated from the host instrument as a freestanding financial instrument. Under ASC 815-40, to qualify for equity classification (or non-bifurcation, if embedded) the instrument (or embedded feature) must be both (1) indexed to the issuer’s own stock and (2) meet the requirements of the equity classification guidance. Based upon the Company’s analysis, it was determined the conversion option is indexed to its own stock and also met all the criteria for equity classification. Accordingly, the conversion option is not required to be bifurcated from the host instrument as a derivative.

As part of the Avenue Financing the Company issued 768,072 warrants to Avenue Capital Group which was equal to 8.5% of the total funding commitment. The Avenue Warrants have an exercise price equal \$1.66 per share, see Note 3.

Repayment of Yorkville Convertible Notes

During the first quarter of 2025, the Company paid the remaining \$2.4 million of the Yorkville Convertible Notes of which \$1.2 million was settled in cash and \$1.2 million was settled in shares of common stock.

Insurance Notes

The Company determined that the carrying amounts of all of the insurance notes approximate fair value due to the short-term nature of borrowings and current market rates of interest.

7. COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is not a party to any material legal proceedings or pending claims. From time to time, the Company may be subject to various legal proceedings and claims that arise in the ordinary course of its business activities, none of which we believe are material or would be expected to have, individually or in the aggregate, a material adverse effect on our business, financial condition, cash flows or results of operations.

8. STOCKHOLDERS' DEFICIT

In conjunction with the Closing, the Company's certificate of incorporation was amended and restated to authorize the issuance of 80,000,000 shares of Common Stock, \$0.0001 par value and 1,000,000 shares of preferred stock, \$0.0001 par value (the "Preferred Stock").

During the three months ended March 31, 2026, 935,000 Pre-Funded Warrants were exercised, at an exercise price per share of \$0.0001.

9. STOCK-BASED COMPENSATION

As of March 31, 2026, there were 3,795,494 shares available for the grant of awards under the Company's 2023 Long Term Incentive Plan (the "2023 Plan").

Restricted Stock Units

A summary of RSU activities for the three months ended March 31, 2026 are presented below:

	<i>Number of Shares</i>	<i>Weighted Average Grant Date Fair Value per Share</i>
Nonvested as of January 1, 2026	9,700	\$ 0.45
Granted	-	\$ -
Vested	-	\$ -
Forfeited	-	\$ -
Nonvested as of March 31, 2026	<u>9,700</u>	<u>\$ 0.45</u>

As of March 31, 2026, total unrecognized compensation expense related to restricted stock units was \$1.2 thousand, which is expected to be recognized over a weighted-average period of 0.04 years.

Stock Options

A summary of stock options activity for the three months ended March 31, 2026 is presented below:

	<i>Stock Options</i>	<i>Weighted Average Exercise Price</i>	<i>Weighted Average Remaining Contractual Life (in years)</i>	<i>Aggregate Intrinsic Value (in thousands)</i>
Outstanding at January 1, 2026	3,857,138	\$ 1.84	6.1	544
Options granted	-	\$ -		
Options forfeited	(64,810)	\$ 1.83		
Options cancelled	-	\$ -		
Options exercised	(150,000)	\$ 1.04		
Outstanding as of March 31, 2026	<u>3,642,328</u>	\$ 1.87	5.9	571
Options vested and exercisable as of March 31, 2026	<u>2,951,221</u>	\$ 1.94	5.2	440

The Company did not grant any stock options during the three months ended March 31, 2026. As of March 31, 2026, total unrecognized compensation expense related to stock options was \$0.3 million, which is expected to be recognized over a weighted-average period of 0.9 years.

The Company recorded stock-based compensation expense for stock options and RSUs of \$183 thousand and \$200 thousand for the three months ended March 31, 2026 and March 31, 2025, respectively, in general and administrative expenses in the condensed consolidated statements of operations.

10. NET (LOSS) INCOME PER COMMON SHARE

Basic and diluted net income (loss) per share was calculated as follows (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2026	2025
Numerator:		
Net income (loss) attributable to common stockholders - basic	\$ (3,412)	\$ 2,897
Less: Change in fair value of convertible notes	-	(220)
Net income (loss) attributable to common stockholders - diluted	<u>\$ (3,412)</u>	<u>\$ 2,677</u>
Denominator:		
Weighted average shares of common stock outstanding - basic	31,756,649	22,986,350
Effective of dilutive securities	-	1,044,168
Weighted average shares of common stock outstanding - diluted	31,756,649	24,030,518
Net income (loss) per share of common stock - basic	<u>\$ (0.11)</u>	<u>\$ 0.13</u>
Net income (loss) per share of common stock - diluted	<u>\$ (0.11)</u>	<u>\$ 0.11</u>

The table below summarizes potentially dilutive securities that were excluded from the above computation of net loss per common share as of the periods presented because including them would be anti-dilutive.

