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 June 30, 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	**85-3987148**
(State or other jurisdiction of incorporation or organization)	(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	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller Reporting Company	☒
		Emerging Growth Company	☒

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

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

As of August 11, 2026, there were 32,184,928 shares of Common Stock, $0.0001 par value, issued and outstanding.

SPECTRAL AI, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2026

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements that are forward-looking and as such are not historical facts, including statements regarding our strategy, plans, objectives, initiatives, expected commercialization activities and financial outlook. These statements constitute projections, forecasts and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “will,” “would” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this Quarterly Report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control, that may cause actual results or performance to differ materially from those expressed or implied by these statements. Investors should carefully consider the risks and uncertainties described in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2025 and in our other filings with the Securities and Exchange Commission. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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)

	June 30, 2026	December 31, 2025
Assets		
Current assets:		
Cash and cash equivalents	$ 13,980	$ 15,394
Accounts receivable, net	1,181	1,267
Inventory	815	838
Prepaid expenses	494	821
Other current assets	1,322	1,133
Total current assets	17,792	19,453
Non-current assets:		
Property and equipment, net	198	258
Right-of-use assets	1,109	1,407
Other assets	337	287
Total Assets	$ 19,436	$ 21,405
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 1,725	$ 3,010
Accrued expenses	1,708	2,341
Deferred revenue	21	154
Lease liabilities, short-term	776	734
Notes payable	3,859	2,854
Warrant liabilities	11,780	11,533
Total current liabilities	19,869	20,626
Notes payable, long-term	11,055	5,538
Lease liabilities, long-term	566	968
Total Liabilities	31,490	27,132
Commitments and contingencies (Note 7)		
Stockholders' Deficit		
Preferred stock ($0.0001 par value); 1,000,000 shares authorized; no shares issued and outstanding as of June 30, 2026 and December 31, 2025, respectively	-	-
Common stock ($0.0001 par value); 80,000,000 shares authorized; 32,184,928 and 30,688,895 shares issued and outstanding as of June 30, 2026 and December 31, 2025, respectively	3	3
Additional paid-in capital	51,302	50,030
Accumulated other comprehensive income	29	40
Accumulated deficit	(63,388)	(55,800)
Total Stockholders' Deficit	(12,054)	(5,727)
Total Liabilities and Stockholders' Deficit	$ 19,436	$ 21,405

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 June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Research and development revenue	$ 3,524	$ 5,065	$ 7,515	$ 11,772
Cost of revenue	(2,411)	(2,775)	(4,375)	(6,314)
Gross profit	1,113	2,290	3,140	5,458
Operating costs and expenses:				
Research and development	1,696	1,457	3,258	2,770
General and administrative	3,088	2,616	5,316	5,061
Selling and marketing	653	340	861	646
Total operating costs and expenses	5,437	4,413	9,435	8,477
Operating loss	(4,324)	(2,123)	(6,295)	(3,019)
Other income (expense):				
Net interest expense	(378)	(397)	(815)	(417)
Financing related costs	(5)	(4)	(12)	(585)
Change in fair value of warrant liability	711	(5,449)	(291)	(1,196)
Change in fair value of notes payable	-	-	-	220
Foreign exchange transaction loss, net	(10)	(14)	(15)	(22)
Total other income (expense), net	318	(5,864)	(1,133)	(2,000)
Loss before income taxes	(4,006)	(7,987)	(7,428)	(5,019)
Income tax provision	(170)	19	(160)	(52)
Net loss	$ (4,176)	$ (7,968)	$ (7,588)	$ (5,071)
Net loss per share of common stock				
Basic and Diluted	$ (0.13)	$ (0.31)	$ (0.24)	$ (0.21)
Weighted average common shares outstanding				
Basic and Diluted	32,080,874	25,421,560	31,922,459	24,409,550
Other comprehensive income (loss):				
Foreign currency translation adjustments	$ (1)	$ 32	$ (11)	$ 49
Total comprehensive loss	$ (4,177)	$ (7,936)	$ (7,599)	$ (5,022)

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	31,823,895	3	50,369	30	(59,212)	(8,810)
Stock-based compensation	-	-	807	-	-	807
Stock option exercises	18,333	-	24	-	-	24
Issuance of common stock under the SEPA	3,000	-	5	-	-	5
Vesting of restricted stock units	309,700	-	-	-	-	-
Cumulative translation adjustment	-	-	-	(1)	-	(1)
Warrant exercises	30,000	-	97	-	-	97
Net loss	-	-	-	-	(4,176)	(4,176)
Balance at June 30, 2026	32,184,928	3	51,302	29	(63,388)	(12,054)

