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

FORM 10-Q

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

For the quarterly period ended: June 30, 2026

OR

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

For the transition period from ___ to ___

Commission file number: 001-34643

FABRIC.AI, INC.
(Exact name of registrant as specified in its charter)

Delaware	**98-0204758**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1185 Avenue of the Americas, New York, NY	**10036**
(Address of principal executive offices)	(Zip Code)

(512) 994-4917
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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	FABC	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 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 the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐ Accelerated filer ☐

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

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

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

As of August 12, 2026, the registrant had 7,003,613 shares of common stock, par value $0.0001 per share, outstanding.

FABRIC.AI, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2026

TABLE OF CONTENTS

Part I – Financial Information	F-1
Item 1 Financial Statements (Unaudited)	F-1
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	1
Item 3 Quantitative and Qualitative Disclosures about Market Risk	23
Item 4 Controls and Procedures	23
Part II – Other Information	24
Item 1 Legal Proceedings	24
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3 Defaults Upon Senior Securities	29
Item 4 Mine Safety Disclosures	29
Item 5 Other Information	29
Item 6 Exhibits	30

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FABRIC.AI, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Condensed Consolidated Balance Sheets as of June 30, 2026 (Unaudited) and December 31, 2025	F-2
Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2026 and 2025 (Unaudited)	F-3
Condensed Consolidated Statements of Changes in Mezzanine Equity and Stockholders' Equity for the Three and Six Months Ended June 30, 2026 and 2025 (Unaudited)	F-4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2026 and 2025 (Unaudited)	F-5
Notes to Condensed Consolidated Financial Statements (Unaudited)	F-6

FABRIC.AI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2026	December 31, 2025
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,635,883	$ 4,981,798
Restricted cash	5,114,563	110,264
Marketable securities	18,035,777	3,168,362
Prepaid expenses and other current assets	5,566,896	951,175
Total current assets	32,353,119	9,211,599
Operating lease – right-of-use asset	116,962	227,171
Intangible assets	17,238,716	—
Digital assets	—	1,948,999
Deposits and other assets	—	20,883
Total assets	**$ 49,708,797**	**$ 11,408,652**
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 988,682	$ 916,685
Accrued expenses and other current liabilities	585,946	476,592
Current portion lease obligation – operating lease	162,336	250,517
Total current liabilities	1,736,964	1,643,794
Derivative liability	89,000	19,000
Anti-dilution liability	19,552,529	—
Lease obligation - operating lease, net of current portion	—	33,225
Total liabilities	21,378,493	1,696,019
Mezzanine equity:		
Redeemable Series H-7 Convertible Preferred Stock, ($0.0001 par value per share and $1,000 face value per share; authorized - 22,000 shares; issued and outstanding – 0 and 1,180 shares, at June 30, 2026 and December 31, 2025, respectively). Liquidation preference of $0 as of June 30, 2026.	—	1,551,232
Redeemable Series I Convertible Preferred Stock, ($0.0001 par value per share and $1,000 face value per share; authorized - 7,000 shares; issued and outstanding – 300 and 7,000 shares, at June 30, 2026 and December 31, 2025, respectively). Liquidation preference of $7,129,362 as of June 30, 2026.	417,833	4,451,040
Redeemable Series K Convertible Preferred Stock, ($0.0001 par value per share and $1,000 face value per share; authorized - 21,500 shares; issued and outstanding - 21,500 and 0 shares, at June 30, 2026 and December 31, 2025, respectively). Liquidation preference of $21,759,194 as of June 30, 2026.	11,110,676	—
Redeemable Series J Convertible Preferred Stock, ($0.0001 par value per share and $1,000 face value per share; authorized - 3,810 shares; issued and	5,636,020	

outstanding - 3,810 and 0 shares, at June 30, 2026 and December 31, 2025, respectively). Liquidation preference of $3,844,257 as of June 30, 2026.		
Stockholders' equity:		
Preferred Stock, (authorized – 20,000,000 shares)	—	—
Series H Convertible Preferred Stock, ($0.0001 par value per share; authorized – 8,500 shares; issued and outstanding – 8 shares as of June 30, 2026 and December 31, 2025, respectively) Liquidation preference of $0 as of June 30, 2026.	—	—
Convertible Preferred Stock Series H-3, ($0.0001 par value; authorized – 8,461 shares; issued and outstanding – 1,234 shares as of June 30, 2026 and December 31, 2025, respectively) Liquidation preference of $15 as of June 30, 2026.	—	—
Series H-6 Convertible Preferred Stock, ($0.0001 par value per share; authorized – 50,000 shares; issued and outstanding – 50 shares as of June 30, 2026 and December 31, 2025, respectively) Liquidation preference of $72 as of June 30, 2026.	—	—
Common Stock, ($0.0001 par value; authorized – 1,200,000,000 and 200,000,000 shares as of June 30, 2026, and December 31, 2025, respectively; issued and outstanding – 6,663,912 and 1,455,975 shares as of June 30, 2026, and December 31, 2025, respectively)	666	146
Additional paid-in capital	164,236,279	141,884,878
Accumulated deficit	(153,071,170)	(138,174,663)
Total stockholders' equity	11,165,775	3,710,361
Total liabilities, mezzanine equity and stockholders' equity	$ 49,708,797	$ 11,408,652

See the accompanying notes to these unaudited condensed consolidated financial statements

FABRIC.AI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	**2025**	**2026**	**2025**
Revenue	$ —	$ —	$ —	$ —
Cost of goods sold	—	239,040	—	239,040
Gross loss	—	(239,040)	—	(239,040)
Operating expenses:				
Research and development	689,892	349,951	814,756	657,681
General and administrative	2,639,185	1,199,323	4,215,376	2,865,145
Total operating expenses	3,329,077	1,549,274	5,030,132	3,522,826
Loss from operations	(3,329,077)	(1,788,314)	(5,030,132)	(3,761,866)
Other income (expense):				
Interest income	30,594	7,961	40,595	34,201
Change in fair value - warrant liability	—	(13,254,700)	—	(12,174,100)
Change in fair value - derivative liability	43,000	1,130,000	37,000	2,661,000
Change in fair value - anti-dilution liability	(8,044,334)	—	(8,044,334)	—
Unrealized gain (loss) on marketable securities	62,805	(7,457)	53,959	(79,164)
Change in fair value of digital assets	75,054	—	(538,609)	—
Realized gain on marketable securities	26,123	94,492	64,100	305,554
Consent and waiver fee - Series H-7	—	(350,000)	—	(350,000)
Gain on sale of assets	218,803	—	218,803	—
Other income (expense), net	(1,565,000)	25,000	(1,697,889)	66,368
Total other income (expense), net	(9,152,955)	(12,354,704)	(9,866,375)	(9,536,141)
Net loss prior to provision for income taxes	$ (12,482,032)	$ (14,143,018)	$ (14,896,507)	$ (13,298,007)
Provision for income taxes	—	—	—	—
Net loss	$ (12,482,032)	$ (14,143,018)	$ (14,896,507)	$ (13,298,007)
Dividends earned on convertible preferred stock	(353,912)	(870,461)	(520,583)	(1,704,194)
Accretion of discounts to redemption value of Series I and Series H-7 convertible preferred stock	(1,748,453)	(1,562,047)	(2,689,931)	(3,248,901)
Net loss attributable to common stockholders	$ (14,584,39)	$ (16,575,52)	$ (18,107,02)	$ (18,251,10)

	7	6	1	2
Net loss per share basic	$ (3.52)	$ (29.87)	$ (6.45)	$ (33.52)
Net loss per share diluted	$ (3.52)	$ (29.87)	$ (6.45)	$ (33.52)
Basic weighted average Common Stock outstanding	4,139,606	554,989	2,805,204	544,474
Diluted weighted average Common Stock outstanding	4,139,606	554,989	2,805,204	544,474

See the accompanying notes to these unaudited condensed consolidated financial statements

FABRIC.AI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three and Six Months Ended June 30, 2026																	
	Series K Preferred Stock		Series J Preferred Stock		Series I Preferred Stock		Series H-7 Preferred Stock		Series H Preferred Stock		Series H-3 Preferred Stock		Series H-6 Preferred Stock		Common Stock		Additional Paid-in	Accumulated
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	(Deficit)	Total
Balance, January 1, 2026	—	$ —	—	$ —	7,000	4,451,040	1,180	$ 1,551,232	8	$	1,234	$ —	50	$	1,455,975	$ 146	$ 141,884,878	$ (138,174,663)	$3,710,361
Deemed dividend	—	—	—	—	—	(252,509)	—	(151,024)			—	—			—	—	—	—	—
Preferred stock dividends	—	—	—	—	—	190,987	—	(24,316)			—	—			—	—	(166,671)	—	(166,671)
Accretion of discounts to redemption value of Series I convertible preferred stock	—	—	—	—	—	941,478	—	—			—	—			—	—	(941,478)	—	(941,478)
Issuance of consultant warrants	—	—	—	—	—	—	—	—			—	—			—	—	992,576	—	992,576
Net loss	—	—	—	—	—	—	—	—			—	—			—	—	—	(2,414,475)	(2,414,475)
Balance, March 31, 2026	—	$ —	—	$ —	7,000	5,330,996	1,180	1,375,892	8	$	1,234	$ —	50	$	1,455,975	$ 146	$ 141,769,305	$ (140,589,138)	$1,180,313
Stock-based compensation	—	—	—	—	—	—	—	—			—	—			—	—	848,546	—	848,546
Issuance of convertible preferred stock, net of discounts and transaction costs	21,500	10,851,482	3,810	5,606,454	—	—	—	—			—	—			—	—	8,864,064	—	8,864,064
Preferred stock redemptions and conversions including cash premium	—	—	—	—	(6,700)	(6,442,529)	(1,180)	(1,389,654)			—	—			3,204,291	320	7,831,862	—	7,832,182
Preferred stock dividends	—	259,194	—	29,566	—	49,913	—	15,241			—	—			—	—	(353,912)	—	(353,912)
Accretion of discounts to redemption value of Series I convertible preferred stock	—	—	—	—	—	1,748,453	—	—			—	—			—	—	(1,748,453)	—	(1,748,453)
Common stock issued for exercise	—	—	—	—	—	—	—	—			—	—			1,180,000	118	2,961,800	—	2,961,918

of Series H-7 Preferred warrants																				
Common stock issued for exercise of Series I Preferred warrants	—	—	—	—	—	—	—	—			—	—		823,646	82	2,067,269		—	2,067,351	
Amendment modification	—	—	—	—	—	(269,000)	—	(1,479)			—	—		—	—	163,479		—	163,479	
Warrant modification	—	—	—	—	—	—	—	—			—	—		—	—	(838,462)		—	(838,462)	
Issuance of Series H-7 and Series I waiver warrants	—	—	—	—	—	—	—	—			—	—		—	—	1,565,000		—	1,565,000	
Issuance of consultant warrants	—	—	—	—	—	—	—	—			—	—		—	—	1,105,781		—	1,105,781	
Net loss	—	—	—	—	—	—	—	—			—	—		—	—	—		(12,482,032)	(12,482,032)	
Balance, June 30, 2026	21,500	$ 11,110,676	3,810	$ 5,636,020	300	$ 417,833	—	$ —	8	$	1,234	$ —	50	$ 6,663,912	66	$ 164,236,279		$ (153,071,170)	$ 11,165,775	

	Three and Six Months Ended June 30, 2025																			
	Series K Preferred Stock		**Series J Preferred Stock**		**Series I Preferred Stock**		**Series H-7 Preferred Stock**		**Series H Preferred Stock**		**Series H-3 Preferred Stock**		**Series H-6 Preferred Stock**		**Common Stock**		**Additional Paid-in**	**Accumulated**	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	(Deficit)	Total
Balance, January 1, 2025	—	$—	—	$—	—	$—	10,167	$7,587,518	8	$—	1,234	$—	50	$—	533,842	$53	$121,767,394	$ (117,085,518)	$ 4,681,929
Preferred stock redemptions and conversions including cash premium	—	—	—	—	—	—	(5,500)	(6,404,587)	—	—	—	—	—	—	—	—	—	—	—
Deemed dividend	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(338,915)	—	(338,915)
Preferred stock dividends	—	—	—	—	—	—	—	494,818	—	—	—	—	—	—	—	—	(494,818)	—	(494,818)
Accretion of discounts to redemption value of Series H-7 convertible preferred stock	—	—	—	—	—	—	—	1,686,854	—	—	—	—	—	—	—	—	(1,686,854)	—	(1,686,854)
Net income	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	845,011	845,011
Balance, March 31, 2025	—	$—	—	$—	—	$—	4,667	$3,364,603	8	$—	1,234	$—	50	$—	533,842	$53	$119,246,807	$ (116,240,507)	$ 3,006,353
Stock based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	69,480	—	69,480
Preferred stock redemptions and conversion including cash premium	—	—	—	—	—	—	(4,667)	(5,473,475)	—	—	—	—	—	—	56,215	6	394,609	—	394,615
Deemed dividend	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(323,636)	—	(323,636)
Preferred stock dividends	—	—	—	—	—	—	—	546,825	—	—	—	—	—	—	—	—	(546,825)	—	(546,825)
Accretion of discounts to redemption value of Series H-7 convertible preferred stock	—	—	—	—	—	—	—	1,562,047	—	—	—	—	—	—	—	—	(1,562,047)	—	(1,562,047)
Issuance of round up shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	124	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(14,143,018)	(14,143,018)

| | | |

FABRIC.AI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2026	**2025**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (14,896,507)	$ (13,298,007)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	—	6,703
Stock-based compensation	1,940,282	69,480
Series H-7 preferred stock waiver	—	350,000
Non-cash financing expense related to Series H-7 and Series I convertible preferred stock	1,565,000	—
Gain on sale of assets	(218,803)	—
Change in fair value - derivative liability	(37,000)	(2,661,000)
Change in fair value - warrant liability	—	12,174,100
Change in fair value - anti-dilution liability	8,044,334	—
Amortization of right-of-use asset	110,209	98,478
Change in fair value of digital assets	538,609	—
Unrealized loss on marketable securities	(53,959)	79,164
Realized gain on marketable securities	(64,100)	(305,554)
Change in operating assets and liabilities:		
Prepaid expenses and other current assets	(4,228,759)	785,631
Deposits and other assets	20,883	7,203
Accounts payable	71,996	(828,324)
Accounts payable - related party	(28,533)	—
Accrued expenses and other current liabilities	137,887	(472,719)
Lease obligations - operating leases	(121,406)	(106,115)
Net cash used in operating activities	(7,219,867)	(4,100,960)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities, net	4,755,373	24,282,063
Proceeds from sale of digital assets	1,410,390	—
Purchase of marketable securities	(19,504,729)	(23,257,290)
Investment in Kopin license rights	(128,521)	—
Net cash provided by (used in) investing activities	(13,467,487)	1,024,773
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock (K), net of transaction costs	19,720,000	—
Proceeds from exercise of Series H-7 and Series I preferred warrants	5,029,269	—
Payment of preferred stock dividends (Series H-7 and Series I)	(403,531)	(7,881,527)
Net cash provided by (used in) financing activities	24,345,738	(7,881,527)
Net change in cash, cash equivalents and restricted cash	3,658,384	(10,957,714)
Cash, cash equivalents and restricted cash, beginning of period	5,092,062	16,200,157
Cash, cash equivalents and restricted cash, end of period	$ 8,750,446	$ 5,242,443
Supplemental disclosure of cash and non-cash transactions:		

Common stock issued for cashless conversion of Series H-7 and Series I convertible preferred stock	$	7,832,182		—
Accrual of Series H-7 convertible preferred stock dividends	$	9,075	$	1,041,643
Accretion of discounts to redemption value of I convertible preferred stock	$	2,689,931	$	3,248,901
Accrual of Series I Convertible Preferred Stock Dividends	$	240,900	$	—
Deemed dividend Series H-7 warrants	$	11,508,195	$	662,551
Accretion of discounts to redemption value of H-7 convertible preferred stock	$	—	$	1,686,854
Accrued Series H-7 preferred stock redemption payable	$	—	$	11,878,064
Non-cash redemption of Series H-7 preferred stock	$	—	$	394,615
Accrued waiver fee related to Series H-7 preferred stock	$	—	$	350,000
Prepaid insurance financed through accrued expenses	$	—	$	110,208
Supplemental disclosure of restricted cash:				
Cash and cash equivalents	$	3,635,883	$	5,132,867
Restricted cash		5,114,563		109,576
Total cash, cash equivalents and restricted cash	$	8,750,446	$	5,242,443

See the accompanying notes to these unaudited condensed consolidated financial statements

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Organization

Fabric.AI, Inc. ("Fabric.AI" or the "Company") is a Delaware corporation headquartered in New York, New York. The Company operates through its wholly-owned subsidiary, AYRO Operating Company, Inc. ("AYRO Operating").