	Three Months Ended March 31,	
	2026	2025
Common stock options	3,642,328	1,971,145
Common stock warrants	13,943,422	8,507,311
Unvested restricted stock units	9,700	94,399
Total	<u>17,595,449</u>	<u>10,572,855</u>

11. RELATED PARTY TRANSACTIONS

None.

12. SUBSEQUENT EVENTS

On April 8, 2026, the Company announced the appointment of David McGuire as the Company's Chief Financial Officer, filling the vacancy created by Vincent Capone's appointment as Chief Executive Officer. In connection with his appointment as Chief Executive Officer on February 10, 2026, the Board of Directors entered into a new employment agreement with Mr. Capone on April 17, 2026. Copies of the employment agreements for Mr. McGuire and Mr. Capone were previously filed as exhibits to Current Reports on Form 8-K.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2025 (the “2025 Annual Report”). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the section titled “Risk Factors,” in our 2025 Annual Report and in other reports we have filed or may file with the SEC, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are an artificial intelligence (“AI”) company focused on predictive medical diagnostics. We operate in one segment. Currently, we are devoting substantially all of our efforts towards research and development of our DeepView System, an internally developed multi-spectral imaging (“MSI”) device that has previously received FDA breakthrough device designation (“BDD”) status for an earlier version. Given our receipt of the UKCA mark for burn indication on our DeepView System, we expect to begin commercialization activities in the United Kingdom in 2026. Our DeepView System uses proprietary algorithms to distinguish between damaged and healthy human tissue invisible to the naked eye, providing “Day One” healing assessments. DeepView’s output is specifically engineered to allow the physician to make a more accurate, timely and informed decision regarding the treatment of the patient’s wound. Our focus has been on the burn indication which is supported by the BARDA PBS contract.

For burn wounds, a non-healing assessment could aid the clinician in making an immediate and objective determination for appropriate candidates for surgery, as well as determining what specific areas of the burn wound will require excision and skin grafting. The Company has completed the enrollment of 164 patients, including 49 pediatric subjects, representing the full enrollment requirements in its validation study for the De Novo submission. In participants, the DeepView System has shown superiority in sensitivity and met non-inferiority margin in specificity compared to clinician assessment. These findings were corroborated by the AI model’s cross-validation in identifying non-healing burn regions. This represents a significant improvement above the diagnostic accuracy of burn physicians assessing the same population. In addition to our validation study, we have conducted three large clinical studies with multiple sites across the United States, enrolling more than 400 patients, including adult and pediatric burn patients.

We have not generated any product revenue to date. We have received substantial support from the U.S. government for our DeepView System’s application for burn wounds, particularly from the Biomedical Advanced Research and Development Authority (“BARDA”), which is part of the HHS Office of the Assistant Secretary for Preparedness and Response in the United States, established to aid in securing the United States from chemical, biological, radiological, and nuclear threats, as well as from pandemic influenza and emerging infectious diseases. We have also received funding from the National Science Foundation (the “NSF”), the National Institute of Health (the “NIH”) and the Defense Health Agency (the “DHA”). Since 2013, we have received approximately \$281.9 million in funding awards from government contracts, primarily from BARDA, which accounts for \$272.9 million. This has allowed us to develop our technology and further our clinical trials.

In September 2023, we executed our third contract with BARDA for a multi-year Project BioShield (“PBS”) agreement, valued at up to approximately \$150.0 million (the “PBS BARDA Contract”). This included an initial award of approximately \$54.9 million to support the clinical validation study and the distribution of up to 30 DeepView Systems in various burn centers and emergency departments to support our validation study and approximately another \$95.0 million for further follow-on development and procurement activities related to the DeepView System. The funding also supported the Company’s FDA De Novo submission of our DeepView AI – Burn software, which was completed on June 30, 2025. In March 2026, BARDA exercised a portion of its contractual options under the contract, providing the Company with (i) a no-cost extension of the base phase of the contract from March, 2026 to June 2026 and (ii) accelerated funding of approximately \$31.7 million for further follow-on development and procurement activities related to the DeepView System. The contract continues to provide additional options, similar to our prior BARDA contracts, with an additional total value of approximately \$63.4 million which can be exercised for additional product development, and the expanded procurement and deployment of DeepView Systems at emergency rooms, trauma and burn centers. These deployments will enable the Company to conduct health economic and outcome research studies to support the broader clinical adoption of the DeepView System. As part of this funding advance, the Company has committed to fund \$9.7 million of the total overall development costs associated with these feature advancements. This contract funding is non-dilutive to our shareholders, and we believe it validates the important nature of our mission and technology.