	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	25,588,121	$ 2	$ 43,684	$ 20	$ (45,332)	$ (1,626)
Stock-based compensation	-	-	411	-	-	411
Issuance of common stock from debt offering	40,000	-	-	-	-	-
Vesting of restricted stock units	109,699	-	-	-	-	-
Cumulative translation adjustment	-	-	-	32	-	32
Net loss	-	-	-	-	(7,968)	(7,968)
Balance at June 30, 2025	25,737,820	2	44,095	52	(53,300)	(9,151)

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)

	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
Cash flows from operating activities:		
Net loss	$ (7,588)	$ (5,071)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	60	12
Amortization of debt issuance costs	339	120
Stock-based compensation	990	611
Amortization of right-of-use assets	298	280
Change in fair value of warrant liabilities	291	1,196
Change in fair value of notes payable	-	(220)
Issuances of shares for borrowing related costs	-	241
Changes in operating assets and liabilities:		
Accounts receivable	86	1,038
Inventory	23	(37)
Prepaid expenses	327	355
Other assets	(239)	132
Accounts payable	(1,285)	(2,049)
Accrued expenses	(634)	(663)
Deferred revenue	(133)	(536)
Lease liabilities	(360)	(276)
Net cash used in operating activities	(7,825)	(4,867)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants	5	3,080
Proceeds from notes payable	6,500	8,260
Payments for notes payable	(317)	(1,313)
Proceeds from warrant exercises	54	-
Stock option exercises	180	158
Net cash provided by financing activities	6,422	10,185
Effect of exchange rate changes on cash and cash equivalents	(11)	49
Net (decrease) increase in cash and cash equivalents	(1,414)	5,367
Cash and cash equivalents, beginning of period	15,394	5,157
Cash and cash equivalents, end of period	$ 13,980	$ 10,524
Supplemental cash flow information:		
Cash paid for interest	$ 587	$ 11
Cash paid for taxes	$ 44	$ 1
Noncash investing and financing activities disclosure:		
Tenant improvement allowance payments made by the lessor directly to a third party	$ -	$ (327)
Issuance of common stock to settle notes payable	$ -	$ 1,192

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 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. On May 26, 2026, the FDA granted De Novo Classification for the DeepView System allowing the Company to commence commercial distribution activities in the United States.

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. 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 $95.1 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. 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.

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 six months ended June 30, 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.

Beginning on April 1, 2026, the Company changed the presentation of certain costs on its condensed consolidated statement of operations. This voluntary change in classification of certain research and development and selling and marketing costs, resulted in a decrease in general and administrative expenses and offsetting increases in research and development and selling and marketing costs. Selling and marketing expense consists primarily of personnel-related costs associated with the Company's commercial organization, allocated facilities costs, and commercialization readiness activities, including external consulting services, market access initiatives, and pricing studies. Refer to Note 4 for details of the composition of research and development expense. The Company believes this presentation is preferable as it will provide greater transparency regarding its operating expenses and aligns with how the business is managed.

In addition, the Company reclassified the amortization of debt issuance costs from financing related costs to net interest expense on its condensed consolidated statement of operations. The reclassification increased net interest expense and decreased financing related costs by $120 thousand for both the three and six months ended June 30, 2025.

These changes in classification have been applied retrospectively to all periods presented. These changes in presentation had no impact to revenue, cost of revenue, loss from operations, income (loss) before income taxes, income tax provision (benefit), net income (loss), earnings (loss) per common share, or other components of equity or cash flows. In addition, other expense information disclosed in Note 12 – Segment Information was adjusted for these changes.

Except as described elsewhere in Note 2 under the heading "Recently adopted 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, 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.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents and accounts receivable. Primarily all cash and cash equivalents 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 and cash equivalents.

Additional credit risk is related to the Company's concentration of accounts receivable. As of June 30, 2026 and December 31, 2025, accounts receivable were concentrated from one customer (which is a U.S. government agency) representing approximately 96% and 100%, respectively, of the total accounts receivable. No allowance for expected credit losses was recorded as of June 30, 2026 and December 31, 2025.

One customer (which is a U.S. government agency) accounted for 93% and 88% for the three and six months ended June 30, 2026 and 92% and 94% for the three and six months ended June 30, 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 June 30, 2026 and December 31, 2025, the Company had approximately $14.0 million and $15.4 million, respectively, in cash and cash equivalents, and an accumulated deficit of $63.4 million and $55.8 million, respectively. As of June 30, 2026 and December 31, 2025, the Company had approximately $14.9 million and $8.4 million, respectively, of debt outstanding of which $11.1 million and $5.5 million represented long-term debt as of such periods. The Company also had approximately $1.4 million of remaining undiscounted operating lease payments as of June 30, 2026, extending through February 2028.