On April 27, 2026, the Company amended its Amended and Restated Certificate of Incorporation to change its name from "StableX Technologies, Inc." to "Fabric.AI, Inc." effective April 28, 2026. The Company's ticker for its common stock, par value $0.0001 per share ("common stock"), symbol changed from "SBLX" to "FABC" and began trading under the new symbol on The Nasdaq Capital Market on April 29, 2026.

Nature of Operations

During the quarter ended June 30, 2026, the Company initiated a strategic transformation focused on the design and development of fabless semiconductor technologies for artificial intelligence ("AI") data center infrastructure, including MicroLED-based optical interconnects and other system-critical semiconductor solutions intended to enable faster, more efficient and scalable AI workloads.

On April 27, 2026, the Company entered into a Joint Development and License Agreement ("JDA") and related commercial agreements with Kopin Corporation ("Kopin") to jointly develop and commercialize MicroLED-based optical interconnect technologies and related semiconductor products. For additional information, see Note 16. Commitments and Contingencies.

Our initial product under development is the Neural I/o™ chip, a micro light-emitting diode ("MicroLED") based optical interconnect being developed in collaboration with Kopin Corporation, a Delaware corporation ("Kopin") (Nasdaq: KOPN), pursuant to a Joint Development and License Agreement dated April 27, 2026 (the "JDA"), by and between the Company and Kopin. The Neural I/o chip is intended to replace traditional electrical interconnects with optical links to enable high-bandwidth, low-latency communication between compute nodes, with an initial focus on GPU-to-GPU connectivity for AI data center applications.

The collaboration with Kopin combines the Company's system-level design capabilities with Kopin's expertise in MicroLED materials science, process development and fabrication. The Neural I/o™ chip leverages Kopin's proprietary MicroLED technology and patented bi-directional NeuralDisplay architecture, which repurposes programmable MicroLED pixels as optical transceivers intended to transmit data with lower power consumption relative to existing copper-based and laser-based interconnect solutions. The parties have agreed to jointly develop prototype and demonstration versions of the technology in accordance with development plan established under the JDA. Intellectual property developed through the collaboration will be jointly owned by the Company and Kopin, while Kopin retains ownership of its pre-existing technology and has granted the Company commercialization rights for commercial market applications.

The Company's semiconductor initiatives are in the early stages of development. The extent to which the Company advances its semiconductor technologies and related activities will depend on factors including available capital, market conditions, regulatory developments, technical progress, manufacturing feasibility and customer adoption within the AI infrastructure industry. As of the date of this filing, the Company had approximately $7.5 million in cash and cash equivalents and $20.4 million in marketable securities available to support its strategic transition and ongoing development activities.

During 2025, the Company had initiated a digital asset treasury strategy associated with the stablecoin ecosystem. During the quarter ended June 30, 2026, the Company disposed of all its digital asset holdings and does not intend to develop this strategy further (see Note 7. Digital Assets).

During the year ended December 31, 2025, the Company paused active development and commercialization activities related to its electric vehicle business while it evaluates strategic alternatives for that business line. During the quarter ended June 30, 2026, the Company sold its assets associated with electric vehicle operations (see Note 15. Sale of Legacy Electric Vehicle Assets).

NOTE 2. LIQUIDITY AND GOING CONCERN

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP"), which contemplates continuation of the Company as a going concern. The Company is subject to a number of risks similar to those of earlier stage commercial companies, including dependence on key individuals and products, the difficulties inherent in the development of a commercial market, the potential need to obtain additional capital, competition from larger companies, other technology companies, and other technologies. The Company has a limited operating history and the sales and income potential of its business and market are unproven.

During the quarter ended June 30, 2026, the Company completed equity financing transactions that generated approximately $21.5 million in gross proceeds (see Note 8. Stockholders' Equity for additional information regarding these financing transactions). As of the date of this filing, the Company had approximately $7.5 million in cash and cash equivalents and $20.4 million in marketable securities. Based on the Company's current cash position and management's operating plan, management believes the Company has sufficient liquidity to fund operations for at least the next twelve months from the issuance date of these unaudited condensed consolidated financial statements.

Management evaluated whether conditions and events raised substantial doubt about the Company's ability to continue as a going concern for a period of one year from the date these unaudited condensed consolidated financial statements are issued. Although the Company's recurring operating losses and negative operating cash flows initially raised substantial doubt about its ability to continue as a going concern, management concluded that such substantial doubt has been alleviated as a result of the capital raised during the quarter ended June 30, 2026, and the Company's current operating plan. Accordingly, management believes the Company has sufficient liquidity to fund its operations for at least the next twelve months from the issuance date of these unaudited condensed consolidated financial statements. However, the Company may require additional capital in the future to support the continued development and commercialization of its business, including its semiconductor development initiatives, and there can be no assurance that such financing will be available on acceptable terms, if at all.

The Company incurred a net loss of $14,896,507 and cash used in operating activities of $7,219,867 for the six months ended June 30, 2026. In addition, overall working capital increased by $23,048,350 during the six months ended June 30, 2026, primarily as a result of the financing transactions completed during the quarter.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are described in Note 3 to the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025. The following policies are new to the Company during the six months ended June 30, 2026, or have been updated to reflect changes in the current period.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP and in conformity with the instructions on Form 10-Q and Rule 8-03 of Regulation S-X and the related rules and regulations of the Securities and Exchange Commission (the "SEC"). The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of such statements. The results of operations for the three and six months ended June 30, 2026, are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2025, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on March 30, 2026.

Use of Estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of and during the reported period of the consolidated financial statements. Actual results could differ from those estimates. The Company evaluates estimates and assumptions on an ongoing basis.

Intangible Assets

Intangible assets acquired individually or as part of a group of assets are recorded at cost, which for noncash consideration is measured at the fair value of the consideration transferred on the acquisition date. The Company's intangible assets consist of an acquired license right that has been determined to have an indefinite useful life. Indefinite-lived intangible assets are not amortized.

The Company evaluates its indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Indefinite-lived intangible assets are tested for impairment at least annually, and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Recently Issued Accounting Pronouncements Not Yet Adopted

In November 2024, the FASB issued ASU 2024-03, "*Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*," which requires the disaggregated disclosure of specific expense categories, including purchases of inventory, employee compensation, depreciation, and amortization included in each relevant expense caption presented on the statement of operations. The standard also requires disclosure of qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively, as well as the total amount of selling expenses and an entity's definition of selling expenses. ASU 2024-03 is effective for annual periods beginning after December 15, 2026, and interim periods beginning after December 15, 2027. The Company is currently evaluating the impact this standard will have on its financial statements.

The Company currently believes there are no other issued and not yet effective accounting standards that are materially relevant to its financial statements.

NOTE 4. BASIC AND DILUTED NET LOSS PER SHARE

Due to the Company incurring a net loss for the three and six months ended June 30, 2026 and 2025, the following potentially dilutive securities have been excluded from the computation of diluted weighted average shares outstanding, as their inclusion would have been anti-dilutive:

	Three Months Ended June 30,	
	2026	**2025**
Options to purchase Common Stock	380,168	14,542
Restricted stock units	358,566	-
Warrants outstanding	11,150,996	3,635,974
Preferred stock outstanding	10,637,782	47
Totals	22,527,512	3,650,563

	Six Months Ended June 30,	
	2026	**2025**
Options to purchase Common Stock	706,115	14,542
Restricted stock units	358,566	-
Warrants outstanding	20,782,958	3,635,974
Preferred stock outstanding	11,512,829	47
Totals	33,360,468	3,650,563

NOTE 5. INVESTMENTS IN MARKETABLE SECURITIES

The Company's investments consist of (i) U.S. Treasury bills and (ii) investments in a U.S. government money market fund. These investments are measured at fair value with changes in fair value recognized in earnings within Other income (expense), net in the unaudited

condensed consolidated statements of operations.

The Company classifies investments with original maturities of three months or less at the date of purchase as cash and cash equivalents and those with original maturities greater than three months as marketable securities.

Trading debt securities: the Company's U.S. Treasury bills are classified as trading debt securities. Realized and unrealized gains and losses are recognized in earnings.

Money market fund: the Company also invests in a prime institutional money market fund, which is a pooled investment vehicle that invests in a diversified portfolio of short-term, high-quality debt instruments, including U.S. government securities, commercial paper, certificates of deposit, and repurchase agreements. The investment is recorded at fair value and changes in fair value are recognized in earnings.

The following table summarizes the Company's trading securities by major investment type as of June 30, 2026 and December 31, 2025:

Security Type:	June 30, 2026	December 31, 2025
U.S. Treasury Bills	$ 12,866,651	$ 2,718,112
Total U.S. Treasury Securities	$ 12,866,651	$ 2,718,112
Prime institutional money market fund	5,169,126	450,250
Total Trading Securities	$ 18,035,777	$ 3,168,362

The Company recognized an unrealized gain of $62,805 and $53,959 for the three and six months ended June 30, 2026, and an unrealized loss of $7,457 and $79,164 for the three and six months ended June 30, 2025. The Company recognized realized gains of $26,123 and $94,492 for the three months ended June 30, 2026 and 2025, respectively, and $64,100 and $305,554 for the six months ended June 30, 2026 and 2025, respectively.

NOTE 6. INTANGIBLE ASSETS

During the quarter ended June 30, 2026, in connection with the Kopin Joint Development Agreement, see Note 16. Commitments and Contingencies, the Company recognized an intangible asset of $17,238,716 representing the fair value of its right to acquire the license to use Kopin's technology in the Company's fabless semi-conductor manufacturing operations (the "License"). The fair value of the License was determined based on the fair value of the consideration transferred to Kopin, comprising the $730,533 initial fair value of the Series J Convertible Preferred Stock issued to Kopin (see Note 8. Stockholders' Equity) and the $16,379,662 initial fair value of the associated anti-dilution liability (see Note 11. Fair Value Measurements), together with $128,521 of direct transaction costs incurred in connection with the transaction.

The License provides the core technology used in the Company's fabless semiconductor manufacturing operations, and the Company expects its future revenue to be generated from the sale of semiconductors manufactured using that technology. In determining the useful life of the License, management analyzed all pertinent factors, including the terms of the underlying agreements and management's intent and ability to continue the arrangement. As of June 30, 2026, management expects to extend the arrangement beyond its initial term and considers the probability of non-renewal or termination to be remote. Because the License is expected to contribute to the Company's cash flows without a foreseeable limit, management concluded that the License has an indefinite useful life. Accordingly, the License is not amortized.

The Company reassess each reporting period whether events and circumstances continue to support indefinite useful life. The License is tested for impairment at least annually, and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. An impairment loss is recognized to the extent the carrying amount of the License exceeds its fair value. No impairment was recognized during the three and six months ended June 30, 2026.

Intangible assets subject to amortization consisted of the following at June 30, 2026:

	Gross carrying amount

License right	$	17,238,716

NOTE 7. DIGITAL ASSETS

The following table presents a reconciliation of the Company's digital asset activity for the six months ended June 30, 2026:

	As of June 30, 2026
Beginning balance at January 1, 2026	$ 1,948,999
Change in fair value	(538,609)
Sale of digital assets	(1,410,390)
Ending balance at June 30, 2026	$ —

During the three and six months ended June 30, 2026, the Company recognized a gain on change in fair value of digital assets of $75,054 and a loss on change in fair value of digital assets of $538,609, respectively.

During the quarter ended June 30, 2026, the Company disposed of all of its digital assets.

NOTE 8. STOCKHOLDERS' EQUITY

Preferred Stock

Series H Convertible Preferred Stock

On June 30, 2015, the Company filed the Certificate of Designations, Preferences and Rights of the Series H Preferred Stock (the "Series H Certificate of Designation") with the Secretary of State of Delaware, establishing and designating the rights, powers and preferences of the Series H Preferred Stock. Under the terms of the Series H Certificate of Designation, each share of the Company's Series H Convertible Preferred Stock (the "Series H Preferred Stock") has a stated value of $154.00 and is convertible into shares of the Company's common stock, equal to the stated value divided by the conversion price of $23,654.10 per share (subject to adjustment in the event of stock splits or dividends). The Company is prohibited from effecting the conversion of the Series H Preferred Stock to the extent that, as a result of such conversion, the holder would beneficially own more than 9.99%, in the aggregate, of the issued and outstanding shares of the Company's common stock calculated immediately after giving effect to the issuance of shares of common stock upon such conversion.

In the event of liquidation, the holders of the Series H Preferred Stock are entitled, pari passu with the holders of common stock, to receive a payment in the amount the holder would receive if such holder converted the Series H Preferred Stock into common stock immediately prior to the date of such payment.

Series H-3 Convertible Preferred Stock

On March 30, 2017, the Company filed the Certificate of Designation, Preferences and Rights of the Series H-3 Preferred Stock (the "Series H-3 Certificate of Designation") with the Secretary of State of the State of Delaware, establishing and designating the rights, powers and preferences of the Series H-3 Preferred Stock. Under the terms of the Series H-3 Certificate of Designation, each share of the Series H-3 Preferred Stock has a stated value of $138.00 and is convertible into shares of common stock, equal to the stated value divided by the conversion price of $21,196.60 per share (subject to adjustment in the event of stock splits and dividends). The Company is prohibited from effecting the conversion of the Series H-3 Preferred Stock to the extent that, as a result of such conversion, the holder or any of its affiliates would beneficially own more than 9.99%, in the aggregate, of the issued and outstanding shares of common stock calculated immediately after giving effect to the issuance of shares of common stock upon the conversion of the Series H-3 Preferred Stock.

In the event of liquidation, the holders of the Series H-3 Preferred Stock are entitled, pari passu with the holders of common stock, to receive a payment in the amount the holder would receive if such holder converted the Series H-3 Preferred Stock into common stock immediately prior to the date of such payment.

Series H-6 Convertible Preferred Stock

On February 5, 2020, the Company filed the Certificate of Designations, Preferences and Rights of the Series H-6 Preferred Stock (the "Series H-6 Certificate of Designation") with the Secretary of State of the State of Delaware, establishing and designating the rights, powers and preferences of the Series H-6 Preferred Stock. The Company designated up to 50,000 shares of Series H-6 Preferred Stock and each share has a stated value of $72.00 (the "H-6 Stated Value"). Each share of Series H-6 Preferred Stock is convertible at any time at the option of the holder thereof, into a number of shares of common stock of the Company determined by dividing the H-6 Stated Value by the initial conversion price of $460.80 per share, which was then further reduced to $320.00 under the anti-dilution adjustment provision, subject to a 9.99% blocker provision and further reduced to $92.16 under the anti-dilution adjustment provision. The Series H-6 Preferred Stock has the same dividend rights as the common stock, except as provided for in the Series H-6 Certificate of Designation or as otherwise required by law. The Series H-6 Preferred Stock also has the same voting rights as the common stock, except that in no event shall a holder of Series H-6 Preferred Stock be permitted to exercise a greater number of votes than such holder would have been entitled to cast if the Series H-6 Preferred Stock had immediately been converted into shares of common stock at a conversion price equal to $92.16. In addition, a holder (together with its affiliates) may not be permitted to vote Series H-6 Preferred Stock held by such holder to the extent that such holder would beneficially own more than 9.99% of the Company common stock. In the event of any liquidation or dissolution, the Series H-6 Preferred Stock ranks senior to the common stock in the distribution of assets, to the extent legally available for distribution.

The holders of Series H-6 Preferred Stock are entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable conversion price of the Series H-6 Preferred Stock. If any such dilutive issuance occurs prior to the conversion of the Series H-6 Preferred Stock, the conversion price will be adjusted downward to a price that cannot be less than $92.16.