In addition to our PBS BARDA contract, we received a \$4.0 million grant award from the Medical Technology Enterprise Consortium (“MTEC”) in April 2023, which, building on prior awards from the DHA, is to be used to support military battlefield burn evaluation via a handheld version of the DeepView System device (the “MTEC Agreement”). In August 2024, the MTEC award was increased to \$4.9 million and was extended to run through December 2025 with funding dependent on various milestones. In December 2025, the MTEC contract was extended to run through June 2026. In March 2024, we received an additional \$0.5 million award from the DHA to further this development, for a total contract value of approximately \$2.8 million.

Once commercialized, we anticipate that the DeepView System will have two revenue streams, a SaMD (software as a medical device) model, and an imaging device component. The SaMD model applies a SaaS (software as a service) treatment for the DeepView System which will feature a software licensing fee that includes maintenance, image hosting, and access to algorithm updates. The proprietary imaging device accesses artificial intelligence algorithms and is a universal platform to house multiple clinical applications. Pricing for these components will be evaluated and strategically set per country and site-of-service for heightened customer adoption.

Business Combination

On September 12, 2023, following completion of the Business Combination, the Company began trading its shares of the Company Common Stock and the Public Warrants on the Nasdaq Global Market (the “Nasdaq”) under the symbols “MDAI” and “MDAIW”, respectively.

Key Operating and Financial Metrics

We regularly review a number of metrics, including the following key operating and financial metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. We believe the operating and financial metrics presented are useful in evaluating our operating performance, as they are similar to measures by our public competitors and are regularly used by security analysts, institutional investors, and other interested parties in analyzing operating performance and prospects. Adjusted EBITDA is a non-GAAP measure, as it is not a financial measure calculated in accordance with GAAP and should not be considered as a substitute for net loss, calculated in accordance with GAAP. See “Non-GAAP Financial Measures” for additional information on adopted non-GAAP financial measures and a reconciliation of these non-GAAP measures to the most comparable GAAP measures.

Comparison of Three Months Ended March 31, 2026 and 2025

The following table summarizes these metrics for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended March 31,		Change
	2026	2025	
Research and development revenue	\$ 3,991	\$ 6,707	\$ (2,716)
Gross profit	2,027	3,168	(1,141)
Gross margin	50.8%	47.2%	3.6%
Operating loss	(1,971)	(896)	(1,075)
Net income (loss)	(3,412)	2,897	(6,309)
Adjusted EBITDA	(1,758)	(694)	(1,064)

See “Non-GAAP Financial Measures” below for a reconciliation of net loss to Adjusted EBITDA.

Research and Development Revenue

We define research and development revenue as revenue generated from the research, testing and development of our DeepView System as utilized in connection with our burn indication. This research and development revenue reflects applied research and experimental development costs relating to our burn application as developed in connection with our BARDA, MTEC, and DHA contracts.

Gross Profit and Gross Margin

We define gross profit as research and development revenue, less cost of revenue, and define gross margin, expressed as a percentage, as the ratio of gross profit to revenue. Gross profit and gross margin can be used to understand our financial performance and efficiency and as we begin commercialization, it will allow investors to evaluate our pricing strategy and compare against our competitors. Our management uses these metrics to make strategic decisions, pricing decisions, identifying areas for improvement, set targets for future performance and make informed decisions about how to allocate resources going forward.

Adjusted EBITDA

We define adjusted earnings before interest, tax, depreciation and amortization (“Adjusted EBITDA”) as net loss excluding income taxes, depreciation of property and equipment, net interest income, stock compensation, transaction costs and any non-operating financial income and expense. See “Non-GAAP Financial Measures” for a reconciliation of GAAP net loss to Adjusted EBITDA.

Key Factors that May Influence Future Results of Operations

Our financial results of operations may not be comparable from period to period due to several factors. Key factors affecting our results of operations are summarized below.

Revenue Sources. As a pre-commercialization company, we currently generate revenue almost exclusively from two U.S. governmental agencies. We are highly dependent upon the continuation of the existing U.S. governmental contract awards, as well as future governmental procurement or other awards. Our operating results may not be comparable between periods as the timing and amount of awards or procurements from the U.S. government may be inconsistent with the timing of prior awards and the phasing of the development study schedules may be different. Our revenues may continue to be almost exclusively dependent upon the terms of those awards.

Gross Margin. When we begin commercial sales of the DeepView System, we may need to determine lower pricing and incentives to accelerate adoption and implementation of the DeepView System, which may negatively impact future revenue and gross margin percentages.