On March 18, 2026, the Company 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 June 30, 2026, based on our current operating plan, our cash and cash equivalents, together with commitments under the PBS BARDA Contract, and availability under the Yorkville SEPA, provide sufficient working capital to fund operations for at least one year beyond the release date of the condensed consolidated financial statements. Refer to Note 5 for the terms of the Company's outstanding debt and Note 6 for details on the Company's warrants.

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. RESEARCH AND DEVELOPMENT REVENUE

For the three and six months ended June 30, 2026 and 2025, the Company's revenues disaggregated by the major sources were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
BARDA	$ 3,279	$ 4,649	$ 6,589	$ 11,030
Other U.S. governmental authorities	245	416	926	742
Total revenue	$ 3,524	$ 5,065	$ 7,515	$ 11,772

The following table presents the activity in the Company's contract liabilities during the six months ended June 30, 2026:

	December 31, 2025 Balance	Additions	Reductions	June 30, 2026 Balance
	(in thousands)			
Contract liabilities:				
Deferred revenue	$ 154	$ 80	$ (213)	$ 21
Total contract liabilities	$ 154	$ 80	$ (213)	$ 21

Unbilled revenue is included in other current assets in the condensed consolidated balance sheets. The following table presents the activity in the Company's contract assets during the six months ended June 30, 2026:

	December 31, 2025 Balance	Additions	Reductions	June 30, 2026 Balance
	(in thousands)			
Contract assets:				
Unbilled revenue	$ 849	$ 722	$ (496)	$ 1,075
Total contract assets	$ 849	$ 722	$ (496)	$ 1,075

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 and six months ended June 30, 2026, research and development expense was $4.1 million and $7.6 million, respectively, of which $2.4 million and $4.4 million, respectively, is related to the combined BARDA contract and contracts with other U.S. governmental authorities and included in cost of revenue and $1.7 million and $3.2 million, respectively, is included in research and development expenses. For the three and six months ended June 30, 2025, research and development expense was $4.2 million and $9.1 million, respectively, of which $2.7 million and $6.3 million, respectively, is related to the combined BARDA contract and contracts with other U.S. governmental authorities and included in cost of revenue and $1.5 million and $2.8 million, respectively, is included in research and development expenses.

4. ACCRUED EXPENSES

Accrued expenses consist of the following as of June 30, 2026 and December 31, 2025 (in thousands):

	June 30, 2026	December 31, 2025
Salary and wages	$ 1,082	$ 1,762
Operating expenses	92	81
Benefits	446	340
Non-operating expenses	-	60
Taxes	88	98
Total accrued expenses	$ 1,708	$ 2,341

5. NOTES PAYABLE

The Company entered into the Avenue Financing (defined below) and financing arrangements for a portion of its Directors and Officers insurance premiums, as follows (in thousands):

			Principal Repayments Six Months Ended June 30,		Outstanding Balance	
	Amount Financed	Interest Rate	2026	2025	June 30 2026	December 31, 2025
Avenue Capital Note Principal and Final Payment Fee	$ 15,000	Prime + 5.25%	$ -	$ -	$ 15,750	$ 9,250
Yorkville Convertible Notes, at fair value	11,500	0.0%	-	2,365	-	-
2025 Insurance Note	580	8.0%	317	-	109	426
2024 Insurance Note	596	8.4%	-	360	-	-
			$ 317	$ 2,725	$ 15,859	$ 9,676
Less: current portion of notes payable					(3,859)	(2,854)
Unamortized debt discounts and debt issuance costs					(945)	(1,284)
Notes payable. long term					$ 11,055	$ 5,538

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 financing with Avenue Capital Group (the “Avenue Financing”) is for three years, with an interest-only payment period of no less than 15 months, which was extended to 24 months upon the Company’s achievement of the milestones for the second financing tranche during the three months ended June 30, 2026. 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 June 30, 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 to $1.66 per share, see Note 6.

On June 18, 2026, the Company drew down the second financing tranche under the Avenue Financing following the achievement of the required funding conditions. The Company received net proceeds of approximately $6.5 million.

Repayment of Yorkville Convertible Notes

During the six months ended June 30, 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.