Series H-7 Preferred Stock

On August 7, 2023, the Company entered into a Securities Purchase Agreement (the "Series H-7 Purchase Agreement"), pursuant to which it agreed to sell to certain existing investors (the "Series H-7 Investors") in a private placement (the "Series H-7 Private Placement") (i) an aggregate of 22,000 shares of the Company's newly designated Series H-7 convertible preferred stock, par value $0.0001 per share, with a stated value of $1,000 per share ("Series H-7 Preferred Stock"), and (ii) warrants (the "Series H-7 Investor Warrants") initially exercisable for up to an aggregate of 171,875 shares of common stock at a conversion price of $128.00 per share. The Company raised gross proceeds of $22,000,000 from the sale, which closed on August 10, 2023.

In connection with the Series H-7 Private Placement, pursuant to an Engagement Letter (the "Palladium Engagement Letter"), dated August 7, 2023, between the Company and Palladium Capital Group, LLC (the "Placement Agent"), the Company agreed to pay the Placement Agent (i) a cash fee equal to 6% of the gross proceeds from any sale of securities in the Series H-7 Private Placement and (ii) warrants ("Placement Agent Warrants," and together with the Series H-7 Investor Warrants, the "Warrants") to purchase shares of common stock equal to 2% of the number of shares of common stock that the Series H-7 Preferred Stock are initially convertible into, with an initial exercise price of $128.00 per share (subsequently reduced to $32.00 per share pursuant to the stock combination event adjustment provisions (the "Stock Combination Event") following the one-for-eight Reverse Stock Split (the "2023 Reverse Stock Split") effected on September 15, 2023) and a five-year term.

The shares of Series H-7 Preferred Stock are convertible into common stock at the election of the holder at any time with an initial conversion price of $128.00 per share, which pursuant to the Stock Combination Event, was subsequently reduced to $32.00 per share. On April 30, 2025, in connection with the issuance of stock options to certain officers of the Company and pursuant to the full ratchet and anti-dilution provisions contained in the Series H-7 Certificate of Designations and the Series H-7 Warrants, (i) the Series H-7 Conversion Price was adjusted from $32.00 per share to $7.616 per share and (ii) the exercise price of the Series H-7 Warrants was adjusted from $32.00 per share to $7.616 per share and the number of shares of common stock issuable upon exercise of such warrants was adjusted proportionally. On June 25, 2025, in connection with the reverse stock split effected on June 25, 2025, (the "2025 Reverse Stock Split") pursuant to the stock combination event adjustment provisions contained in the Series H-7 Certificate of Designations, (i) the Series H-7 Conversion Price was adjusted from $7.616 per share to $6.1933 per share and (ii) the exercise price of the Series H-7 Warrants was adjusted from $7.616 per share to $6.1933 per share and the number of shares of common stock issuable upon exercise of such warrants was adjusted proportionally.

On February 9, 2024, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment of Certificate of Designations of Series H-7 Convertible Preferred Stock, which became effective upon filing, which amended the commencement of the monthly installment dates, to be between May 7, 2024, and August 7, 2025. The first such installment dates were May 7, 2024 and August 7, 2024, as elected by the applicable investor.

On December 2, 2024, the Company entered into a Waiver and Amendment Agreement (the "Amendment") with the Required Holders (as defined in the Certificate of Designations). Pursuant to the Amendment, the Company and the Required Holders agreed (i) to amend (a) the Certificate of Designations, by filing a Certificate of Amendment to the Certificate of Designations (the "Certificate of Amendment"), and (b) the Series H-7 Purchase Agreement, such that, in each case, the Director Equity Grants are deemed to constitute "Excluded Securities" under the Transaction Documents (as such term is defined in the Series H-7 Purchase Agreement), and (ii) that the Required Holders waive the applicability of certain other provisions of the Transaction Documents with respect to such Director Equity Grants. The Certificate of Amendment was filed with the Secretary of State of the State of Delaware, effective as of December 2, 2024.

On March 30, 2025, the Company entered into an Omnibus Waiver and Amendment Agreement ("Waiver and Amendment Agreement") with the Required Holders (as defined in the Certificate of Designations (the "Series H-7 Certificate of Designations") for the Series H-7 Preferred Stock, pursuant to which, the Required Holders agreed (A) to amend (i) the Series H-7 Certificate of Designations, as described below, by filing a Certificate of Amendment to the Series H-7 Certificate of Designations with the Secretary of State of the State of Delaware (the "March 2025 Certificate of Amendment"), and (ii) that certain Securities Purchase Agreement, dated as of August 7, 2023 (the "Series H-7 Purchase Agreement") to (A) amend the definition of "Excluded Securities" such that the definition includes the issuance of common stock issued after the date of the Series H-7 Purchase Agreement pursuant to an Approved Stock Plan (as defined in the Series H-7 Purchase Agreement), which in the aggregate does not exceed more than 2% of the shares of common stock issued and outstanding on the date immediately prior to the date of the Series H-7 Purchase Agreement (the "Excluded Securities Modification"), and (B) to waive certain restrictive covenants contained in the Series H-7 Purchase Agreement as described therein.

In addition, the March 2025 Certificate of Amendment amends the Series H-7 Certificate of Designations to (i) amend the restrictive covenant of the Series H-7 Certificate of Designations such that the Company is required from January 1, 2025, until no shares of Series H-7 Preferred Stock are outstanding, to maintain unencumbered, unrestricted cash and cash equivalents on hand in amount equal to at least 120% of the aggregate stated value of the Series H-7 Preferred Stock then outstanding, (ii) amend the definition of "Excluded Securities" substantially similar to the Excluded Securities Modification, and (iii) remove the restrictive covenant provision relating to the Segregated Cash (as defined in the Series H-7 Certificate of Designations) requirement. The March 2025 Certificate of Amendment was filed with the Secretary of State of the State of Delaware, effective as of March 31, 2025.

On May 13, 2025, the Required Holders (as defined in the Series H-7 Certificate of Designations) executed and delivered a waiver (the "May 2025 Waiver") to the Company, pursuant to which, the Required Holders agreed to waive any Equity Conditions Failure (as defined in the Series H-7 Certificate of Designations) including, without limitation, any rights or remedies in connection with such Equity Conditions Failure, effective as of March 31, 2025, and as of the date of the May 2025 Waiver.

On August 4, 2025, the Company entered into an Omnibus Waiver, Consent, Notice and Amendment (the "Series H-7 Agreement") with the Required Holders (as defined in the Series H-7 Certificate of Designations). Pursuant to the Series H-7 Agreement, the Required Holders agreed to (i) amend the Series H-7 Purchase Agreement to amend the definition of "Excluded Securities" as set forth in the Series H-7 Amendment, (ii) waive certain rights under the Series H-7 Purchase Agreement, Series H-7 Warrants and Series H-7 Certificate of Designations in respect of the issuance of the Company's Series I Convertible Preferred Stock ("Series I Preferred Stock"), and (iii) consent to the issuance of the Series I Preferred Stock, as required pursuant to certain terms of the Series H-7 Certificate of Designations, the Series H-7 Purchase Agreement and the Series H-7 Warrants, as applicable. In consideration of the foregoing, the Company agreed to pay to the Required Holders an aggregate of $350,000 by September 30, 2025, which may be paid in the form of cash, or, at the Holders' sole election, added to the outstanding aggregate stated value of the Series H-7 Preferred Stock. Accordingly, the Company recorded the $350,000 in consent and waiver fee – Series H-7 on the consolidated statements of operations for the year ended December 31, 2025, and recorded the $350,000 in accrued preferred stock redemption payable (H-7), which was later settled through the issuance of 4,377 shares of Series H-7 Preferred Stock, as noted below.

The Company and the Required Holders further agreed pursuant to the Series H-7 Agreement to amend the Series H-7 Certificate of Designations by filing a Certificate of Amendment to the Series H-7 Certificate of Designations (the "Certificate of Amendment") with the Secretary of State of the State of Delaware. The Certificate of Amendment amends the Series H-7 Certificate of Designations to (i) extend the maturity date to February 4, 2027, (ii) revise the applicable payment dates and corresponding payable amounts of Dividends and Instalment Amounts (each as defined in the Series H-7 Certificate of Designations), (iii) modify the definition of "Excluded Securities" and (iv) modify the schedule of Instalment Dates (as defined in the Series H-7 Certificate of Designations). The Certificate of Amendment to the Series H-7 Certificate of Designations was filed with the Secretary of State for the State of Delaware on August 6, 2025.

Pursuant to the Series H-7 Agreement, the accrued preferred stock redemption payable related to the Series H-7 Preferred Stock, at the time of the Series H-7 Agreement, was settled through the issuance of 4,377 shares of Series H-7 Preferred Stock. As a result, the Company eliminated the accrued preferred stock redemption payable (H-7) balance of $5,309,174 on the consolidated balance sheets, with a corresponding increase to the carrying value of the Series H-7 Preferred Stock, net of issuance costs.

On April 27, 2026, the Company entered into an Omnibus Waiver, Consent, Notice and Amendment (the "April 2026 Series H-7 Amendment") with the Required Holders, pursuant to which the Company filed an amended and restated Certificate of Designations of the Series H-7 Preferred Stock that (i) extended the maturity date to October 27, 2027, and (ii) removed the installment (amortization) payment obligations and related covenants. In consideration of the foregoing, the Company issued the Waiver Warrants described below.

The Company determined that the April 2026 Series H-7 Amendment should be accounted for as an extinguishment of the original Series H-7 Preferred Stock and a reissuance of the amended instrument as a new instrument on April 27, 2026. Immediately prior to the extinguishment, the carrying value of the Series H-7 Preferred Stock was adjusted to its redemption value, and the amended instrument was recognized at its reissuance date fair value, with no impact to net income. In connection with the extinguishment, the Company also derecognized the embedded derivative liability previously bifurcated from the Series H-7 Preferred Stock related to the installment redemption features removed by the April 2026 Amendment.

The Amended Series H-7 Preferred Stock continues to be classified within temporary (mezzanine) equity and considered probable of becoming redeemable, with changes in redemption value continuing to be accreted to the maturity date using the effective maturity method.

The Company identified embedded derivative features in the Series H-7 Preferred Stock that are bifurcated and measured at fair value, with subsequent changes recognized in earnings (see Note 11. Fair Value Measurements). At issuance, the Company recorded a total discount of $15,484,324, comprised of the embedded derivative fair value of $5,147,000, issuance costs of $563,324, and fair value of warrants issued of $9,774,000. The discount is being accreted using the effective interest method, with accretion of $0 and $1,686,854 recorded as deemed dividends during the six months ended June 30, 2026 and 2025, respectively.

The Series H-7 Certificate of Designations requires the Company to maintain unencumbered cash and cash equivalents of at least 120% of the aggregate stated value of outstanding Series H-7 Preferred Stock. The Company had $5,114,563 and $110,264 in restricted cash as of June 30, 2026 and December 31, 2025.

The Series H-7 Certificate of Designations includes triggering events that would allow holders to require redemption at a premium, including suspension of trading for five consecutive days or failure to pay amounts when due.

As a result of the issuance of the Series K Preferred Stock, as described below, the conversion price was reduced from $6.1933 to $2.51 per share.

During the quarter ended June 30, 2026, Required Holders converted the remaining 1,180 shares of Series H-7 Preferred Stock for an aggregate amount of 534,975 shares of common stock. As a result, there were no outstanding shares of Series H-7 Preferred Stock at June 30, 2026.

During the three and six months ended June 30, 2026, the Company recognized $(15,241) and $160,099 of net preferred dividends which is comprised of $151,024 and $9,075 of accrued and deemed preferred dividends for cash premium on instalment redemptions ultimately settled in shares of Common Stock.

During the three and six months ended June 30, 2025, the Company recognized $870,461 and $1,704,194 of net preferred dividends which is comprised of $546,825 and $1,041,643 of accrued and deemed dividends for cash premium for instalment redemptions ultimately settled in shares of Common Stock.

Series I Preferred Stock

On August 4, 2025, the Company entered into a Securities Purchase Agreement (the "Series I Purchase Agreement") with certain accredited investors, pursuant to which it agreed to sell (i) an aggregate of 7,000 shares of the Company's newly-designated Series I Preferred Stock, with a par value of $0.0001 per share and a stated value of $1,000 per share, initially convertible into up to 875,000 shares of the Company's common stock at an initial conversion price of $8.00 per share pursuant to the Certificate of Designations of the Series I Preferred Stock (the "Series I Certificate of Designations") and (ii) warrants to acquire up to an aggregate of 875,000 shares of common stock (the "Series I Warrants") at an exercise price of $8.00 per share (collectively, the "Series I Private Placement"). The closing of the Series I Private Placement occurred on August 8, 2025. The aggregate gross proceeds from the Series I Private Placement were $7,000,000.

In connection with the Series I Private Placement, pursuant to (A) an engagement letter (the "GPN Agreement") with GP Nurmenkari Inc. ("GPN") and (B) an engagement letter (the "Palladium Agreement," and collectively with the GPN Agreement, the "Engagement Letters") with Palladium Capital Group, LLC ("Palladium," and collectively with GPN, the "Placement Agents"), the Company engaged the Placement Agents to act as non-exclusive placement agents in connection with the Series I Private Placement, pursuant to which, the Company agreed to (i) pay each Placement Agent a cash fee equal to 4% of the gross proceeds of the Series I Private Placement (including any cash proceeds realized by the Company from the exercise of any outstanding warrants of the Company), (ii) reimbursement and payment of certain expenses, and (iii) issue to each of the Placement Agents on the closing date, warrants to purchase up to an aggregate number of shares of common stock equal to 4% of the aggregate number of shares of common stock underlying the securities issued in the Series I Private Placement, including upon exercise of any outstanding warrants of the Company, with terms identical to the Series I Warrants (the "Series I Placement Agent Warrants").

The Series I Preferred Stock is convertible into shares of common stock (the "Series I Conversion Shares") at the election of the holder at any time at an initial conversion price of $8.00 per share (the "Series I Conversion Price"). The Series I Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications, stock combinations and the like and dilutive issuances (in each case, subject to certain exceptions). The Company is required to redeem the Series I Preferred Stock in equal instalments, commencing on November 30, 2025, and thereafter on the last trading day of the third calendar month immediately following the previous Instalment Date, until the maturity date of October 27, 2027.

The holders of the Series I Preferred Stock are entitled to dividends of 7% per annum, compounded each calendar quarter, which are payable in arrears (i) quarterly on each Installment Date (as defined in the Series I Certificate of Designations), in cash out of funds legally available therefor and, (ii) prior to the first Installment Date, payable by way of inclusion of the dividends in the Conversion Amount (as defined in the Series I Certificate of Designations) on each conversion date occurring prior to the first Installment Date. Upon the occurrence and during the continuance of a Triggering Event (as defined in the Series I Certificate of Designations), the Series I Preferred Stock accrue dividends at the rate of 15% per annum. The holders of the Series I Preferred Stock are entitled to vote with holders of the Common Stock on an as-converted basis, with the number of votes to which each holder of Series I Preferred Stock is entitled to be calculated assuming a conversion price of $7.628 per share, which was the Minimum Price (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Series I Purchase Agreement, subject to certain beneficial ownership limitations as set forth in the Certificate of Designations.

Notwithstanding the foregoing, the Company's ability to settle conversions using shares of common stock is subject to certain limitations set forth in the Series I Certificate of Designations. Further, the Series I Certificate of Designations contains a certain beneficial ownership limitation after giving effect to the issuance of shares of common stock issuable upon conversion of the Series I Preferred Stock under the Series I Certificate of Designations.

The Series I Certificate of Designations includes certain triggering events including, among other things, the suspension from trading or the failure of the common stock to be trading or listed (as applicable) on an eligible market for a period of five (5) consecutive trading days, the Company's failure to pay any amounts due to the holders of the Series I Preferred Stock when due. In connection with a triggering event, each holder of Series I Preferred Stock will be able to require the Company to redeem in cash any or all of the holder's shares of Series I Preferred Stock at a premium set forth in the Series I Certificate of Designations.