Managing our Supply Chain. We are reliant on contract manufacturers and suppliers to produce our components. While we have not been subject to any disruptions in our current limited production, we may be subject to component shortages, which may cause delays in critical components and inventory, longer lead times, increased costs and delays in product shipments. Our ability to grow depends, in part, on the ability of our contract manufacturers and suppliers to provide high quality services and deliver components and finished products on time and at reasonable costs. While we do not maintain sole-source suppliers, there is a concentration of suppliers which could lead to supply shortages, long lead times for components and supply changes. In the event we are unable to mitigate the impact of delays and/or price increases in raw materials, electronic components and freight, it could delay the manufacturing and installation of our products, which would adversely impact our cash flows and results of operations, including revenue and gross margin.

Components of Consolidated Statements of Operations

Research and Development Revenue

To date, we have not generated any revenues from the sale or license of our products. Our primary source of revenue is research and development revenue. Currently, we are highly dependent upon the reimbursements from BARDA for the burn diagnostic testing of our DeepView System and other U.S. government awards. The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers (“ASC 606”). The provisions of ASC 606 require the following steps to determine revenue recognition: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The Company’s product revenue is recognized when the performance obligation is satisfied by transferring control of the promised goods or services to a customer. Our research and development revenue is affected by the amount of research and development that is expended each month with respect to our contract with BARDA and other U.S. governmental contract awards, such as our grant under the MTEC Agreement which we earn based on the achievement of milestones and performance milestones. Our revenue growth is dependent upon a number of factors, including expanding the research and development activities under the BARDA contract, research and development reimbursed expenses relating to other contract awards from U.S. governmental agencies and the intended future commercial sales of our DeepView System. See “Liquidity and Capital Resources” for additional information.

Cost of Revenue

Our cost of revenues consists primarily of direct and indirect costs associated with the research and development expenses relating to the BARDA and MTEC contracts. Our revenue costs are affected by the extent of research and development expenses as well as expansion of work on other U.S. governmental projects and the expanded applications for our DeepView System.

Gross Profit

Gross profit may vary from period-to-period and is primarily affected by the current reimbursement rates under the BARDA contract and other U.S. governmental contract awards. These reimbursement rates are fixed under the BARDA contract. Under the BARDA contract our gross profit represents this reimbursement rate plus a fixed fee component relating to non-reimbursed expenses incurred in connection with the work completed. Under the other fixed fee U.S. governmental contract awards our gross profit corresponds to the achievement of pre-determined milestones

Operating Costs and Expenses

Operating costs and expenses consist of general and administrative expense. These expenses primarily relate to salaries and related costs of our organization's support and operations staff, consulting fees, rent, insurance and office expenses, and our non-revenue generating research and development expenses, primarily related to salaries and related costs and consulting fees.

Other income (expense)

Other income (expense) consists of net interest expense, financing related costs related to the Avenue Financing, fees related to the Hudson Bay Financing, change in the fair value of warrant liability, and foreign exchange transaction gains/losses. Historic foreign exchange transaction loss primarily relates to changes in the exchange rate between the U.S. dollar and the British pound sterling for our deposit accounts that are denominated in British pound sterling. In addition, this amount includes costs associated with buying British pound sterling for payment of our employees and vendors in the UK.

Results of Operations

The following table summarizes our results of operations for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended		Change
	March 31,		
	2026	2025	
Research and development revenue	\$ 3,991	\$ 6,707	\$ (2,716)
Cost of revenue	(1,964)	(3,539)	1,575
Gross profit	2,027	3,168	(1,141)
Operating costs and expenses:			
General and administrative	3,998	4,064	(66)
Total operating costs and expenses	3,998	4,064	(66)
Operating loss	(1,971)	(896)	(1,075)
Other income (expense):			
Net interest (expense) income	(258)	(20)	(238)
Financing related costs	(7)	(581)	574
Amortization of debt discount	(179)	-	(179)
Change in fair value of warrant liability	(1,002)	4,253	(5,255)
Change in fair value of notes payable	-	220	(220)
Foreign exchange transaction loss, net	(5)	(8)	3
Total other income (expense), net	(1,451)	3,864	(5,315)
Income (loss) before income taxes	(3,422)	2,968	(6,390)
Income tax provision	10	(71)	81
Net income (loss)	\$ (3,412)	\$ 2,897	\$ (6,309)

Research and Development Revenue

	Three Months Ended March 31,		Change in	
	2026	2025	\$	%
Research and development revenue	\$ 3,991	\$ 6,707	\$ (2,716)	-40.5%

Research and development revenue was \$4.0 million for the three months ended March 31, 2026, a decrease of 40.5% compared to the same periods in 2025, reflecting a decrease in the completed work under the PBS BARDA Contract as the contract progressed to the end of the base phase of such contract, partially offset by an increase in revenue from the awards and work performed under the Company's other U.S. governmental contracts.