6. WARRANT LIABILITIES

In September 2023, in conjunction with the business combination with Rosecliff Acquisition Corp I (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 "Public Warrants"). In November 2024, the Company amended the Public Warrants to have an exercise price of $2.75 per share. As of June 30, 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. 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 June 30, 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, 77,017 Angel Warrants were 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 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.

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 six months ended June 30, 2026, 30,000 Investor Warrants were exercised. As of June 30, 2026, there were 635,000 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"). As of June 30, 2026, the Avenue Warrants have an exercise price equal to $1.66 per share. 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.

As of June 30, 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. 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 and became exercisable on May 29, 2026, as the Company obtained stockholder approval at its annual meeting for the issuance of shares of Common Stock underlying the Hudon Warrants and Pre-Funded Warrants. 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.

During the six months ended June 30, 2026, 935,000 Pre-Funded Warrants were exercised, at an exercise price per share of $0.0001. As of June 30, 2026, there were no Pre-Funded Warrants outstanding and 4,000,000 Hudson Warrants to purchase Common Stock outstanding.

The Company accounts for its Public Warrants, Angel Warrants, Investor Warrants, Avenue 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).

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 June 30, 2026 and December 31, 2025, by level within the fair value hierarchy (in thousands):

	Fair value measured as of June 30, 2026			
	Fair value at June 30, 2026	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liabilities	$ 11,780	4,680	-	7,100

	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

There were no transfers between Level 1, 2 or 3 during the six months ended June 30, 2026.

Fair values of cash and cash equivalents, 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 June 30, 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 six months ended June 30, 2026 and 2025 (in thousands):

Balance - January 1, 2025	$ 41
Fair value at issuance	2,908
Change in fair value	(37)
Balance - March 31, 2025	$ 2,912
Change in fair value	1,739
Balance - June 30, 2025	$ 4,651
Balance - January 1, 2026	$ 7,738
Change in fair value	74
Balance - March 31, 2026	$ 7,812
Exercise of warrants	(43)
Change in fair value	(669)
Balance - June 30, 2026	$ 7,100

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:

	June 30, 2026			
	Angel Warrants	**Investor Warrants**	**Avenue Warrants**	**Hudson Warrants**
Valuation Method	Black Scholes	Monte Carlo	Black Scholes	Monte Carlo
Strike price (per share)	$ 7.32	$ 1.80	$ 1.66	$ 2.51
Contractual term (years)	1.0	3.8	3.8	4.3
Volatility (annual)	78.7%	70.0%	69.0%	70.0%
Risk-free rate	4.0%	4.1%	4.1%	4.1%
Dividend yield (per share)	0.0%	0.0%	0.0%	0.0%
Probability assessment (1)	N/A	10%-30%	10%-30%	10%-30%

	December 31, 2025			
	Angel Warrants	**Investor Warrants**	**Avenue Warrants**	**Hudson Warrants**
Valuation Method	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	4.2	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%	10%-30%	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

7. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space for its corporate headquarters in Dallas, Texas under a single operating lease that expires in February 2028. As of June 30, 2026, remaining undiscounted lease payments were approximately $1.4 million and the related operating lease liability was $1.3 million, of which $0.8 million was classified as short-term. There have been no material changes to the Company's lease obligations since December 31, 2025.

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. INCOME TAXES

The Company is subject to taxation in the United States, in various state and local jurisdictions, and in the United Kingdom. The current income tax expense recorded in each period presented relates principally to the Texas franchise tax, which is assessed on gross margin rather than on taxable income.

The Company recorded income tax expense of approximately $0.2 million for each of the three and six months ended June 30, 2026, and an income tax benefit of less than $0.1 million and income tax expense of approximately $0.1 million for the three and six months ended June 30, 2025, respectively. The effective tax rate was (4.2)% and (2.2)% for the three and six months ended June 30, 2026, and 0.2% and (1.0)% for the three and six months ended June 30, 2025.

The provision for income taxes for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items arising in the period. The Company's effective tax rate differs from the U.S. federal statutory rate of 21% primarily because the Company maintains a full valuation allowance against its net deferred tax assets. As a result of cumulative losses in both the United States and the United Kingdom, management has concluded that it is not more likely than not that those deferred tax assets will be realized, and accordingly no tax benefit has been recognized for losses incurred in the periods presented.

There have been no material changes to the Company's deferred tax assets, valuation allowance or unrecognized tax benefits since December 31, 2025. The Company evaluates its tax positions on a quarterly basis and revises its estimates as appropriate.

9. STOCKHOLDERS' DEFICIT

The Company's certificate of incorporation, as amended and restated, authorizes 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.