The shares of Series I Preferred Stock were determined to be more akin to a debt-like host than an equity-like host. The Company identified the following embedded features that are not clearly and closely related to the debt host instrument: 1) make-whole interest upon a contingent redemption event, 2) make-whole interest upon a conversion event and 3) an increase in the dividend rate related to the occurrence of a triggering event. These features were bundled together, assigned probabilities of being affected and measured at fair value. Subsequent changes in fair value of these features are recognized in the unaudited condensed consolidated statement of operations. The Company estimated the $23,000 fair value of the bifurcated embedded derivative at issuance using a Monte Carlo simulation model, with the following inputs: (i) estimated equity volatility of 135.0%, (ii) the time to maturity of 1.49 years, (iii) a discounted market interest rate of 13.76%, (iv) dividend rate of 7.0%, (v) a penalty dividend rate of 15.0%, and (vi) probability of default of 9%. The fair value of the bifurcated derivative liability was estimated utilizing the with and without method which uses the probability weighted difference between the scenarios with the derivative and the plain vanilla maturity scenario without a derivative.

On April 27, 2026, the Company entered into an Omnibus Waiver, Consent, Notice and Amendment (the "April 2026 Series I Amendment," and together with the April 2026 Series H-7 Amendment, the "April 2026 Amendment") with the Required Holders, pursuant to which the Company filed an amended and restated Certificate of Designations of the Series I Preferred Stock that (i) extended the maturity date to October 27, 2027, and (ii) removed the installment (amortization) payment obligations and related covenants. In consideration of the foregoing, the Company issued the Waiver Warrants described below.

The Company determined that the April 2026 Series I Amendment should also be accounted for as an extinguishment of the original Series I Preferred Stock and a reissuance of the amended instrument as a new instrument on April 27, 2026. Immediately prior to the extinguishment, the carrying value of the Series I Preferred Stock was adjusted to its redemption value, recognizing the related change in fair value of the embedded derivative liability, as discussed in Note 10. Derivative Instruments, through that date. The amended Series I Preferred Stock was then recognized at its reissuance date fair value, with no impact to net income. The Holder's previously identified option to defer installment payments, which was not separately bifurcated prior to the amendment, is removed with no separate accounting effect.

The amended Series I Preferred Stock continues to be classified within temporary (mezzanine) equity and considered probable of becoming redeemable, with changes in redemption value continuing to be accreted to the maturity date using the effective interest method.

The discount to the fair value is included as a reduction to the carrying value of the Series I Preferred Stock. During the year ended December 31, 2025, the Company recorded a total discount of $10,887,185 upon issuance of the Series I Preferred Stock, which was comprised of the issuance date fair value of the associated embedded derivative of $24,000, stock issuance costs of $1,322,669, of which $567,854 was paid in cash and $754,815 was allocated as the Series I Placement Agent Warrants both of which were recorded to mezzanine equity, and the fair value of the Series I Warrants of $3,981,034. As of June 30, 2026, it is probable that the Series I Preferred Stock will be redeemed. In accordance with ASC 480-10-S99-3A, the Company is accreting the discount on the effective interest method and $2,689,931 was recorded as a deemed dividend during the six months ended June 30, 2026.

In connection with the Series I Purchase Agreement, the Company and the investors entered into a Registration Rights Agreement (the "Series I Registration Rights Agreement"), pursuant to which the Company is required to file a resale registration statement (the "Series I Registration Statement") with the SEC to register for resale 200% of the shares of common stock issuable upon conversion of the Series I Preferred Stock and upon exercise of the Series I Warrants promptly following the closing date, but in no event later than 30 calendar days after the closing date, and to have such Series I Registration Statement declared effective by the Effectiveness Deadline (as defined in the Series I Registration Rights Agreement). On September 8, 2025, the Company filed the Series I Registration Statement with the SEC and subsequently amended the Series I Registration Statement on October 10, 2025. On January 9, 2026, the SEC declared the Series I Registration Statement effective.

As a result of the issuance of the Series K Preferred Stock, as described below, the conversion price was reduced from $8.00 to $2.51 per share.

During the quarter ended June 30, 2026, Series I Preferred Stock holders converted 6,700 shares of Series I Preferred Stock for an aggregate amount of 2,669,316 shares of common stock. As a result, there were 300 shares of Series I Preferred Stock outstanding at June 30, 2026.

During the three and six months ended June 30, 2026, the Company recognized $(49,913) and $11,609 of net preferred dividends which is comprised of $252,509 and $(240,900) of accrued and deemed preferred dividends for cash premium on instalment redemptions ultimately settled in shares of Common Stock.

Series J Preferred Stock

On April 27, 2026, in connection with the JDA, see Note 16. Commitments and Contingencies, the Company issued to Kopin 730 shares of newly designated Series J Convertible Preferred Stock, par value $0.0001 per share and stated value $1,000 per share (the "Series J Preferred Stock"), constituting 19.9% of the pro forma fully diluted outstanding shares of Common Stock, as consideration for Kopin's grant of the license to the project technology. The Series J Preferred Stock is classified as temporary (mezzanine) equity because it may be settled in cash or other assets upon the occurrence of a Fundamental Transaction (as defined in the Series J Certificate of designations), which is an event not solely within the Company's control. Because the shares are not currently redeemable and it is not probable that they will become redeemable (as the Company does not consider the occurrence of a Fundamental Transaction to be probable), the carrying amount is not adjusted to the redemption amount.

The Company accounted for the issuance as an asset acquisition under ASC 805. Because the Series J Preferred Stock was issued as non-cash consideration rather than for cash, it was initially measured at its issuance-date fair value of $730,533, determined on an as-converted basis using the $2.51 conversion price and the Company's common stock price on the issuance date, and recorded in temporary equity. In addition, the Company recognized an anti-dilution liability at its issuance date fair value of $16,379,662 (see below and Note 11. Fair Value Measurements). The total consideration transferred, consisting of the fair value of the Series J Preferred Stock and the anti-dilution liability, together with $128,521 of directly attributable transaction costs, was recognized as an intangible asset of $17,238,716 representing the acquired right to use the licensed project technology (see Note 6. Intangible Assets).

The following table summarizes the initial accounting for the transaction:

Series J Preferred Stock, at issuance date fair value (temporary equity)	$	730,533
Anti-dilution liability, at issuance date fair value (Note 8 and 11)		16,379,662
Transaction costs directly attributable to the asset acquisition		128,521
Intangible asset recognized (acquired license right) (Note 6)	$	17,238,716

The Series J Preferred Stock is convertible into shares of Common Stock at the holder's option at any time at an initial conversion price of $2.51 per share (the "Series J Conversion Price"), subject to customary adjustments for stock dividends, stock splits, and reclassifications. The number of Series J Conversion Shares initially may not exceed 291,049 (the "Maximum Issuance"); however, the Maximum Issuance is increased upon the occurrence of a Dilutive Issuance (as defined in the Series J Certificate of Designations) or a Dilutive Conversion. Once adjustments to the Maximum Issuance have been made in respect of (i) Dilutive Issuances and (ii) any exercises for cash of Common Stock Equivalents outstanding as of April 27, 2026, or approved for grant by the Board on such date, in an aggregate amount equal to $50 million, no further adjustments to the Maximum Issuance are made for any subsequent Dilutive Conversions or Dilutive Issuances. However, the Company's obligation to issue shares of Common Stock to Kopin in respect of non-cash issuances, including conversions of preferred stock, is not subject to the $50 million cap and continues regardless of whether such cap has been reached. Anti-dilution shares issued to Kopin are delivered in the form of Series J Preferred Stock, computed on a preferred share equivalent basis at the Series J Conversion Price of $2.51 per share.

Upon liquidation, dissolution or winding up, the Series J Preferred Stock ranks senior to the Company's Common Stock and its other junior capital stock, and pari passu with the Series H-7 Convertible Preferred Stock, with respect to preferences as to dividends, distributions and payments.

Holders are entitled to dividends of 6% per annum, accruing daily and payable semi-annually on each June 30 and December 31, in cash; provided that the Company may, at its sole option, elect to pay dividends in kind by issuing additional shares of Series J Preferred Stock having an aggregate stated value equal to the dividend then due. Unpaid dividends continue to accrue daily and compound on a semi-annual basis at the applicable rate until paid in full.

The Company identified anti-dilution provisions in the Series J Preferred Stock that are a freestanding financial instrument and required the recognition of an anti-dilution liability. The anti-dilution liability was initially recognized at its issuance date fair value of $16,379,662 and is measured at fair value on a recurring basis, with subsequent changes in fair value recognized in other income (expense), net in the unaudited condensed consolidated statements of operations. During the quarter ended June 30, 2026, the Company issued 3,080 additional shares of Series J Preferred Stock to under the anti-dilution provisions, a portion of which was applied against the $50 million cash issuance cap; the settlement of this obligation in Series J Preferred Stock reduced the anti-dilution liability by $4,871,467, with a corresponding increase in the temporary equity (see below). For the three and six months ended June 30, 2026, the Company recognized a loss of $8,044,334 for the change in fair value of the anti-dilution liability. After these changes, the fair value of the anti-dilution liability was $19,552,529 as of June 30, 2026 (see Note 11. Fair Value Measurements).

Except as expressly set forth in the Series J Certificate of Designations or as otherwise required by law, the Series J Preferred Stock does not have any voting rights prior to conversion into shares of Common Stock; upon any such conversion, the holders of the converted shares are entitled full voting rights as holders of Common Stock.

As of June 30, 2026, the carrying amount of the Series J Preferred Stock was $5,636,020.

Series K Preferred Stock

On April 27, 2026, the Company entered into a Securities Purchase Agreement with certain accredited investors (the "Series K Private Placement"), pursuant to which it issued 21,500 shares of newly designated Series K Convertible Preferred Stock, par value $0.0001 per share and stated value of $1,000 per share, for aggregate gross proceeds of $21,500,000. The Series K Preferred Stock is classified as temporary equity (mezzanine equity) because it is redeemable for cash or other assets upon the occurrence of events not solely within the Company's control, including certain triggering events, a change of control and certain bankruptcy related events.

The $21,500,000 of gross proceeds was allocated between the Series K Preferred Stock and the Series K Warrants based on their relative fair values at issuance, as described below. The initial carrying amount of the Series K Preferred Stock of $10,851,482 represents $12,714,483 of gross proceeds allocated to the Series K Preferred Stock, net of $1,863,001 of allocated issuance costs. The carrying amount is not accreted to the redemption amount because the Series K Preferred Stock is not currently redeemable and it is not probable that it will become redeemable, as the occurrence of the events that would permit or require redemption is not currently probable. Dividends on the Series K Preferred Stock accrue and increase the carrying amount, with a corresponding reduction of income available to common stockholders.

The Series K Preferred Stock and the Series K Warrants were issued together in a single transaction. Because the Series K Warrants are classified in stockholders'' equity, the Company allocated the $21,500,000 of. Gross proceeds between the two instruments based on their relative fair values at issuance. The issuance date fair values were $24,789,000 for the Series K Preferred Stock and $17,128,827 for the Series K Warrants. Issuance costs of $3,150,306, consisting of a $1,720,000 placement agent cash fee, $60,000 of other cash offering costs, and $1,370,306 representing the fair value of warrants issued to the placement agent, were allocated between the two instruments in proportion to the gross proceeds allocated to each. The following table summarizes the allocation of the Series K Private Placement proceeds and issuance costs:

	Issuance date fair value	Relative fair value	Gross proceeds allocated	Issuance costs allocated	Initial carrying amount
Series K Preferred Stock	$ 24,789,000	59%	$ 12,714,483	$ (1,863,001)	$ 10,851,482
Series K Warrants	17,128,827	41%	8,785,517	(1,287,305)	7,498,212
Total	$ 41,917,827	100%	$ 21,500,000	$ (3,150,306)	$ 18,349,694

As of the issuance date, no bifurcated derivative liability was recognized because the fair value of the bifurcated features was determined to be $0; accordingly, no portion of the proceeds allocated to the Series K Preferred Stock was further allocated to a derivative.

Holders are entitled to dividends of 7% per annum, compounded quarterly and payable in arrears in cash out of funds legally available therefor, unless the Company and holder mutually agree to convert dividends into Common Stock at a price not less than the floor price. Dividends accrue at 15% per annum during the occurrence and continuance of a triggering event. The Series K Preferred Stock is convertible, at the holder's option, into a fixed number of shares of Common Stock at $2.51 per share, and is currently convertible into up to 8,565,737 shares of Common Stock, settled in shares, subject to beneficial ownership limitations. The conversion price may be reduced upon the issuance of Common Stock or Common Stock Equivalents at a price below the then-effective conversion price (excluding standard anti-dilution adjustments). Upon a triggering event, a holder may require cash redemption at the greater of 130% of the conversion amount or 130% of a value based on the closing sale price of the Common Stock, and the shares are mandatorily redeemable at such price upon certain bankruptcy events. Upon a change of control, a holder may require redemption at a premium. Upon liquidation, holders are entitled, before any distribution to junior stock, to the greater of 125% of the conversion amount or the amount they would receive upon conversion. Holders vote with holders of Common Stock as a single class on an as-converted basis. The Series K Preferred Stock is a participating security because holders participate, on an as-converted basis, in dividends and other distributions of the Company's assets declared to holders of Common Stock. Because the Company reported a net loss for the three and six months ended June 30, 2026, there were no undistributed earnings to allocate to the Series K Preferred Stock under the two-class method, and the as-converted shares underlying the Series K Preferred Stock were excluded from the computation of diluted earnings per share for both periods because their effect would have been anti-dilutive.

For the three and six months ended June 30, 2026, the Company recognized $259,194 and $259,194, respectively, of dividends on the Series K Preferred Stock, which are deducted in computing income available to common stockholders. No shares of Series K Preferred Stock were converted, and no triggering event or change of control occurred, during the three and six months ended June 30, 2026.

The Series K Preferred includes a down-round provision that, when triggered, results in a deemed dividend reducing income available to common stockholders in computing basic earnings per share. The down-round feature was not triggered during the three and six months ended June 30, 2026.

The Company determined that the Series K Preferred Stock is more akin to an equity-like host. The Company separated two embedded features: (i) an optional conversion upon a triggering event with a variable conversion price and (ii) a contingent dividend rate and the Company evaluated them for bifurcation from the equity host. No value was assigned to the variable conversion price feature because no variable price securities had been issued as of June 30, 2026, and the issuance of such securities is considered highly improbable. The contingent dividend rate feature was determined to be de minimis, as the triggering events could not be reasonably quantified using the Company's credit risk and are considered highly improbable to occur. Accordingly, no bifurcated derivative liability was recognized as of the issuance date.

As of June 30, 2026, the carrying amount of the Series K Preferred Stock was $11,110,676, consisting of the $10,851,482 initial carrying amount plus $259,194 of accrued dividends.

Common Stock Warrants

Series H-7 Warrants

In August 2023, the Company issued certain warrants to purchase common stock (the "Series H-7 Warrants") pursuant to the Series H-7 Purchase Agreement (as defined above). The Series H-7 Warrants are entitled to certain anti-dilution adjustments, if the Company issues shares of its common stock at a lower price per share than the applicable exercise price. The exercise price of the Series H-7 Warrants is subject to adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment in the event of any issuances of common stock, or securities convertible, exercisable or exchangeable for common stock, at a price below the then-applicable exercise price. As a result of the 2023 Reverse Stock Split, the exercise price of the Series H-7 Warrants was adjusted from $128.00 to $32.00 and the number of shares of common stock issuable upon exercise of the Warrants was adjusted proportionally to an additional 525,937 shares of common stock.

Pursuant to the share combination event adjustment provisions in the Series H-7 Warrants, the 2025 Reverse Stock Split adjusted the exercise price from $32.00 per share to $6.1933 per share and the number of shares of common stock issuable upon the exercise of the Series H-7 Warrants was adjusted proportionally to an additional 2,922,020 shares of common stock, for an aggregate of 3,623,270 Series H-7 Warrants outstanding.

The additional Series H-7 Warrants were determined to be subject to liability classification as they are considered to be indexed to the Company's own stock but contain a provision where the holder of the Series H-7 Warrants have the right to require the Company to redeem the Series H-7 Warrants from the holder in cash in an amount equal to the Black Scholes Value of the remaining unexercised portion of the Series H-7 Warrants at that time, in accordance with ASC 815. As such, the Company recorded the Series H-7 Warrants as a liability at fair value with subsequent changes in fair value recognized in earnings. See Note 11. Fair Value Measurements for inputs related to the Company's use of the Black-Scholes Model to calculate the value of the Series H-7 Warrants.