For the three months ended March 31, 2026 and 2025, the Company's revenues disaggregated by the major sources were as follows (in thousands):

	Three Months Ended March 31,		Change in	
	2026	2025	\$	%
BARDA	\$ 3,311	\$ 6,382	\$ (3,071)	-48.1%
Other U.S. governmental authorities	680	325	355	109.2%
Total research and development revenue	\$ 3,991	\$ 6,707	\$ (2,716)	-40.5%

Cost of Revenues and Gross Profit

(in thousands)	Three Months Ended March 31,		Change in	
	2026	2025	\$	%
Cost of revenue	\$ 1,964	\$ 3,539	\$ (1,575)	-44.5%
Gross profit	2,027	3,168	(1,141)	-36.0%
Gross margin	50.8%	47.2%		

Cost of revenue for the three months ended March 31, 2026 was \$2.0 million, a decrease of 44.5% compared to the same periods in 2025, due to decreased development activity to fulfill our U.S. governmental contracts, consistent with the decrease in research and development revenue.

Gross margin for the three months ended March 31, 2026 was 50.8%, an increase of 3.6% as compared to the same periods in 2025, reflecting a decreased concentration of direct labor as a component of our overall revenue.

General and Administrative Expense

	Three Months Ended		Change in	
	March 31,			
	2026	2025	\$	%
General and administrative expense	\$ 3,998	\$ 4,064	\$ (66)	-1.6%

General and administrative expense was \$4.0 million for the three months ended March 31, 2026, a decrease of 1.6%, as compared to the same period in 2025 reflecting an overall decrease in expense offset by an increase in non-revenue generating research and development activities, primarily related to salaries and related costs and consulting fees. Additionally, the Company incurred less put option and premium expense for financing transactions in the current three-month period.

Other income (expense)

	Three Months Ended		Change in	
	March 31,			
	2026	2025	\$	\$
Net interest (expense) income	\$ (258)	\$ (20)	\$ (238)	
Financing related costs	(7)	(581)	574	
Amortization of debt discount	(179)	-	(179)	
Change in fair value of warrant liability	(1,002)	4,253	(5,255)	
Change in fair value of notes payable	-	220	(220)	
Foreign exchange transaction loss	(5)	(8)	3	
Total other income (expense), net	<u>\$ (1,451)</u>	<u>\$ 3,864</u>	<u>\$ (5,315)</u>	

Net interest expense for the three months ended March 31, 2026 primarily relate to interest expense associated with the Avenue Financing as well as costs related to the Company's insurance policy financing.

Financing related costs decreased \$0.6 million for the three months ended March 31, 2026, as compared to the comparable period in 2025 primarily due to the elimination of the expenses relating to the Company's prior financings that were expensed during fiscal year 2025. Amortization of debt discount of \$0.2 million for the three months ended March 31, 2026 relates to amortization of the discount on the Avenue note payable.

Change in fair value of warrant liability increased by approximately \$5.3 million for the three months ended March 31, 2026 as compared to the comparable period in 2025. Change in fair value of warrant liability was an expense of \$1.0 million for the three months ended March 31, 2026, as compared to a benefit of \$4.3 million for same period in 2025. The changes reflect fluctuations in the fair value of the Company's warrants during the three-month period ended March 31, 2026. The Company's warrants are classified as liabilities and remeasured to fair value at each reporting period, with changes recognized in net loss. As a result, fluctuations in the warrant price of Public Warrants and fluctuations in the fair value of other outstanding warrants may cause significant non-cash gains or losses, leading to volatility in reported net loss.

Foreign exchange transaction loss for the three months ended March 31, 2026 and 2025 is immaterial due to lower balances in our deposit accounts and accounts payable denominated in British pound sterling and less fluctuation in the exchange rate between the U.S. dollar and the British pound sterling. In addition, these amounts include costs associated with buying British pound sterling for payment of our employees and vendors in the UK.

Non-GAAP Financial Measures

We use Adjusted EBITDA as a non-GAAP metric when measuring performance, including when measuring current period results against prior periods' Adjusted EBITDA. This non-GAAP financial measure should be considered in addition to results prepared in accordance with GAAP and should not be considered as a substitute for, or superior to, GAAP results. In addition, Adjusted EBITDA should not be construed as an indicator of our operating performance, liquidity or cash flows generated by operating, investing and financing activities, as there may be significant factors or trends that it fails to address.

Because of their non-standardized definitions, non-GAAP measures (unlike GAAP measures) may not be comparable to the calculation of similar measures of other companies. We caution investors that non-GAAP financial information, by its nature, departs from traditional accounting conventions. Supplemental non-GAAP measures are presented solely to permit investors to more fully understand how Spectral AI's management assesses underlying performance.