During the six months ended June 30, 2026, 935,000 Pre-Funded Warrants were exercised, at an exercise price per share of $0.0001 and 30,000 Investor Warrants were exercised, at an exercise price per share of $1.80.

During the six months ended June 30, 2026, 3,000 shares of Common Stock were sold under the Yorkville SEPA for approximately $5,000.

The Company is party to a standby equity purchase agreement with YA II PN, Ltd., an affiliate of Yorkville Advisors Global, LP (the "Yorkville SEPA"), under which the Company may, at its option and subject to the conditions and limitations of that agreement, sell shares of Common Stock to Yorkville from time to time. The Yorkville SEPA expires in March 2027. Shares sold under the Yorkville SEPA are issued at a discount to prevailing market prices, and the Company's ability to draw on the facility is limited by the number of shares registered for resale, by ownership limitations applicable to Yorkville and by the Company's ability to satisfy the conditions to each advance.

As of June 30, 2026, 2,791,113 of the 6,369,937 shares registered for resale in connection with the Yorkville SEPA remained available for issuance. Because shares are issued at a discount to prevailing market prices, the amount of cash that may be realized from the remaining registered shares is not fixed and will vary with the Company's share price. In addition, as of August 7, 2026, the Company had approximately $10.9 million available under its effective shelf registration on Form S-3, which may be used to sell shares under the Yorkville SEPA. The amount available is not fixed and will increase or decrease with the Company's share price and public float, and is described more fully under *Sources of Liquidity* below.

10. STOCK-BASED COMPENSATION

As of June 30, 2026, there were 2,791,063 shares available for the grant of awards under the Company's 2023 Long Term Incentive Plan (the "2023 Plan").

Restricted Stock Units

In April 2026, the Company granted 600,000 shares of restricted stock units to the Company's non-employee directors and CEO of which 300,000 vested in April 2026 and the remaining 300,000 will vest in April 2027. The grant date fair value of these awards was $1.1 million.

A summary of RSU activities for the six months ended June 30, 2026 are presented below:

	Number of Shares	***Weighted Average Grant Date Fair Value per Share***
Nonvested as of January 1, 2026	9,700	$ 0.45
Granted	600,000	$ 1.89
Vested	(309,700)	$ 1.84
Forfeited	-	$ -
Nonvested as of June 30, 2026	300,000	$ 1.89

As of June 30, 2026, total unrecognized compensation expense related to restricted stock units was $0.5 million, which is expected to be recognized over a weighted-average period of 0.75 years.

Stock Options

A summary of stock options activity for the six months ended June 30, 2026 is presented below:

	Stock Options	***Weighted Average Exercise Price***	***Weighted Average Remaining Contractual Life (in years)***	***Aggregate Intrinsic Value (in thousands)***
Outstanding at January 1, 2026	3,857,138	$ 1.84	6.1	$ 544
Options granted	431,570	$ 1.99		
Options forfeited	(64,810)	$ 1.83		
Options cancelled	(26,102)	$ 2.36		
Options exercised	(168,333)	$ 1.07		
Outstanding as of June 30, 2026	4,029,463	$ 1.88	6.1	$ 1,053
Options vested and exercisable as of June 30, 2026	3,020,194	$ 1.98	5.0	$ 784

As of June 30, 2026, total unrecognized compensation expense related to stock options was $0.8 million, which is expected to be recognized over a weighted-average period of 1.2 years.

Stock-based compensation expense, by expense category, during the three and six months ended June 30, 2026 and 2025 consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Research and development	$ 16	$ 2	$ 32	$ 32
General and administrative	789	394	974	544
Selling and marketing	2	15	(16)	35
Total stock-based compensation expense	$ 807	$ 411	$ 990	$ 611

11. NET (LOSS) INCOME PER COMMON SHARE

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.

	Six Months Ended June,	
	2026	2025
Common stock options	4,029,463	4,407,870
Common stock warrants	13,913,422	11,344,230
Unvested restricted stock units	300,000	59,700
Convertible notes payable	1,004,016	1,004,016
Total	19,246,901	16,815,816

12. SEGMENT INFORMATION

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 (the “CODM”) in deciding how to allocate resources and assess performance. Through March 31, 2026 the CODM was the Chairman of the Board in conjunction with the Company’s executive management team as they managed the Company’s operations on an aggregate basis for the purpose of allocating resources. Beginning April 1, 2026, in connection with the appointment of a new Chief Executive Officer (“CEO”), the Company determined that its CEO is the CODM as he has ultimate decision-making authority over the Company’s operations, regulatory affairs, commercial strategy, and back-office (finance, accounting, and administrative) functions, which are the Company’s key operating departments. He is the individual who regularly reviews the Company’s consolidated operating results, assesses performance against budget, and determines how the Company’s capital and personnel resources are allocated across these functions.