As a result of the issuance of the Series K Preferred Stock, as described above, the conversion price was reduced from $6.1933 to $2.51 per share.

Series I Warrants

On August 6, 2025, the Company issued certain warrants to purchase up to an aggregate of 875,000 shares of the Company's common stock (the "Series I Warrants") pursuant to the Series I Purchase Agreement, with an exercise price of $8.00 per share and a date of expiration five years from the date of issuance. The Series I Warrants are entitled to certain anti-dilution adjustments, if the Company issues shares of its common stock at a lower price per share than the applicable exercise price.

The Series I Warrants were determined to be subject to liability classification as they are considered to be indexed to the Company's own stock but contain a provision where the holder of the Series I Warrants have the right to require the Company to redeem the Series I Warrants from the holder in cash in an amount equal to the Black Scholes Value of the remaining unexercised portion of the Series I Warrants at that time, in accordance with ASC 815. As such, the Company recorded the Series I Warrants as a liability at fair value with subsequent changes in fair value recognized in earnings. The Company utilized the Black Scholes Model to calculate the fair value of these Series I Warrants. The fair value of the Series I Warrants of $3,981,034 was estimated at the date of issuance using the stock price of $5.92, an exercise price of $8.00, and the following weighted average assumptions: (i) dividend yield 0%; (ii) expected term of 5 years; (iii) equity volatility of 110%; and (iv) a risk-free interest rate of 4.21%.

In addition, the Company also issued the Series I Placement Agent Warrants (as defined herein) to purchase up to an aggregate of 140,000 shares of the Company's common stock to the Placement Agents (as defined herein). The Company utilized the Black Scholes Model to calculate the value of the Series I Placement Agent Warrants issued during the year ended December 31, 2025. The fair value of the Series I Placement Agent Warrants of $636,966 was estimated at the date of issuance using the stock price of $5.92, an exercise price of $8.00, and the following weighted average assumptions: (i) dividend yield 0%; (ii) expected term of 5 years; (iii) equity volatility of 110%; and (iv) a risk-free interest rate of 4.21%.

In connection with the issuance of the Series K Preferred Stock and the Series K Warrants in April 2026, at an effective price of $2.51 per share, a price below the then-current exercise price of the Series I Warrants, the exercise price of the Series I Warrants was reduced from $8.00 to $2.51 per share. This reduction was effected by the anti-dilution provisions of the Series I Warrants and was not a discretionary modification by the Company. As described below under "Series H-7 and Series I Warrant Amendment", the Series I Warrants were reclassified from liability to equity classification on August 26, 2025, and are not remeasured at fair value on a recurring basis. Because the reduction was effected through the Series I Warrants' standard anti-dilution provision, no incremental fair value was recognized and no amount was recorded in the unaudited condensed consolidated financial statements as a result of the reduction.

Series H-7 and Series I Warrant Amendment

On August 26, 2025, the Company entered into an omnibus amendment (the "Warrant Amendment") with the Required Holders (as defined in the Series H-7 Purchase Agreement and the Series I Purchase Agreement) to amend certain terms of the Series I Warrants and Series H-7 Warrants. The Warrant Amendment makes certain adjustments to the definition of a "Fundamental Transaction" and related provisions in each of the Warrants. In addition, the Warrant Amendment amends (i) the definition of the "Black Scholes Value" in the Series H-7 Warrants related to the volatility input, which is now calculated utilizing an expected volatility equal to the 30 day volatility obtained from the "HVT" function on Bloomberg (determined utilizing a 365 day annualization factor) as of the trading day immediately following the earliest to occur of (1) the public disclosure of the applicable Fundamental Transaction and (2) the date of a holder's request, and (ii) the definition of the "Black Scholes Consideration Value" in the Series H-7 Warrants related to the volatility input, which is now calculated utilizing an expected volatility equal to the 30 day volatility obtained from the "HVT" function on Bloomberg (determined utilizing a 365 day annualization factor) as of the trading day immediately following the date of issuance of the applicable options, convertible securities or Adjustment Right (as defined in the Series H-7 Warrants). Further, the Warrant Amendment removes the provision in the Series H-7 Warrants providing for an adjustment in the exercise price of the Series H-7 Warrants upon (a) the increase or decrease of the purchase or exercise price of any options, (b) the issuance of additional consideration upon the conversion of any convertible securities or (c) the increase or decrease of the rate of conversion of any convertible securities.

The Warrant Amendment resulted in the Series I Warrants and Series H-7 Warrants to be considered equity classified in accordance with ASC 815. The fair value of the Series I Warrants and Series H-7 Warrants on August 26, 2025, of $18,608,000, was reclassified from warrant liability to additional paid-in capital. The Company remeasured the Series I Warrants and Series H-7 Warrants at fair value as of August 26, 2025, and recognized the change in fair value as a non-cash loss of $17,971,034. The fair value of the Series I Warrants and Series H-7 Warrants of $18,608,000 was estimated at August 26, 2025, utilizing the Black Scholes Model using the following weighted average assumptions: dividend yield 0%; remaining term of 4.95 years and 2.96 years, respectively; equity volatility of 105% and 97%, respectively; and a risk-free interest rate of 3.7% and 3.6%, respectively.

Series K Warrants

In connection with the Series K Private Placement, the Company issued warrants (the "Series K Warrants") to purchase an aggregate of up to 8,565,737 shares of Common Stock at an exercise price of $2.51 per share. The Series K Warrants were issued together with the Series K Preferred Stock as part of the same financing to provide investors additional upside participation in the Company's Common Stock. The Series K Warrants are exercisable immediately and expire on the fifth anniversary of the date of issuance. Each Series K Warrant entitles the holder to purchase one share of Common Stock for each share of Common Stock into which the corresponding Series K Preferred Stock is convertible. The Series K Warrants are not listed on any national securities exchange.

The Series K Warrants are exercisable in whole or in part at any time, for cash or by cashless exercise. The exercise price is subject to customary anti-dilution adjustments and may be reduced to the base share price upon the Company's issuance of Common Stock or Common Stock Equivalents at an effective price below the then effective exercise price.

The Series K Warrants are classified in stockholders' equity. Of the $21,500,000 of gross proceeds, $8,785,517 was allocated to the Series K Warrants based on their relative fair value and recorded in additional paid-in capital, and $1,287,305 of allocated issuance costs was recorded as a reduction of additional paid-in capital. The fair value of the Series K Warrants at issuance was $17,128,827, determined using a Black-Scholes option pricing model. See "Series K Preferred Stock" above. Because the Series K Warrants are classified in equity, they are not remeasured at fair value.

In connection with the Series K Private Placement, the Company issued warrants to purchase 685,259 shares of Common Stock to the placement agent (the "Placement Agent Warrants"), on the same terms as the Series K Warrants, as compensation for placement agent services. The Placement Agent Warrants are accounted for under ASC 718 as nonemployee share-based compensation and are equity-classified. The fair value of the Placement Agent Warrants of approximately $1,370,306 was determined using a Black-Scholes option pricing model and included in the $3,150,306 of total issuance costs of the Series K Private Placement.

The Series K Warrants are participating securities and are reflected in diluted earnings per share under the treasury stock method to the extent they are dilutive. The Series K Warrants were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2026, because the exercise price exceeded the average market price of the Common Stock during the period and they were antidilutive. The Series K Warrants include a down-round feature under which the exercise price may be reduced upon a dilutive issuance; the value of the effect of any down-round feature triggered during the reporting period is recognized as a deemed dividend reducing income available to common shareholders in computing basic earnings per share. The Series K Warrant down-round feature was not triggered during the three and six months ended June 30, 2026.

As of June 30, 2026, the Company had 9,250,996 Series K Warrants (including Placement Agent Warrants) outstanding.

Waiver Warrants

Pursuant to the April 2026 Amendments, the Company issued warrants to purchase up to an aggregate of 1,000,000 shares of Common Stock (the "Waiver Warrants") to the Required Holders, pro rata based on the number of shares of Series H-7 Preferred Stock and Series I Preferred Stock held as of the date of the April 2026 Amendments, as consideration for the Required Holders' consent to the amendments to the Series H-7 and Series I Certificate of Designations. The Waiver Warrants are exercisable immediately at an exercise price of $5.00 per share and expire five years from the date of issuance.

The Waiver Warrants are classified within stockholders' equity in accordance with ASC 815-40 and are not remeasured at fair value on a recurring basis. In connection with their issuance, the Company recognized a charge of $1,565,000 in other income (expense), net in the unaudited condensed consolidated statement of operations, representing the fair value of the consideration provided to the Required Holders for their consent to the April 2026 Amendments.

Altucher Consulting Warrants

On August 4, 2025, the Company entered into a consulting agreement (the "Altucher Consulting Agreement") with James Altucher and Z-List Media, Inc. (the "Consultant"), pursuant to which, the Company issued warrants to purchase up to an aggregate of 1,000,000 shares of common stock (the "Prior Consultant Warrants"), consisting of four tranches at exercise prices ranging from $8.00 to $17.50 per share. The grant date fair value of the Prior Consultant Warrants was $4,891,747, of which $1,834,405 had been recognized as compensation cost through the modification date discussed below.

On April 27, 2026, the Company and the Prior Consultant agreed to amend and restate the Prior Altucher Consulting Agreement by entering into an amended and restated consulting services agreements (the "Altucher Consulting Agreement") with JD Advisors, LLC, an affiliate of the Prior Consultant (the "Consultant"). In connection with the Altucher Consulting Agreement, the Consultant entered into a warrant cancellation agreement pursuant to which the Prior Consultant Warrants (warrants to purchase up to 1,000,000 shares of common stock) were cancelled, and the Company issued to the Consultant new warrants to purchase up to an aggregate of 900,000 shares of common stock (the "Consultant Warrants"), consisting of: (i) a warrant to purchase up to 300,000 shares at an exercise price of $3.00 per share, immediately exercisable, (ii) a warrant to purchase up to 200,000 shares at an exercise price of $6.00 per share, exercisable six months from issuance, (iii) a warrant to purchase up to 200,000 shares at an exercise price of $9.00 per share, exercisable twelve months from issuance, and (iv) a warrant to purchase up to 200,000 shares at an exercise price of $12.00 per share, exercisable eighteen months from issuance, in each case with a term of five years from the date of issuance. The Altucher Consulting Agreement has a term of two years from April 27, 2026.

The Company accounted for the cancellation and reissuance as a modification of an equity classified share-based payment award under ASC 718-20. Management determined that the service-based vesting conditions of the Prior Consulting Warrants were probable of achievement immediately before the modification and that the vesting conditions of the Consultant Warrants are probable of achievement after the modification, resulting in a Type I (probable-to-probable) modification.

The Company determined the fair value of the Prior Consultant Warrants immediately before cancellation and the fair value of the Consultant Warrants immediately after issuance using the Black-Scholes option pricing model. The fair value of the Prior Consultant Warrants immediately before modification was $1,067,000, using the following assumptions: stock price of $2.51, exercise prices ranging from $8.00 to $17.50, remaining term of 4.27 years, expected volatility of 96.0%, dividend yield of 0%, and a risk-free rate of 3.9%. The fair value of the Consultant Warrants immediately after modification was $1,327,000, using the following assumptions: stock price of $2.51, exercise prices ranging from $3.00 to $12.00, term of 5.00 years, expected volatility of 93.0%, dividend yield of 0%, and a risk-free rate of 3.9%. The modification resulted in incremental fair value of $260,000.

The Company recognized total compensation cost of $3,317,342 in connection with the modification, comprised of the $3,057,342 of unrecognized grant date fair value of the Prior Consultant Warrants plus $260,000 of incremental fair value described above. This amount is recognized ratably over the two-year service period ending April 27, 2028. As each tranche of the Consultant Warrants becomes exercisable, the Company records a prepaid expense equal to that tranche's pro-rata share of the total compensation cost, which is then amortized to compensation expense over the service period. As of June 30, 2026, the Company recorded $1,105,781 to prepaid expense upon the reissuance of the First Tranche, of which $829,335 remained as the prepaid balance after amortization through June 30, 2026.

For the three and six months ended June 30, 2026, the Company recorded $480,268 and $1,091,736 of stock-based compensation related to the Prior Consultant Warrants and the First Tranche of the Consultant Warrants under general and administrative expenses on the unaudited condensed consolidated statement of operations.

NOTE 9. STOCK-BASED COMPENSATION

Stock Option Awards

On June 18, 2026, the Company granted options to purchase an aggregate of 230,168 shares of common stock to its four non-employee directors, with an exercise price of $3.70 per share and a 10-year contractual term. The options vest 25% on the grant date and 25% on each of the next three fiscal quarter-ends, subject to continued service. The grant date fair value of the options was $562,988 using the Black-Scholes option pricing model.

On June 18, 2026, the Company granted options to purchase an aggregate of 150,000 shares of common stock to certain employees, with an exercise price of $3.70 per share and a 10-year contractual term. The options vest 25% on the grant date and 25% on each of the next three fiscal quarter-ends, subject to continued service. The grant date fair value of the options was $366,900 using the Black-Scholes option pricing model.

The Company recognized $275,172 in stock-based compensation expense for the three and six months ended June 30, 2026.

Restricted Stock Awards

On June 18, 2026, the Company granted 358,566 restricted shares of common stock to Joshua Silverman, the Company's Chief Executive Officer, with a grant date fair value of $2.51 per share and an aggregate fair value of $900,000. The award vests 25% on the grant date and 25% on each of the next three fiscal quarter-ends, subject to continued service.

The Company recognized $398,494 in stock-based compensation expense for the three and six months ended June 30, 2026.

NOTE 10. DERIVATIVE INSTRUMENTS

The Company recorded a derivative liability related to the derivatives embedded within the Series I Preferred Stock, primarily related to make-whole and penalty dividend features (see Note 8. Stockholders' Equity). Changes in fair value are recognized in earnings in change in fair value – derivative liability in the unaudited condensed consolidated statements of operations. This note presents only the embedded derivative bifurcated from the Series I Preferred Stock. The embedded features of the Series K Preferred Stock were evaluated and determined not to require bifurcation, as discussed in Note 8. Stockholders' Equity. The anti-dilution liability associated with the Series J Preferred Stock is accounted for separately and is disclosed in Note 11. Fair Value Measurements.

The following table presents the fair value of the Company's embedded derivatives as of June 30, 2026:

	Balance Sheet Location	Fair Value
Series I derivative liability	Non-current liabilities	$ 89,000
Total		$ 89,000

For the three and six months ended June 30, 2026, the Company recognized a gain of $43,000 and $37,000, respectively, related to embedded derivatives.

NOTE 11. FAIR VALUE MEASUREMENTS

The Company measures certain assets and liabilities at fair value on a recurring basis in accordance with ASC 820, *Fair Value Measurements*.

The following table presents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2026:

	Level 1	Level 2	Level 3	Total
Prime institutional money market fund	$ 5,169,126	$ -	$ -	$ 5,169,126
U.S. Treasury Bills – under 90 days	1,999,800	-	-	1,999,800
U.S. Treasury Bills – over 90 days	12,866,651	-	-	12,866,651
Anti-dilution liability	-	-	(19,552,529)	(19,552,529)
Derivative liabilities	-	-	(89,000)	(89,000)
Total	$ 20,035,577	$ -	$ (19,641,529)	$ 394,048

Level 1 inputs consist of quoted prices in active markets for identical assets. The Company's derivative liability and anti-dilution liability are classified within Level 3 of the fair value hierarchy because the valuations incorporate significant unobservable inputs.