Adjusted EBITDA

We define Adjusted EBITDA as net loss excluding income taxes, depreciation of property and equipment, net interest income, stock compensation, transaction costs and any non-operating financial income and expense.

The following table presents our Adjusted EBITDA for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended	
	March 31,	
	2026	2025
Net Income (loss)	\$ (3,412)	\$ 2,897
Adjust:		
Depreciation expense	30	2
Provision for income taxes	(10)	71
Net interest (expense) income	258	20
EBITDA	(3,134)	2,990
Additional adjustments:		
Stock-based compensation	183	200
Financing related costs	7	581
Amortization of debt discount	179	-
Change in fair value of warrant liability	1,002	(4,253)
Change in fair value of notes payable	-	(220)
Foreign exchange transaction loss	5	8
Adjusted EBITDA	\$ (1,758)	\$ (694)

Liquidity and Capital Resources

Sources of Liquidity

As of March 31, 2026 and December 31, 2025, the Company had approximately \$11.7 million and \$15.4 million, respectively, in cash, and an accumulated deficit of \$59.2 million and \$55.8 million, respectively. As of March 31, 2026 and December 31, 2025, the Company had approximately \$8.4 million and \$8.4 million, respectively, of debt outstanding of which \$4.5 million and \$5.5 million represented long-term debt as of such periods, respectively.

On March 18, 2026, the Company announced that it has received a contract modification from BARDA for the acceleration of \$31.7 million from its existing contract with BARDA which included (i) a no-cost extension of the base phase of the contract, and (ii) the acceleration of certain parts of the next phase of such contract. As part of this funding advance, the Company has committed to fund \$9.7 million of the total overall development costs associated with these feature advancements. This funding comes as part of an ongoing partnership with BARDA, which has committed \$86.6 million to date under the contract with an overall value of approximately \$150 million.

The Avenue Financing also included warrant coverage equal to 8.5% of the total funding commitment from Avenue, with an exercise price equal to the lower of (i) average of the daily volume weighted average price of Common Stock as reported for each of five (5) consecutive trading days, determined as of the end of the trading on the last trading day before the date of issuance, which was \$1.66 and (ii) the lowest price per share paid to the Company by cash investors for Common Stock issued in any sale of Common Stock in a bona-fide equity raising that closes at any time commencing from March 21, 2025 through (but excluding) December 31, 2025.

On March 21, 2025, as a condition to the Avenue Financing, the Company entered into securities purchase agreements with certain investors in the United States and the United Kingdom for the sale of an aggregate of 2,076,923 shares of the Company's Common Stock, at an offering price of \$1.30 per Share which raised an additional \$2.7 million.

As of March 31, 2026, based on our current operating plan, we believe that our cash and cash equivalents, together with the PBS BARDA Contract, the MTEC Agreement, the Avenue Financing, the Hudson Bay Financing, the Yorkville SEPA and certain research and development cost-saving measures, the Company believes it has, sufficient working capital to fund operations for at least one year beyond the release date of the condensed consolidated financial statements. We have based this determination on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Changing circumstances could also cause us to consume capital significantly faster than we currently anticipate, and we may need to raise capital sooner or in greater amounts than currently expected because of circumstances beyond our control. To the extent additional capital is necessary, there are no assurances that we will be able to raise additional capital on favorable terms or at all, and therefore we may not be able to execute our business plans and the continued work on indications beyond expanding our burn indication.

Cash Flows

The following table summarizes our cash flows for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended March 31,	
	2026	2025
Net cash used in operating activities	\$ (3,728)	\$ (1,505)
Net cash provided by (used in) financing activities	(1)	10,392

Cash Flows Used in Operating Activities

Net cash used in operating activities increased to approximately \$3.7 million for the three months ended March 31, 2026, as compared to \$1.5 million for the three months ended March 31, 2025, primarily driven by a higher net operating loss as a result of reduced reimbursed research and development revenue, based on lower BARDA activity, and higher cash used from changes in operating assets and liabilities, primarily due to a decrease in accounts payable.

Cash Flows Provided by Financing Activities

Net cash used by financing activities for the three months ended March 31, 2026 reflects repayments of insurance notes payable, offset by proceeds received from the exercise of stock options. Net cash provided by financing activities of \$10.4 million for the three months ended March 31, 2025 was primarily attributable to proceeds from the Avenue Financing of \$8.3 million, proceeds from the exercise of common stock warrants of \$2.0 million and the attendant equity raise of \$3.1 million, partially offset by the loan repayments on the Yorkville debt facility.

Current Indebtedness

The Company has the ability with the LSA to borrow up to \$15.0 million in funding from Avenue with an initial drawdown of \$8.5 million from the Avenue Financing.