The Company continues to have 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 CODM uses to assess performance and make decisions for resource allocation, consistent with the measurement principles for net income (loss) as reported on the Company’s consolidated statement of operations. Significant expense categories regularly reviewed by the CODM and included in the measure of segment profit or loss consist of cost of revenue, research and development expense, selling and marketing expense, and general and administrative expense consistent with that reported on the Company’s consolidated statement of operations. Other segment items include interest income (expense), financing-related costs, amortization of debt discount, changes in the fair value of warrant liabilities and notes payable, foreign currency gains and losses, and income tax benefit or expense consistent with that reported on the Company’s consolidated statement of operations. The amounts of each of the significant expense categories regularly reviewed by the CODM are presented on the face of the condensed consolidated statements of operations and comprehensive loss. The measure of segment assets is reported on the consolidated balance sheets as total assets.

13. SUBSEQUENT EVENTS

On July 24, 2026, Spectral IP, a wholly-owned subsidiary of the Company, requested the withdrawal of its registration statement on Form S-1 (File No. 333-285935), which had been filed with the Securities and Exchange Commission on March 20, 2025 in connection with a proposed initial public offering of its common stock. No securities were sold under the registration statement. Spectral IP remains a wholly-owned subsidiary of the Company and continues to be consolidated in the Company’s condensed consolidated financial statements. The withdrawal did not result in any adjustment to the condensed consolidated financial statements as of and for the six months ended June 30, 2026.

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 device that has previously received FDA breakthrough device designation status for an earlier version. On May 26, 2026, the FDA granted De Novo classification for the DeepView System for the burn indication, which authorizes the Company to commence commercial distribution activities in the United States. We expect to generate our first commercial sales in the United States by the end of 2026. Given our receipt of the UKCA mark for the burn indication, we also 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 National Institute of Health and the Defense Health Agency (the "DHA"). Since 2013, we have been awarded approximately $282.5 million in funding from government contracts, substantially all of which is 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 $95.1 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 Agreement was extended to run through December 31, 2026. In March 2024, we received an additional $0.5 million award from the DHA to further this development, bringing the total value of our DHA awards supporting the handheld device to 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.

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.

Operating Expenses. Following regulatory approval of the DeepView System, we expect operating expenses to increase as we invest in commercialization activities, including sales and marketing, manufacturing scale-up, and personnel growth. Operating expenses may fluctuate from period to period based on the timing of commercialization initiatives, product enhancements, hiring activities, and other strategic investments, which may impact the comparability of our results of operations.

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. 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 research and development, general and administrative and selling and marketing expenses. 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 and six months ended June 30, 2026 and 2025 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
	(In thousands)			
Research and development revenue	$ 3,524	$ 5,065	$ 7,515	$ 11,772
Cost of revenue	(2,411)	(2,775)	(4,375)	(6,314)
Gross profit	1,113	2,290	3,140	5,458
Operating costs and expenses:				
Research and development	1,696	1,457	3,258	2,770
General and administrative	3,088	2,616	5,316	5,061
Selling and marketing	653	340	861	646
Total operating costs and expenses	5,437	4,413	9,435	8,477
Operating loss	(4,324)	(2,123)	(6,295)	(3,019)
Other income (expense):				
Net interest (expense) income	(378)	(397)	(815)	(417)
Financing related costs	(5)	(4)	(12)	(585)
Change in fair value of warrant liability	711	(5,449)	(291)	(1,196)
Change in fair value of notes payable	-	-	-	220
Foreign exchange transaction loss, net	(10)	(14)	(15)	(22)
Other income (expenses), including transaction costs	-	-	-	-
Total other expense, net	318	(5,864)	(1,133)	(2,000)
Loss before income taxes	(4,006)	(7,987)	(7,428)	(5,019)
Income tax provision	(170)	19	(160)	(52)
Net loss	$ (4,176)	$ (7,968)	$ (7,588)	$ (5,071)

Research and Development Revenue

Research and development revenue was $3.5 million and $7.5 million for the three and six months ended June 30, 2026, respectively, a decrease of 30.4% and 36.2%, respectively compared to the same periods in 2025, reflecting the anticipated reduction in reimbursed costs under the PBS BARDA Contract following the FDA’s De Novo authorization of the DeepView System, as the remaining scope of work narrowed to specific development projects, together with the cost-share provisions applicable to the follow-on development phase of that contract. Revenue from the Company’s other U.S. governmental contracts declined in the three months ended June 30, 2026 and which was offset by an increase primarily related to work on the Company’s handheld device, in the six months ended June 30, 2026.