The following table sets forth a summary of the change in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	Series I	Series H-7	Series J Anti-dilution	Total
Balance – December 31, 2025	$ 19,000	$ -	$ -	$ 19,000
Change in fair value, three months ended March 31, 2026	6,000	-	-	6,000
Change in fair value, April 1, 2026 through Omnibus Amendment Date	14,000	-	-	14,000
Settlement of derivative liability upon Omnibus Amendment	(39,000)	-	-	(39,000)
Issuance of derivative liability upon Omnibus Amendment	124,000	22,000	-	146,000
Issuance of Series J Preferred Stock	-	-	16,379,662	16,379,662
Issuance of shares in settlement of anti-dilution provisions	-	-	(4,871,467)	(4,871,467)
Change in fair value	-	-	8,044,334	8,044,334
Change in fair value, Omnibus Amendment date through June 30, 2026	(35,000)	(22,000)	-	(57,000)
Total	$ 89,000	$ -	$ 19,552,529	$ 19,641,529

During the three months ended June 30, 2026 and 2025, the Company recorded a gain of $43,000 and $1,130,000, respectively, related to the change in fair value of the derivative liability which is recorded in other income (expense), net on the unaudited condensed consolidated statements of operations.

During the six months ended June 30, 2026 and 2025, the Company recorded a gain of $37,000 and $2,661,000, respectively, related to the change in fair value of the derivative liability which is recorded in other income (expense), net on the unaudited condensed consolidated statements of operations.

The Company estimated the $89,000 and $19,000 fair value of the bifurcated embedded derivative at June 30, 2026 and December 31, 2025, respectively, using a Monte Carlo simulation model, with the following inputs:

	June 30, 2026	December 31, 2025
Volatility	100.0%	130.0%
Time to maturity	1.33	1.18
Discounted market interest	29.33%	7.5%
Dividend rate	7.0%	7.0%
Penalty dividend rate	15.0%	15.0%
Probability of default	6.0%	9.0%

The Company measures the anti-dilution liability associated with the Series J Preferred Stock at fair value on a recurring basis (see Note 8. Stockholders' Equity). The liability is classified within Level 3 of the fair value hierarchy because the valuation incorporates significant unobservable inputs, including the number of potential shares issuable under the anti-dilution provisions, the $50 million cap on cash issuances, and the outstanding options, warrants and preferred stock.

During the three and six months ended June 30, 2026, the Company recorded a loss of $8,044,334 related to the change in fair value of the anti-dilution liability, which is recorded in other income (expense), net on the unaudited condensed consolidated statements of operations.

The valuation of the Company's Level 3 financial instruments is inherently subjective, as it requires the use of significant unobservable inputs. Changes in these inputs could result in materially different fair value measurements. In particular, increases in the Company's stock

price, expected volatility, or expected term, as well as decreases in the discount rate or probability of default, would generally result in a higher fair value of the derivative and warrant liabilities, while decreases in these inputs would generally result in a lower fair value. The Company evaluates the sensitivity of its fair value measurements to changes in significant unobservable inputs as part of its valuation process.

NOTE 12. SEGMENT REPORTING

The Company currently operates as one operating segment, which is also the sole reportable segment. The Company's CODM is its Chief Executive Officer and Principal Executive Officer, who assess performance and makes all resource allocation decisions based on consolidated net income (loss).

The CODM does not review discrete financial information or separate performance metrics for any individual business activity and all decisions are made based on consolidated results. The measure of segment assets is consolidated total assets as presented on the consolidated balance sheets.

During the quarter ended June 30, 2026, the Company initiated a strategic transformation to the design and development of fabless semiconductor technologies for AI data center infrastructure. The Company's single operating segment now derives its activities principally from these semiconductor development activities, including the joint development arrangement with Kopin Corporation described in Note 16. Commitments and Contingencies. During 2025, the Company had initiated a digital asset treasury strategy associated with the stablecoin ecosystem. The Company disposed of all of its digital asset holdings during the quarter ended June 30, 2026, and does not intend to develop this strategy further (see Note 7. Digital Assets). During the quarter ended June 30, 2026, the Company also sold the assets associated with its electric vehicle operations (see Note 15. Sale of Legacy Electric Vehicle Assets).

These changes affected the nature of the business activities conducted within the Company's single operating segment but did not change the Company's basis of segmentation or the composition of its reportable segment. The CODM continued to assess performance and allocate resources on a consolidated basis throughout all periods presented, and there were no changes from the last annual report in the basis of segmentation or in the measure of segment profit or loss. Accordingly, prior-period segment information has not been recast.

In addition to the significant expense categories included within net loss presented on the Company's Condensed Consolidated Statements of Operations, see below for disaggregated amounts that comprise consulting and personnel expenses:

	Three Months Ended June 30,	
	2026	2025
Consulting expenses	$ 689,892	$ 862,023
Personnel expenses	139,999	291,764
Other expenses*	2,499,186	395,487
Total operating expenses	$ 3,329,077	$ 1,549,274

	Six Months Ended June 30,	
	2026	2025
Consulting expenses	$ 814,756	$ 1,898,841
Personnel expenses	300,160	699,682
Other expenses*	3,915,216	924,303
Total operating expenses	$ 5,030,132	$ 3,522,826

* Other expenses primarily consists of rent, property taxes, insurance, depreciation, licenses and business taxes, software subscription fees, issuance cost, bad debt, dues and subscriptions, travel and entertainment, and marketing.

Other income (expense) segment items for the three and six months ended June 30, 2026, were $(9,152,955) and $(9,866,375), respectively, and consist primarily of changes in fair value on digital assets, changes in fair value of derivative and warrant liabilities, and interest expense.

NOTE 13. LEASES

During the fiscal year ended December 31, 2025, the Company entered into a sublease arrangement with a third party for the remaining term of the head lease, as the underlying facility was no longer being utilized due to the pause in the Company's electric vehicle manufacturing operations. The sublease term does not extend beyond the noncancelable period of the head lease. There have been no material changes to the Company's lease arrangements since December 31, 2025.

The following table summarizes sublease income for the three and six months ended June 30, 2026 and 2025:

	Three Months Ended June 30,	
	2026	2025
Sublease income	$ 92,941	$ -

	Six Months Ended June 30,	
	2026	2025
Sublease income	$ 178,908	$ -

NOTE 14. RELATED-PARTY TRANSACTIONS

Gilbert Villarreal, the former president of the Company's subsidiary, Ayro Operating Company, Inc. ("AYRO Operating"), through GLV Ventures and Electric Power, entities owned and controlled by Mr. Villarreal, has been providing consulting services to the Company in connection with the reengineering of the Company's Vanish at a rate of $30,000 per month. During the three months ended June 30, 2026, Mr. Villarreal relinquished his role as president of Ayro Operating, and accordingly the Company ceased incurring related-party transactions with his controlled entities as of that time. No related-party transactions occurred during the three months ended June 30, 2026, and no amounts were due to related parties as of June 30, 2026. In addition to the compensation paid to Mr. Villarreal as president of AYRO Operating, see below for related-party incurred expenses and liabilities:

Related-Party Incurred Expenses

		Three Months Ended June 30,	
Related Party	Classification	2026	2025
Electric Power Energy	Research and development	$ -	$ 216,039
Electric Power Energy	General and administrative	75,000	243,549
Total		$ 75,000	$ 459,588

		Six Months Ended June 30,	
Related Party	Classification	2026	2025
Electric Power Energy	Research and development	$ -	$ 390,204
Electric Power Energy	General and administrative	200,000	475,294
Total		$ 200,000	$ 865,498

Related-Party Liabilities

		June 30,	December 31,
Related Party	Classification	2026	2025
Electric Power Energy	Accrued expenses and other current liabilities	$ -	$ 5,000
Total		$ -	$ 5,000

NOTE 15. SALE OF LEGACY ELECTRIC VEHICLE ASSETS

The Company's operating subsidiary, AYRO Operating Company, Inc., historically designed, manufactured, and sold compact, sustainable electric vehicles (the "Legacy EV Business"). Operations of the Legacy EV Business ceased during 2025, the related long-lived assets had previously been written down to a carrying value zero. On June 11, 2026, AYRO Operating Company, Inc. entered into an Asset Purchase Agreement to sell substantially all of the tangible and intangible assets used in the Legacy EV Business, including vehicle and parts inventory, intellectual property, engineering designs and technical data, production and fabrication equipment, vehicles, and office furnishings, for aggregate consideration of $250,000, consisting of $25,000 paid at closing and $112,500 payable on each of the six-month and twelve-month anniversaries of closing, plus the assumption by the buyer of certain liabilities related to the Legacy EV Business. Cash, receivables, EV batteries and battery packs, and certain other assets were excluded from the sale.

The Company recognized a gain of $218,803 on the sale, reflecting the. Consideration received, less transaction costs, given the assets' carrying value of zero at the date of sale. The gain is included in gain on sale of assets within other income (expense), net in the unaudited condensed consolidated statement of operations. Because the Company operates as a single reportable segment, the Legacy EV Business is not presented separately for segment reporting purposes (see Note 12. Segment Reporting).

NOTE 16. COMMITMENTS AND CONTINGENCIES

Joint Development and License Agreement

On April 27, 2026, the Company entered into a Joint Development and License Agreement (the "JDA") with Kopin Corporation, to collaborate on the development and commercialization of Kopin's interface for GPU-to-GPU connectivity. Under the JDA, the Company has committed to pay Kopin up to $15,000,000 for the development of the Project Technology through achievement of a successful prototype demonstration (a "Successful Demo"), payable in installments under a time-based funding schedule. The Company has also agreed to maintain at least $5,000,000 of funds in a segregated account to cover development plan needs.

During the six months ended June 30, 2026, the Company made a nonrefundable advance payment of $5,000,000 to Kopin for future research and development services under the JDA. The advance has been capitalized and is included in prepaid expenses and other current assets in the unaudited condensed consolidated balance sheets, and is recognized as research and development expense as Kopin performs the related development services. As of June 30, 2026, the unamortized balance of the advance was $4,372,070. For the three and six months ended June 30, 2026, the Company recognized $669,892 in research and development expense related to the JDA.

In consideration for Kopin's grant of the license to the project technology, the Company issued to Kopin shares of the Company's Series J Convertible Preferred Stock. The Series J Convertible Preferred Stock is recorded in temporary equity (mezzanine equity), including a related anti-dilution liability, and is described further in Note 8. Stockholders' Equity.

Following achievement of a Successful Demo, the parties have agreed to negotiate in good faith for one year toward a production plan for deployment of the project technology, which could require additional payments by the Company of approximately $15,000,000 to $25,000,000. This obligation is contingent on achievement of a Successful Demo and is not currently committed.

Supply Agreement

Concurrently with the JDA, the Company entered into a Commercial Supply Agreement (the "Supply Agreement") with Kopin under which Kopin appointed the Company as the exclusive seller of any products incorporating the project technology to end users worldwide (subject to certain exceptions). The Company is required to purchase its entire requirements for such products from Kopin, subject to certain exceptions, for an initial term of four years with automatic one-year renewal periods unless either party provides notice of non-renewal.

The Company does not believe it is probable that a liability has been incurred in connection with the JDA or Supply Agreement as of June 30, 2026, and no amounts have been accrued. Should the Company fail to fulfill its funding or other obligations under the JDA or Supply Agreement, it could be required to assign its rights in the project technology to Kopin or have other obligations accelerate, which could be material.

NOTE 17. INCOME TAXES

No income tax benefit was recognized on losses incurred during the three and six months ended June 30, 2026 and 2025 due to the Company's full valuation allowance position against deferred tax assets.

NOTE 18. SUBSEQUENT EVENTS

On August 14, 2026, the Company entered into a consulting agreement with Michael Murray (the "Murray Consulting Agreement"), pursuant to which Mr. Murray will serve as Chairman of the Joint Steering Committee (the "JSC") established by the JDA. Mr. Murray is the Chief Executive Officer of Kopin Corporation, a holder of 19.9% of the Company's equity through Series J Convertible Preferred Stock and the Company's counterparty under the JDA and Supply Agreement. As Chairman of the JSC and pursuant to the terms of the Murray Consulting Agreement, Mr. Murray will provide executive-level guidance on technology strategy, product innovation, market opportunities and ecosystem development, contributions to the recruiting of other steering committee members and offer advice on strategic investments while facilitating alignment among participating organizations. The Murray Consulting Agreement will remain effective for so long as the JDA remains in effect. Mr. Murray may resign as Chairman of the JSC and terminate the Murray Consulting Agreement upon not less than 60 days' prior written notice.

Pursuant to the Murray Consulting Agreement and to incentivize Mr. Murray for his service as Chairman of the JSC, Mr. Murray will be granted stock options to purchase up to 1,716,564 shares of the Company's Common Stock (the "Murray Options"), subject to the terms and conditions of the Company's standard nonqualified stock option award agreement and the Company's Long-Term Incentive Plan, as amended. The Murray Options have an exercise price of $2.75 per share, the closing price of the Company's Common Stock on the date prior to the date of the effective date of the Murray Consulting Agreement, are subject to specific exercise requirements, and will vest in three equal installments on the first, second, and third annual anniversaries of the effective date of the Murray Consulting Agreement, provided that Mr. Murray is employed by or providing services to the Company through the applicable vesting date.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terms such as "anticipates," "assumes," "believes," "can," "could," "estimates," "expects," "forecasts," "guides," "intends," "is confident that," "may," "plans," "seeks," "projects," "targets," "would" and "will" or the negative of such terms or other variations on such terms or comparable terminology. Such forward-looking statements include, but are not limited to, future financial and operating results, the company's plans, objectives, expectations and intentions, statements concerning the Company's expectations regarding the development and commercialization of its fabless semiconductor technologies for AI data center infrastructure, the Company's collaboration with the Kopin Corporation, and other statements that are not historical facts. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition, and results of operations. These forward-looking statements speak only as of the date of this Form 10-Q and are subject to a number of risks, uncertainties, and assumptions that could cause actual results to differ materially from our historical experience and our present expectations, or projections described under the sections in this Form 10-Q and our other reports filed with the SEC titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

For a more detailed discussion of other factors that may affect our business and that could cause our actual results to differ materially from those projected in these forward-looking statements, see the risk factors and uncertainties set forth in Part II, Item 1A of this Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K as filed with the SEC on March 30, 2026. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise, except as required by law.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis should be read in conjunction with our historical consolidated financial statements and the related notes thereto. This management's discussion and analysis contains forward-looking statements, such as statements of our plans, objectives, expectations, and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect" and the like, and/or future tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those under "Risk Factors" in our filings with the Securities and Exchange Commission ("SEC") that could cause actual results or events to differ from those expressed or implied by the forward-looking statements. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. See "Cautionary Note Regarding Forward-Looking Statements."

References in this management's discussion and analysis to "we," "us," "our," "the Company," "our Company," or "Fabric.AI" refer to Fabric.AI and its subsidiary.

Overview

The Company is a fabless semiconductor company focused on the design and development of optical interconnect technologies and other system-critical semiconductor solutions for artificial intelligence ("AI") data center infrastructure. In April 2026, we commenced a strategic transition toward a new business model focused on the design and development of fabless semiconductor technologies for AI data center infrastructure, including MicroLED-based optical interconnects and other system-critical semiconductor solutions intended to enable faster, more efficient, and more scalable AI workloads. In connection with this strategic transformation, effective April 28, 2026, the Company changed its corporate name from StableX Technologies, Inc. to Fabric.AI, Inc. and changed its ticker symbol on The Nasdaq Stock Market LLC ("Nasdaq") from "SBLX" to "FABC," which commenced trading under the new symbol on April 29, 2026. The Company's common stock, par value $0.0001 per share (the "Common Stock"), is listed on Nasdaq.

Our initial product under development is the Neural I/o™ chip (the "Neural I/o chip"), a micro light-emitting diode ("MicroLED") based optical interconnect being developed in collaboration with Kopin Corporation, a Delaware corporation ("Kopin") (Nasdaq: KOPN), pursuant to a Joint Development and License Agreement dated April 27, 2026 (the "JDA"), by and between the Company and Kopin. The Neural I/o chip is intended to replace traditional electrical interconnects with optical links to enable high-bandwidth, low-latency communication between compute nodes, with an initial focus on GPU-to-GPU connectivity for AI data center applications.

We have a limited operating history in the AI semiconductor industry. We are a development-stage company with no revenue from our semiconductor operations to date, and there can be no assurance that we will successfully develop, commercialize, or achieve market acceptance of our technologies.