The loans under the LSA mature on March 1, 2028, with an interest-only payment period of no less than 15 months, which can be extended to 24 months upon the achievement of certain milestones prior to the end of such 15 month period as described in the Tranche 2 Milestone Date (as defined in the Supplement). The Tranche 2 Commitment (as defined in the Supplement) includes an additional \$6.5 million in debt financing and is contingent upon, among other things, (i) U.S. FDA's clearance of the Company's DeepView System and (ii) an additional \$7.0 million equity raise to be completed by the Company.

The Avenue Financing also includes warrant coverage equal to 8.5% of the total funding commitment from Avenue, with an exercise price equal to the lower of (i) average of the daily volume weighted average price of Common Stock as reported for each of five (5) consecutive trading days, determined as of the end of the trading on the last trading day before the date of issuance, which was \$1.66 and (ii) the lowest price per share paid to the Company by cash investors for Common Stock issued in any sale of Common Stock in a bona-fide equity raising that closes at any time commencing from March 21, 2025 through (but excluding) December 31, 2025.

Related Party Transactions

For the three-month period ended March 31, 2026, the Company did not have any related party transactions.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, costs and expenses and the disclosure of contingent assets and liabilities in our financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates which include, but are not limited to, revenue recognition, warrant liabilities, fair value of certain debt, stock-based compensation expense, stock issued for transaction costs, the net realizable value of inventory, right-of-use assets, and income tax valuation allowances. We base our estimates on historical experience, known trends and events and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

Our critical accounting policies are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2025, which was filed with the SEC on March 25, 2026. During the three months ended March 31, 2026, there were no material changes to our critical accounting policies from those previously disclosed.

Recent Accounting Pronouncements

See Note 2, Recent Accounting Pronouncements, of the notes to our condensed consolidated financial statements included elsewhere in this Form 10-Q for recently adopted accounting standards and recently issued accounting standards as of the dates of the statement of financial position included in this Form 10-Q.

Emerging Growth Company

We are an emerging growth company, as defined in the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act for the adoption of certain accounting standards until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply more promptly with new or revised accounting pronouncements as of public company effective dates.

In addition, as an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

- being permitted to present only two years of audited consolidated financial statements in addition to any required unaudited interim consolidated financial statements, with correspondingly reduced disclosure in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- an exception from compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended;
- reduced disclosure about our executive compensation arrangements in our periodic reports, proxy statements and registration statements;
- exemptions from the requirements of holding non-binding advisory votes on executive compensation or golden parachute arrangements; and

We may take advantage of these provisions until the last day of the fiscal year ending after the fifth anniversary of the Company's initial public offering or such earlier time that we no longer qualify as an emerging growth company. We will cease to qualify as an emerging growth company on the date that is the earliest of: (i) December 31, 2026; (ii) the last day of the fiscal year in which we have more than \$1.235 billion in total annual gross revenues; (iii) the date on which we are deemed to be a "large accelerated filer" under the rules of the SEC, which means the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of the prior June 30th and we have been a public company for at least 12 months and have filed one annual report on Form 10-K; or (iv) the date on which we have issued more than \$1.0 billion of non-convertible debt over the prior three-year period. We may choose to take advantage of some but not all of these reduced reporting burdens. Accordingly, the information contained herein may be different than you might obtain from other public companies in which you hold equity interests.

We are also a "smaller reporting company." If we are a smaller reporting company at the time we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. Specifically, as a smaller reporting company, we may choose to present only the two most recent fiscal years of audited consolidated financial statements in our Annual Report and, similar to emerging growth companies, smaller reporting companies have reduced disclosure obligations regarding executive compensation.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange, credit and inflation risks.

Interest Rate Sensitivity

We maintain a large amount of our assets in cash. Our cash is held primarily in cash deposits. The fair value of our cash would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments. Additionally, changes to interest rates will impact on the cost of any future borrowings. With respect to our current borrowings, the interest rates on the notes are Prime plus 5%. Changes in prevailing interest rates could have a material impact on our results of operations.

Foreign Currency Risk

Our revenue is denominated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States and United Kingdom, with an insignificant portion of expenses incurred in our wholly owned subsidiaries in the UK and denominated in British pound sterling.

Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and accounts receivable. The vast majority of our cash is held in U.S. financial institutions which, at times, exceed federally insured limits. We have not recognized any losses from credit risks on such accounts. We believe we are not exposed to significant credit risk on cash.

Additional credit risk is related to our concentration of receivables and revenues. One customer (which is a U.S. government agency) represents the majority of our research and development revenue and accounts receivable.

Inflation Risk

If the cost of our products, employee costs, or other costs continue to be subject to significant inflationary pressures, such inflationary pressure may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expense. As a result, our inability to quickly respond to inflation could harm our cash flows and results of operations in the future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K.