For the three and six months ended June 30, 2026 and 2025, the Company’s revenues disaggregated by the major sources were as follows (in thousands):

	Three Months Ended June 30,		Change in		Six Months Ended June 30,		Change in	
	2026	2025	$	%	2026	2025	$	%
	(In thousands, except percentages)							
BARDA	$ 3,279	$ 4,649	$ (1,370)	(29.5)%	$ 6,589	$ 11,030	$ (4,441)	(40.3)%
Other U.S. governmental authorities	245	416	(171)	(41.1)%	926	742	184	24.8%
Total research and development revenue	$ 3,524	$ 5,065	$ (1,541)	(30.4)%	$ 7,515	$ 11,772	$ (4,257)	(36.2)%

Cost of Revenues and Gross Profit

Cost of revenue for the three and six months ended June 30, 2026 was $2.4 million and $4.4 million, respectively, a decrease of 13.1% and 30.7%, respectively, compared to the same periods in 2025, due to the cost share provisions applicable to the follow-on development phase of the PBS BARDA Contract, under which the Company funds a portion of the development costs it incurs.

Gross margin for the three and six months ended June 30, 2026 was 31.6% and 41.8%, respectively, a decrease of 13.6 percentage points and 4.6 percentage points, respectively, as compared to the same periods in 2025, reflecting the cost-share provisions of the follow-on development phase of the PBS BARDA Contract, under which the Company continues to incur development costs that are not fully reimbursable, and a lower margin on the Company’s fixed-fee MTEC contract. For the six months ended June 30, 2026, the decrease primarily reflects the lower proportion of costs billed under the follow-on development phase of that contract, partially offset by the higher gross margin realized in the first quarter of 2026 prior to the commencement of that phase.

Operating Expense

Research and development expense was $1.7 million and $3.3 million for the three and six months ended June 30, 2026, respectively, an increase of 16.4% and 17.6%, respectively, as compared to the same period in 2025 due to an increase in non-revenue generating research and development activities.

General and administrative expense was $3.1 million and $5.3 million for the three and six months ended June 30, 2026, respectively, an increase of 18.0% and 5.0%, respectively, as compared to the same period in 2025 due to higher stock-based compensation associated with awards granted in the second quarter of 2026, partially offset for the six-month period by lower consultant fees.

Selling and marketing expense was $0.7 million and $0.9 million for the three and six months ended June 30, 2026, respectively, an increase of 92.1% and 33.3%, respectively, as compared to the same period in 2025 due to increased sales and marketing activities in advance of first commercial sales, including a third-party pricing study.

Other income (expense)

Net interest expense for the three and six months ended June 30, 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 increased $0.1 million and decreased $0.6 million, respectively, for the three and six months ended June 30, 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 $0.1 million and $0.3 million, respectively for the three and six months ended June 30, 2026 relates to amortization of the discount on the Avenue note payable.

Change in fair value of warrant liability reflected a favorable change of approximately $6.2 million and $0.9 million, respectively, for the three and six months ended June 30, 2026 as compared to the comparable periods in 2025. Change in fair value of warrant liability was a benefit of $0.7 million and expense of $0.3 million, respectively, for the three and six months ended June 30, 2026, as compared to an expense of $5.4 million and expense of $1.2 million, respectively, for same periods in 2025. The changes reflect fluctuations in the fair value of the Company's warrants during the three and six month periods ended June 30, 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.

Liquidity and Capital Resources

Sources of Liquidity

As of June 30, 2026 and December 31, 2025, the Company had approximately $14.0 million and $15.4 million, respectively, in cash and cash equivalents, and an accumulated deficit of $63.4 million and $55.8 million, respectively. As of June 30, 2026 and December 31, 2025, the Company had approximately $14.9 million and $8.4 million, respectively, of debt outstanding of which $11.1 million and $5.5 million represented long-term debt as of such periods, respectively. The Company also had approximately $1.4 million of remaining undiscounted operating lease payments as of June 30, 2026, extending through February 2028.