Our Strategy

Our strategy is to develop and commercialize semiconductor technologies that address what we believe are critical performance constraints in AI data center infrastructure. As AI workloads have grown in complexity and scale, we believe that the performance of interconnect subsystems, the components that enable data movement between processors, memory, and other compute nodes, has become an increasingly significant constraint on overall system performance. Our strategy is focused on the following key elements:

- **Develop and commercialize MicroLED-based optical interconnect technology**. Our near-term focus is the development of the Neural I/o chip, which we believe has the potential to offer advantages in power efficiency, bandwidth density, and cost relative to existing copper-based and laser-based interconnect solutions.

- **Leverage our collaboration with Kopin Corporation**. We are developing our initial MicroLED-based interconnect technology in collaboration with Kopin, which we believe is the only company currently capable of producing programmable MicroLEDs. Both companies jointly develop and share in the intellectual property created through this partnership.

- **Expand into additional system-critical semiconductor technologies**. Over time, we intend to develop a broader suite of semiconductor technologies designed for AI workloads, beginning with interconnects and potentially expanding into other system-critical components.

- **Pursue strategic relationships with potential customers**. We are engaged in preliminary discussions with leading AI and hyperscale technology companies regarding the potential integration of our technology into their systems, and we have entered into non-disclosure agreements with two chipmakers. There can be no assurance that any of these discussions will result in definitive agreements or revenue.

Market Opportunities

Data center interconnects are the semiconductor subsystems that enable data transmission between processors, memory modules, accelerators, and other compute nodes within a data center. According to 360iResearch, the broader interconnect market is estimated at approximately $138 billion as of the date of this filing. Industry analysts project that the data center optical interconnect market alone will reach tens of billions of dollars annually within the next several years, driven in significant part by AI infrastructure demand.

As AI model sizes, training clusters, and inference workloads have continued to scale, we believe that interconnect bandwidth has become an increasingly significant constraint on overall data center system performance. The interconnect market is currently served primarily by two incumbent technology categories:

1. Copper-based interconnects are widely deployed, relatively inexpensive, and technologically mature. However, copper-based solutions are subject to signal degradation, heat generation, and power inefficiency at higher bandwidth densities, which limits their effective range and scalability for demanding AI workloads; and

2. Laser-based optical interconnects (including vertical-cavity surface-emitting laser ("VCSEL") and silicon photonics) offer extended reach and higher bandwidth relative to copper, but are characterized by higher power consumption, heat generation, precise alignment requirements, and higher per-channel cost, which we believe may limit their scalability in large-scale AI data center deployments.

We believe that MicroLED-based optical interconnects have the potential to address certain of these limitations. MicroLED-based interconnects replace lasers with arrays of microscopic light-emitting diodes and may offer potential advantages including lower power consumption per bit, higher channel density, lower cost at scale, and improved reliability. However, MicroLED-based interconnect technology for data center applications is at an early stage of development, and there can be no assurance that these potential advantages will be realized in commercially viable products.

Products and Technology Under Development

Neural I/o™ Chip

Our initial product under development is the Neural I/o chip, a MicroLED-based optical interconnect chip being developed in collaboration with Kopin. The Neural I/o chip is designed to replace traditional electrical interconnects with MicroLED-based optical links, with the objective of enabling high-bandwidth, low-latency communication between compute nodes while reducing energy consumption relative to incumbent solutions.

The Neural I/o chip leverages Kopin's proprietary MicroLED technology and patented bi-directional NeuralDisplay architecture. This architecture repurposes programmable MicroLED pixels as optical transceivers designed to transmit data while consuming less power per bit than existing copper-based or laser-based solutions. The Neural I/o chip is being designed with the goal of delivering high bandwidth and low-latency data transfer at a lower power envelope than laser-based alternatives.

The Neural I/o chip is also intended to serve as a component of what we refer to as the "Terminal and Brain" ecosystem, which we envision as a platform for communication between advanced AI systems and intelligent edge devices.

The Neural I/o chip is at an early stage of development. We have not yet completed a prototype, and there can be no assurance that the chip will achieve its intended performance specifications, be manufactured at commercially viable cost levels, or gain market acceptance.

Planned Product Expansion

The Neural I/o chip is intended to be the first in a broader suite of fabless semiconductor technologies that we plan to develop for AI data center applications. We intend to develop additional system-critical semiconductor components for AI workloads over time, although the scope, timing, and feasibility of such additional products have not yet been determined.

Collaboration with Kopin Corporation

We are developing our MicroLED-based interconnect technology in collaboration with Kopin Corporation pursuant to the JDA. Kopin is a developer and provider of innovative display and application-specific optical solutions whose product portfolio includes microdisplays, display modules, eyepiece assemblies, image projection modules, head-mounted display systems, Active Matrix Liquid Crystal displays ("AMLCD"), Ferroelectric Liquid Crystal on Silicon ("FLCoS") displays, MicroLED displays, and Organic Light Emitting Diode ("OLED") displays, as well as a variety of optics and low-power application-specific integrated circuits.

Under the terms of the JDA, Fabric.AI contributes system-level design capabilities and Kopin contributes its expertise in MicroLED materials science, process development, and fabrication. The parties have agreed to collaborate on the development and commercialization of Kopin's interface for GPU-to-GPU connectivity and will work together to develop a prototype and demonstration version of the project technology in accordance with one or more development plans agreed in writing between the parties.

Development Funding

Pursuant to the JDA, we have agreed to pay Kopin up to $15,000,000 for the development of the project technology through achievement of at least one successful prototype demonstration (a "Successful Demo") in accordance with the applicable development plans and an agreed funding schedule. We issued an initial purchase order of $5,000,000 within 10 business days after the date of the JDA, and we have agreed to ensure that at least $5,000,000 of funds are available in a segregated account to cover development plan needs. Following achievement of a Successful Demo, the parties have agreed to negotiate in good faith for a period of one year to agree upon a funding, development, manufacturing and commercialization plan for production deployment of the project technology (a "Production Plan"), which is expected to include an additional payment by us of approximately $15,000,000 to $25,000,000.

Intellectual Property Rights

Intellectual property developed through the collaboration is jointly and equally owned by both companies. Kopin retains sole ownership of its pre-existing technology (the "Background Technology"), and has granted us a non-exclusive, royalty-free, worldwide license under the Background Technology for developing and commercializing the project technology within the scope of our rights under the JDA. In the event of termination arising from our breach, failure to fund, or a bankruptcy event, Kopin has the right to continue to develop, use, and commercialize the project technology without restriction, and we have agreed to assign to Kopin all of our right, title, and interest in the project technology.

Commercialization Rights

We have the exclusive worldwide rights to commercialize the project technology in all commercial markets, subject to Kopin's exclusive worldwide rights to commercialize the project technology for or with respect to government agencies, military, defense, and government intelligence end users and contractors, on a worldwide basis.

Equity Consideration

As part of the JDA, Kopin holds an equity ownership interest of 19.9% in Fabric.AI through shares of our newly designated Series J Convertible Preferred Stock, par value $0.0001 per share (the "Series J Preferred Stock"), which are convertible into shares of Common Stock at an initial conversion price of $2.51 per share, subject to customary adjustments and certain anti-dilution protections. The Series J Preferred Stock accrues dividends at 6% per annum, payable semi-annually, which may be paid in cash or in kind at our election.

Key Personnel

In May 2026, the Company appointed Bill Maffucci as Head of Development for the Neural I/o chip program. Mr. Maffucci has over a decade of experience at Kopin, where he currently serves as Senior Vice President of Product Development & Strategy, a role he assumed in December 2025. Prior to this role, Mr. Maffucci served as Senior Vice President of Business Development and Strategy at Kopin, and earlier held the position of Vice President and General Manager, overseeing operations and product commercialization. Before joining Kopin, Mr. Maffucci held positions at Intevac Photonics, where he developed expertise in optical sensors and optics. Kopin has also recently reorganized its engineering organization to accommodate the focus required for this collaboration.

Customers and Business Development

As of the date of this filing, we have not generated any revenue from our semiconductor operations. We are in the early stages of business development and have entered into non-disclosure agreements with two chipmakers in connection with preliminary discussions regarding MicroLED-based optical interconnect technology. We are also engaged in preliminary discussions with certain AI and hyperscale technology companies regarding the potential integration of our interconnect technology into their systems. These discussions are at a preliminary stage and may not progress to definitive agreements, and there can be no assurance that any of these discussions or non-disclosure agreements will result in commercial agreements, supply arrangements, or revenue.

Business Model and Manufacturing

We operate as a fabless semiconductor company, which means that we focus on the design and development of our semiconductor technologies and intend to outsource the fabrication and manufacturing of our chips to third-party contract manufacturers. This model is intended to allow us to focus our financial and personnel resources on research, design, and development activities while leveraging the manufacturing infrastructure and expertise of established fabrication partners.

Commercial Supply Agreement

Concurrently with the JDA, on April 27, 2026, we entered into a Commercial Supply Agreement with Kopin (the "Supply Agreement"). Under the Supply Agreement, Kopin has appointed us as the exclusive seller of any products incorporating the project technology and developed under the JDA (the "Products") to end users located worldwide, excluding countries subject to comprehensive U.S. trade or economic sanctions. Kopin has retained exclusive supply and distribution rights with respect to the sale of Products to the automotive, military, and defense markets, and has the right to prioritize supply to such markets. All Products incorporating the project technology are required to be manufactured exclusively by or on behalf of Kopin.

We are required to purchase our entire requirements for Products from Kopin, except following the occurrence of certain supply failure events, including Kopin's failure to deliver at least 90% of ordered quantities within applicable lead times or Kopin's discontinuation of manufacturing operations for the Products for 60 or more consecutive days. In the event of such a supply failure, we may, solely to the extent necessary and subject to written agreement with Kopin, manufacture Products in the applicable territory, and any such right terminates immediately upon Kopin's ability to resume supply.

The Supply Agreement has an initial term of four years commencing on the effective date, with automatic one-year renewal periods unless either party provides written notice of non-renewal at least 90 days prior to the end of the then-current term.

Competition

The markets for AI infrastructure and data center interconnect technologies are intensely competitive and subject to rapid technological change. We face competition from established providers of copper-based and laser-based interconnect solutions, many of which have significantly greater financial, technical, manufacturing, marketing, and distribution resources than we do. Competitors in the interconnect market include large, diversified semiconductor companies, as well as specialized optical interconnect providers. Many of our potential competitors have longer operating histories, larger and more established customer bases, and more extensive research and development capabilities.

We believe the principal competitive factors in our market include product performance (including bandwidth, latency, and power efficiency), cost, reliability, scalability, ease of integration with existing systems, and the ability to establish and maintain customer relationships. Our ability to compete will depend on our ability to successfully develop and commercialize our MicroLED-based interconnect technology and demonstrate that its performance characteristics offer meaningful advantages relative to incumbent solutions. There can be no assurance that we will be able to compete effectively against current or future competitors.

Intellectual Property

Our ability to compete effectively will depend in part on our ability to develop, maintain, and protect proprietary technology and intellectual property rights. Intellectual property developed through our collaboration with Kopin is jointly owned by both companies. Our technology leverages Kopin's patented bi-directional NeuralDisplay™ architecture, and we are dependent on Kopin's existing intellectual property portfolio as a foundation for our product development.

We intend to rely on a combination of patent, trade secret, copyright, and trademark laws, as well as confidentiality agreements with our employees, consultants, and third parties, to protect our intellectual property. However, there can be no assurance that these measures will be sufficient to protect our technology from misappropriation or that third parties will not independently develop competing technologies. We may also face claims of intellectual property infringement from third parties. See "Item 1A. Risk Factors" for a discussion of risks related to our intellectual property.

Government Regulation

Our business is subject to a wide variety of federal, state, local, and foreign laws and regulations. The following is a summary of certain material regulatory frameworks applicable to our operations. This summary is not exhaustive, and additional regulatory requirements may apply to our business as it evolves.

Export Controls and Trade Regulations

The design, development, and potential sale of semiconductor technologies, including optical interconnect products intended for AI data center applications, are subject to U.S. export control laws and regulations administered by the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") under the Export Administration Regulations ("EAR"), as well as economic sanctions programs administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"). In recent years, the U.S. government has significantly expanded export controls applicable to advanced semiconductor technologies, AI-related hardware, and supercomputing components, including through rules restricting the export of advanced computing chips and semiconductor manufacturing equipment to certain countries and end-users. While our products are currently in the development stage, the classification and exportability of our products under the EAR, including the Commerce Control List, will be determined based on their technical specifications and intended end uses. If our products, once developed, are classified under export-controlled categories (including items subject to deemed export restrictions), we may be required to obtain licenses or other authorizations prior to export or re-export, and certain destinations, entities, or end uses may be prohibited entirely. Changes to the EAR, the Entity List, or other restricted party lists, or the imposition of new sanctions, could limit our ability to sell products in key international markets, restrict our ability to collaborate with foreign partners or contract manufacturers, or otherwise materially and adversely affect our business. We intend to implement an export compliance program commensurate with the scope of our operations.

Semiconductor Industry Regulation

The semiconductor industry is subject to ongoing regulatory attention in the United States and internationally. The CHIPS and Science Act of 2022 (the "CHIPS Act") established significant federal investment incentives and restrictions related to domestic semiconductor manufacturing and research. While the CHIPS Act is primarily directed at semiconductor fabrication facilities, certain of its provisions—including research and development incentives—may be relevant to fabless semiconductor companies such as ours. At the same time, recipients of CHIPS Act incentives are subject to restrictions on expanding semiconductor manufacturing capacity in countries of concern, which could affect the availability of contract manufacturing capacity for companies in our industry. We monitor legislative and regulatory developments related to the CHIPS Act and other semiconductor-focused policy initiatives, though we cannot predict the ultimate scope or impact of such policies on our business.

Artificial Intelligence Regulation

Governments in the United States and abroad are actively considering or have adopted various regulatory frameworks applicable to AI technologies and infrastructure. In the United States, executive orders and proposed legislation have addressed topics including AI safety, national security applications of AI, and the role of computing infrastructure in AI development. At the state level, various jurisdictions have enacted or proposed legislation addressing AI governance, transparency, and accountability. Internationally, the European Union's Artificial Intelligence Act and similar frameworks in other jurisdictions may impose requirements on providers of AI systems and, potentially, on providers of infrastructure components used in AI applications. While the direct application of many of these frameworks to semiconductor component providers such as us is still developing, changes in AI regulation could affect demand for AI infrastructure, impose new compliance obligations on our customers (which could in turn affect their purchasing decisions), or directly regulate aspects of our business. We cannot predict the scope, timing, or impact of future AI regulations on our business.

Environmental, Health, and Safety Regulations

Although we are a fabless semiconductor company and do not currently operate manufacturing facilities, our business is nonetheless subject to various environmental, health, and safety laws and regulations. To the extent we maintain laboratory or testing facilities, such operations may be subject to federal, state, and local requirements regarding the handling, storage, and disposal of hazardous materials, as well as workplace safety standards administered by the Occupational Safety and Health Administration ("OSHA"). Additionally, our future products, if commercialized, would be subject to laws governing the use of hazardous substances in electronic products, including the European Union's Restriction of Hazardous Substances Directive ("RoHS") and the Registration, Evaluation, Authorisation and Restriction of Chemicals regulation ("REACH"), as well as the Waste Electrical and Electronic Equipment Directive ("WEEE") and similar regulations in other jurisdictions. These regulations restrict the use of certain materials in semiconductor products and impose recycling and disposal obligations on producers of electronic equipment. Compliance with current and future environmental regulations may require us to incur costs or modify product designs, and failure to comply could result in fines, penalties, or restrictions on the sale of our products in certain markets.

Data Privacy and Security

To the extent our operations involve the collection, storage, processing, or transmission of personal data or other sensitive information—including in connection with employee data, customer interactions, or business development activities—we are subject to various federal, state, and international data privacy and cybersecurity laws and regulations. These include, among others, the California Consumer Privacy Act, as amended by the California Privacy Rights Act (collectively, "CCPA"), similar state privacy laws enacted in other jurisdictions, and, to the extent applicable to any future international operations, the European Union's General Data Protection Regulation ("GDPR") and other international data protection frameworks. These laws impose obligations regarding notice, consent, data minimization, security safeguards, and individual rights, and provide for significant penalties for non-compliance. Additionally, as a provider of components for AI data center infrastructure, we may be subject to customer-imposed cybersecurity and data protection requirements, particularly from hyperscale and enterprise customers that maintain stringent supply chain security standards.