Material Weakness: Our financial statement close process controls, including controls over account reconciliations, transaction processing, and financial reporting review, did not operate consistently or with sufficient precision to ensure timely performance and review, including appropriate oversight of financial statement reporting. In conducting our evaluation, management used the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (2013). Disclosure controls and procedures are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, management concluded that, as of March 31, 2026, our disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting described below. As discussed in Item 9A of our Form 10-K for the year ended December 31, 2025, we identified a material weakness in our internal control over financial reporting as well as a lack of effective controls over the COSO principles including control environment, risk assessment, control activities, information and communications and monitoring as of December 31, 2025.

Remediation Plan for Material Weakness

Remediation generally requires making changes to how controls are designed and implemented and then adhering to those changes for a sufficient period of time such that the effectiveness of those changes is demonstrated with an appropriate amount of consistency. In response to the material weakness, we implemented, and are continuing to implement and monitor, measures designed to improve our internal control over financial reporting. These efforts include:

- engaging a professional accounting services firm, in 2024, to help us assess and commence documentation of our internal controls for complying with the Sarbanes-Oxley Act of 2002;
- Engaged consultants to provide additional technical accounting expertise;
- During 2025, enhanced functionality of our enterprise resource planning system to support certain key financial processes and controls and enforce certain segregation of duties through automation and approval workflows; and
- Improved accounting personnel by supplementing capacity gaps. We will continue to make additional accounting hires to further bolster capabilities.

The measures we implemented are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. Management and the Audit Committee remain committed to the implementation of remediation efforts to address the material weakness. We will continue to implement measures to remedy our internal control deficiencies, though there can be no assurance that our efforts will be successful or avoid potential future material weaknesses. In addition, until remediation steps have been completed and are operated for a sufficient period of time, and subsequent evaluation of their effectiveness is completed, the material weaknesses previously disclosed, and as described above, will continue to exist

Changes in Internal Control over Financial Reporting

Except for the remediation efforts in connection with the material weakness described above, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2026 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings or pending claims. From time to time, the Company may be subject to various legal proceedings and claims that arise in the ordinary course of its business activities, none of which we believe are material or would be expected to have, individually or in the aggregate, a material adverse effect on our business, financial condition, cash flows or results of operations.

Item 1A. Risk Factors

Factors that could cause our actual results to differ materially from those in this Quarterly Report include the risk factors described in our Annual Report on Form 10-K filed with the SEC on March 25, 2026 and in the Registration Statement on Form S-4 filed with the SEC on January 5, 2024, as amended. Any of those factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. As of the date of this Quarterly Report, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K filed with the SEC on March 25, 2026 and in the Registration Statement on Form S-4 filed with the SEC on January 5, 2024, as amended. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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

None.

Use of Proceeds

There has been no material change in the planned use of the proceeds from the Business Combination, as is described in the Company's final prospectus (Registration No. 333-275218), as filed with the SEC on January 2, 2024. Additionally, there has been no material change in the planned use of proceeds from the Avenue Financing, as is described in the Company's Current Report on Form 8-K as filed with the SEC on March 26, 2025.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q:

No.	Description of Exhibit
2.1	Business Combination Agreement, dated as of April 11, 2023, by and among Rosecliff Acquisition Corp I, Ghost Merger Sub I Inc., Ghost Merger Sub II and Spectral MD Holdings Ltd. (incorporated by reference to the Company's Form 8-K, filed with the SEC on April 17, 2023).
31.1*	Certification of Principal Executive Officer
31.2*	Certification of Chief Financial Officer (Principal Financial and Accounting Officer)
32**	18 U.S.C. Section 1350 Certification
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPECTRAL AI, INC.

Date: May 12, 2026

By: /s/ Vincent S. Capone
Name: Vincent S. Capone
Title: Chief Executive Officer
(Principal Executive Officer)

Date: May 12, 2026

By: /s/ Thomas Spieth
Name: Thomas Spieth
Title: Controller
(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A)

UNDER THE SECURITIES EXCHANGE ACT OF 1934,

AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Vincent S. Capone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spectral AI, 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 period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2026

/s/ Vincent S. Capone

Vincent S. Capone

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas Spieth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spectral AI, 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 period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2026

/s/ Thomas Spieth

Thomas Spieth
Principal Accounting Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Spectral AI, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ended March 31, 2026, of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2026

/s/ Vincent S. Capone

Name: Vincent S. Capone

Title: Chief Executive Officer

(Principal Executive Officer)

Dated: May 12, 2026

/s/ Thomas Spieth

Name: Thomas Spieth

Title: Controller

(Principal Financial and Accounting Officer)

These certifications are furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certifications will not be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates them by reference.