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 Company also has an effective shelf registration statement on Form S-3 with an aggregate capacity of $50.0 million, of which approximately $12.1 million had been utilized as of June 30, 2026. Because the aggregate market value of the Common Stock held by non-affiliates is less than $75.0 million, the Company's ability to sell securities in primary offerings under that registration statement is limited, in any twelve-month period, to one-third of the aggregate market value of the Common Stock held by non-affiliates. After giving effect to approximately $5.8 million of securities sold under that registration statement in the preceding twelve months, approximately $10.9 million remained available to the Company under that limitation based on the Company's public float as of August 11, 2026. The amount available is not fixed and will increase or decrease with the Company's share price and public float.

As of June 30, 2026, based on our current operating plan, our cash and cash equivalents, together with the PBS BARDA Contract, and the Yorkville SEPA, provide 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 six months ended June 30, 2026 and 2025 (in thousands):

	Six Months Ended June 30,	
	2026	**2025**
Net cash used in operating activities	$ (7,825)	$ (4,867)
Net cash provided by (used in) financing activities	6,422	10,185

Cash Flows Used in Operating Activities

Net cash used in operating activities increased to approximately $7.8 million for the six months ended June 30, 2026, as compared to $4.9 million for the six months ended June 30, 2025, primarily driven by higher net loss and higher cash used from changes in operating assets and liabilities, primarily due to a decrease in accounts payable and accrued expenses.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2026 reflects proceeds received from Avenue Financing and stock option and warrant exercises, offset by repayments of insurance notes payable. Net cash provided by financing activities of $10.2 million for the six months ended June 30, 2025 was primarily attributable to proceeds from the Avenue Financing of $8.3 million partially offset by the loan repayments on the Yorkville debt facility and 2024 Insurance Note.

Current Indebtedness

The Company has the ability under its Avenue Financing agreement to borrow up to $15.0 million. The Company initially drew down $8.5 million in March 2025. On June 18, 2026, the Company drew down the second financing tranche under the Avenue Financing following the achievement of the required funding conditions. The Company received net proceeds of approximately $6.5 million.

The loans under the Avenue Financing mature on March 1, 2028, with an interest-only payment period of no less than 15 months, which has been 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 to the Loan Agreement). The Company achieved the Tranche 2 Milestone during the three months ended June 30, 2026, and as such, the interest-only period was extended to 24 months.

The Avenue Financing also includes warrant coverage equal to 8.5% of the total funding commitment from Avenue, with an exercise price equal to $1.66.

Related Party Transactions

For the six-month period ended June 30, 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 six months ended June 30, 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to Item 305(e) of Regulation S-K, the Company is a smaller reporting company and is not required to provide the information required by this Item.

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 Quarterly Report on Form 10-Q.

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 June 30, 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:

- appointing a new Chief Financial Officer with extensive technical accounting and public company financial reporting experience, with remediation of the material weakness as a specific objective, and supplemented accounting personnel to address capacity gaps;

- completing a full-scope documentation and assessment of the design of our internal control over financial reporting, including controls over the financial statement close process and account reconciliations;

- during 2025, enhancing the functionality of our enterprise resource planning system to support certain key financial processes and controls and to enforce certain segregation of duties through automation and approval workflows; and

- with appropriate accounting staffing now in place, engaging external specialists where their use is warranted, including in the areas of technical accounting, SEC reporting, valuation and tax. Management retains responsibility for the work of those specialists, evaluating their qualifications and objectivity and reviewing and approving their analyses and conclusions.

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. These controls have been implemented and management is performing its own testing of their operation for the first and second quarters of 2026. Management expects that this testing, together with the testing performed in the second half of 2026, will support a conclusion that the controls are appropriately designed and operating effectively and that the material weakness has been remediated.

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 June 30, 2026 that have materially affected, or are 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 or the planned use of proceeds from the Hudson Financing, as described in the prospectus supplement to the Form S-3 (Registration No. 333-282681), filed on October 22, 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: August 11, 2026	By: /s/ Vincent S. Capone
	Name: Vincent S. Capone
	Title: Chief Executive Officer (Principal Executive Officer)
Date: August 11, 2026	By: /s/ David McGuire
	Name: David McGuire
	Title: Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

**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: August 11, 2026

/s/ Vincent S. Capone

Vincent S. Capone
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

**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, David McGuire, 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: August 11, 2026

/s/ David McGuire

David McGuire
Chief Financial Officer

Exhibit 32

**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 June 30, 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: August 11, 2026	/s/ Vincent S. Capone
	Name: Vincent S. Capone
	Title: Chief Executive Officer
	(Principal Executive Officer)
Dated: August 11, 2026	/s/ David McGuire
	Name: David McGuire
	Title: Chief Financial Officer
	(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.