International Trade and Tariffs

Our fabless business model contemplates the use of third-party contract manufacturers, which may be located outside the United States. As a result, our business may be affected by tariffs, import duties, trade agreements, and other trade policy measures imposed by the United States or foreign governments. Trade tensions between the United States and certain countries, particularly in Asia where a significant portion of global semiconductor manufacturing capacity is concentrated, have resulted in increased tariffs, export restrictions, and supply chain disruption risk for the semiconductor industry. Changes in trade policy, the imposition of new or increased tariffs on semiconductor components or materials, or disruption of international supply chains could increase our costs, limit access to manufacturing partners, or delay product development and commercialization.

Human Capital Resources

As of August 14, 2026, we had zero full-time employees. We also engage consultants and contractors as needed to supplement our internal capabilities. We believe that our future success depends in significant part on our ability to attract, retain, and motivate qualified engineering, scientific, and management personnel. Competition for such personnel in the semiconductor industry is intense.

Recent Developments

Joint Development and License Agreement

On April 27, 2026, the Company entered into the JDA with Kopin, pursuant to which the Company and Kopin agreed to collaborate on the development and commercialization of Kopin's interface for GPU-to-GPU connectivity and will work together to develop a prototype and demonstration version of the Project Technology (as defined below) in accordance with one or more statements of work or purchase orders (each, a "Development Plan") agreed in writing between the parties from time to time, which shall set out the scope, deliverables, timelines and other relevant terms of the applicable development activities. Any data communications chip technology that is to be developed by either party in performance of any Development Plan is herein referred to as the "Project Technology."

Pursuant to the JDA, the Company has agreed to pay Kopin up to $15,000,000 for the development of the Project Technology through achievement of at least one successful prototype demonstration (a "Successful Demo") in accordance with the Development Plan(s) and the funding schedule agreed by the parties (the "Development Funds"). The Company has agreed to issue an initial purchase order of $5,000,000 within 10 business days after the date on which the JDA was entered into, and payable within ten business days of Kopin's receipt of such purchase order. Further, the Company agreed that it will ensure that at least $5,000,000 of funds are available in a segregated account to cover Development Plan needs. Following this initial purchase order, the Company will pay Kopin the remaining Development Funds in installments in accordance with a time-based funding schedule agreed by the parties as part of the applicable Development Plan. Following achievement of a Successful Demo, the parties agreed to negotiate in good faith for a period of one year to agree upon a funding, development, manufacturing and commercialization plan for production deployment of the Project Technology, as agreed in writing by the parties (the "Production Plan"), which is expected to include an additional payment by the Company of approximately $15,000,000 to $25,000,000.

Pursuant to the JDA, Kopin must (i) provide the Company with periodic written reports not less than once per month concerning all material activities undertaken in respect of the applicable Development Plan, (ii) keep the Company informed on a timely basis concerning all material progress in the applicable Development Plan, and (iii) at the Company's reasonable written request, from time to time, provide the Company with information relating to the progress of the applicable Development Plan.

In further consideration of Kopin's contributions to the development of the Project Technology, the Company has agreed to issue to Kopin shares of the Company's Series J Preferred Stock, constituting 19.9% of the pro forma fully-diluted outstanding shares of the Company's Common Stock, excluding shares of common stock underlying unexercised options, warrants, and other common stock equivalents, subject to certain anti-dilution adjustments upon the sale or issuance of Common Stock or common stock equivalents, or the conversion or exercise of outstanding common stock equivalents as further described below. Pursuant to the JDA, the Company agreed to take all actions necessary to give full force and effect to the adjustment provisions set forth in the Certificate of Designations Series J Convertible Preferred Stock (the "Series J Certificate of Designations"), including through the issuance of additional shares of Series J Preferred Stock to Kopin in such amounts as may be required to ensure that the number of shares of Series J Preferred Stock issued to Kopin are convertible into the Maximum Issuance (as defined below) upon each Dilutive Issuance or Dilutive Conversion (as each term is defined below), as applicable, in accordance with the terms of the Series J Certificate of Designations.

Pursuant to the JDA, the Company and Kopin have agreed to jointly and equally own all right, title, and interest in the Project Technology developed under the JDA, while Kopin retains sole ownership of pre-existing technology in its possession on the date of the JDA, and any improvements and modifications to such technology, excluding Project Technology (the "Background Technology"). Kopin has granted the Company a non-exclusive, royalty-free, worldwide license under Kopin's Background Technology for developing and commercializing the Project Technology within the scope of the Company's rights under the JDA. The Company has the exclusive worldwide rights to commercialize the Project Technology in all commercial markets, subject to Kopin's exclusive worldwide rights to commercialize the Project Technology for or with respect to: (a) government agencies, departments, instrumentalities or other public sector bodies, including defense, intelligence, national security and public research bodies; (b) military, defense or government intelligence end users; and (c) defense contractors, subcontractors, integrators and other entities primarily engaged in supplying products or services to government, military, defense or government intelligence markets, in each case on a worldwide basis. All products incorporating the Project Technology are required to be manufactured exclusively by or on behalf of Kopin.

The JDA provides for the establishment of a joint steering committee (the "JSC") to oversee and coordinate the performance of the JDA, consisting of two representatives from each of the Company and Kopin. Michael Murray, Kopin's Chief Executive Officer, will serve as one of Kopin's representatives and as chairperson of the JSC. Members of the JSC may be compensated by the Company and/or Kopin in a manner to be determined by the parties.

Either the Company or Kopin may terminate the JDA upon sixty days' written notice for material breach (subject to a cure period) or immediately upon a bankruptcy event of the other party. In the event of termination arising from the Company's breach, failure to fund, or a bankruptcy event, Kopin has the right to continue to develop, use, and commercialize the Project Technology without restriction, and the Company has agreed to assign to Kopin all of its right, title, and interest in the Project Technology.

Pursuant to the JDA, the Company has agreed that, during the term of the JDA and for three years thereafter, neither the Company nor its affiliates will (a) acquire beneficial ownership of more than 9.9% of the outstanding voting securities of Kopin; (b) make or participate in any tender offer, exchange offer, merger or other business combination involving Kopin; (c) solicit proxies or consents with respect to securities of Kopin; or (d) otherwise seek to obtain control of Kopin other than through a transaction approved by Kopin's board of directors.

The JDA contains certain representations and warranties, covenants and indemnities customary for similar transactions. The representations, warranties and covenants contained in the JDA were made solely for the benefit of the parties to the JDA and may be subject to limitations agreed upon by the parties.

Supply Agreement

Concurrently with the JDA, on April 27, 2026, the Company and Kopin also entered into that certain Commercial Supply Agreement (the "Supply Agreement"). Under the Supply Agreement, Kopin has appointed the Company as the exclusive seller of any products incorporating the Project Technology and developed under the JDA (the "Products") to end users located worldwide, excluding countries subject to comprehensive U.S. trade or economic sanctions (the "Territory"). Kopin has retained exclusive supply and distribution rights with respect to the sale of Products to the automotive, military, and defense markets, and has the right to prioritize supply to such markets.

The Company is required to purchase its entire requirements for Products from Kopin, except following the occurrence of any of the following: (a) Kopin's failure to deliver at least 90% of the quantity of Products ordered by the Company in an accepted purchase order within the applicable lead times agreed by the parties (plus a grace period of 30 days), in each case other than where such failure is due to (x) supply constraints, component shortages or manufacturing limitations, or (y) compliance with Kopin's other contractual, legal or regulatory obligations; (b) Kopin's written notice to the Company that Kopin will be unable to fulfill a material portion of any purchase order; (c) Kopin's failure, over two (2) consecutive quarters, to use commercially reasonable efforts to maintain manufacturing capacity sufficient to support the Company's forecasted requirements, as agreed between the parties; or (d) Kopin's discontinuation of manufacturing operations for the Products for a period of sixty (60) or more consecutive days (other than for scheduled maintenance disclosed to the Company in advance), except, with regard to each of the foregoing, to the extent directly caused by (i) acts beyond Kopin's reasonable control; (ii) the Company's failure to perform any of its obligations under the Supply Agreement; (iii) Kopin's compliance with any contractual, legal or regulatory obligation to prioritize supply to governmental, military or defense customers; (iv) any increase in purchase orders or forecasted requirements by the Company that is not consistent with the most recent forecast provided to Kopin or that exceeds agreed ramp-up parameters between the parties; or (v) any purchase order or requested delivery date that does not comply with the applicable lead times agreed by the parties (each, an "Inability to Supply Event"). In the event of an Inability to Supply Event, the Company may, solely to the extent necessary and subject to written agreement with Kopin, manufacture Products in the Territory. Any such right terminates immediately upon Kopin's ability to resume supply.

The Company and Kopin have agreed to cooperate in good faith to develop a mutually acceptable manufacturing ramp-up plan (the "Ramp-Up Plan") which will include: (a) identification and procurement of tooling, equipment, and other capital assets required for factory production of the Products; (b) qualification and sourcing of components and raw materials necessary for manufacture of the Products; (c) establishment of a timeline for the commencement and scaling of commercial manufacturing operations; (d) a detailed budget setting forth the estimated costs associated with each element of the Ramp-Up Plan. The parties intend to finalize the Ramp-Up Plan within one year following successful completion of the product development phase under the JDA.

The Supply Agreement has an initial term of four years commencing on the effective date, with automatic one-year renewal periods unless either party provides written notice of non-renewal at least 90 days prior to the end of the then-current term. Upon expiration or termination, all indebtedness of the Company to Kopin will become immediately due and payable, and the Company will be required to cease representing itself as Kopin's authorized representative and return or destroy all confidential information.

The Supply Agreement also contains customary representations and warranties, indemnification provisions, product warranty provisions, confidentiality obligations, insurance requirements, non-compete restrictions, and other miscellaneous terms.

Series J Convertible Preferred Stock

The Series J Preferred Stock will be convertible into shares of Common Stock (the "Series J Conversion Shares") at the election of the holder at any time at an initial conversion price of $2.51 (the "Series J Conversion Price"), which such Series J Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like.

The shares of Series J Preferred Stock will rank (i) pari passu to shares of the Company's Series H-7 Convertible Preferred Stock, par value $0.0001 per share ("Series H-7 Preferred Stock"), and any other class or series of capital stock expressly designated as pari passu with the Series J Preferred Stock ("Parity Stock") and (ii) senior to the Company's Series A Junior Participating Preferred Stock, par value $0.0001 per share, the Series H Preferred Stock, par value $0.0001 per share, the Series H Convertible Preferred Stock, par value $0.0001 per share, the Series H-3 Convertible Preferred Stock, par value $0.0001 per share, the Series H-6 Convertible Preferred Stock, par value $0.0001 per share, the Series I Convertible Preferred Stock, par value $0.0001 per share ("Series I Preferred Stock"), and any other class or series of capital stock of the Company that is not expressly designated as Parity Stock or senior in rank to the Series J Preferred Stock ("Senior Preferred Stock") (such non-designated stock, "Junior Stock"), with respect to the preferences as to dividends, distributions and payments upon the liquidation, dissolution and winding up of the Company.

The number of Series J Conversion Shares initially may not exceed 291,049 (the "Maximum Issuance"); provided, however, that (1) the sale and issuance, in one or more offerings, of any Common Stock or any securities entitling any person to acquire shares of Common Stock (such issuance, a "Dilutive Issuance") or (2) the issuance of Common Stock (a "Dilutive Conversion") in connection with any conversions or exercises of any common stock equivalents that are (x) outstanding as of April 27, 2026 or (y) approved for grant by the Board on April 27, 2026, and not yet issued or outstanding as of such date (the "Existing Common Stock Equivalents"), the Maximum Issuance (b) shall be increased to equal the sum of (i) the Maximum Issuance immediately prior to the date of such Dilutive Issuance or Dilutive Conversion, plus (ii) 0.1999 shares of Common Stock for each share of Common Stock issued in connection with such Dilutive Issuance or Dilutive Conversion, as the case may be. Notwithstanding anything to the contrary contained in the Series J Certificate of Designations, once an adjustment to the Maximum Issuance has been made in respect of (A) Dilutive Issuances, and (B) any exercises for cash of Existing Common Stock Equivalents, in an aggregate amount equal to $50 million, no further adjustments shall be made for any subsequent Dilutive Conversions or Dilutive Issuances. For the avoidance of doubt, no adjustment to the Maximum Issuance may be made with respect to a Dilutive Issuance or Dilutive Conversion to the extent that the shares of Common Stock issued in connection therewith previously resulted in an adjustment to the Maximum Issuance.

Without the prior express consent of the Required Holders (as defined in the Series J Certificate of Designations), voting together as a single class, the Company may not (a) amend or repeal any provision of, or add any provision to, its Amended and Restated Certificate of Incorporation (as amended, the "Charter") or its Amended and Restated Bylaws, as amended, or file any certificate of designations or articles of amendment of any series of shares of preferred stock, if such action would adversely alter or change in any respect the preferences, rights, privileges or powers, or restrictions provided for the benefit of the Series J Preferred Stock; (b) increase or decrease (other than by conversion) the authorized number of Series J Preferred Stock; (c) create or authorize (by reclassification or otherwise) any new Senior Preferred Stock or Parity Stock; (d) purchase, repurchase or redeem any shares of Junior Stock (other than pursuant to the terms of the Company's equity incentive plans and options and other equity awards granted under such plans (that have in good faith been approved by the Board)); (e) pay dividends or make any other distribution on any shares of any Junior Stock; (f) issue any shares of Series J Preferred Stock other than as contemplated by the Series J Certificate of Designations; or (g) circumvent a right of the Series J Preferred Stock under the Series J Certificate of Designations.

The holders of the Series J Preferred Stock are entitled to dividends of 6% per annum accruing daily, which are payable semi-annually on each June 30 and December 31 (each, a "Dividend Payment Date") during the period in which any shares of Series J Preferred Stock remain outstanding. Dividends are payable in cash; provided, however, that the Company may, at its sole option, elect to pay any dividend in kind by issuing to the applicable holders of Series J Preferred Stock additional shares of Series J Preferred Stock having an aggregate stated value equal to the amount of the dividend then due (each such payment, a "PIK Dividend"). If the Company elects to pay a PIK Dividend, the stated value of the holder of Series J Preferred Stock's Series J Preferred Stock shall be increased by the amount of such PIK Dividend, or the Company will issue additional shares of Series J Preferred Stock to the holder of Series J Preferred Stock reflecting such PIK Dividend. If, on a Dividend Payment Date, dividends on the Series J Preferred Stock have not been declared and paid in full, such unpaid dividends shall continue to accrue daily from and after the initial Dividend Payment Date and will compound on a semi-annual basis at the applicable rate for the Series J Preferred Stock on each subsequent Dividend Payment Date until paid in full.

Pursuant to the Series J Certificate of Designations, the Company is required to hold a meeting of its stockholders not later than July 26, 2026, to seek approval under Nasdaq Stock Market Rule 5635(d) for the issuance of shares of Common Stock in excess of 19.99% of the Company's issued and outstanding shares of Common Stock at prices below the "Minimum Price" (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) on the date of the JDA pursuant to the terms of the Series J Preferred Stock.

Except as expressly set forth in the Series J Certificate of Designations or as otherwise required by law, the provisions of the Company's Amended and Restated Certificate of Incorporation, as amended, the Series J Preferred Stock do not have any voting rights prior to the conversion thereof into shares of Common Stock; provided, however, that upon any such conversion of the Series J Preferred Stock into shares of Common Stock, the holders of such converted shares shall be entitled to full voting rights as holders of Common Stock.

The issuance of the Series J Preferred Stock is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws. Kopin has represented to the Company that it is an accredited investor within the meaning of Rule 501(a) of Regulation D and that it is acquiring the applicable securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof.

Private Placement

On April 27, 2026, the Company entered into a Securities Purchase Agreement (the "Series K Purchase Agreement") with certain accredited investors (the "Series K Investors"), pursuant to which it agreed to sell to the Series K Investors (i) an aggregate of 21,500 shares of the Company's newly-designated Series K Convertible Preferred Stock, with a par value of $0.0001 per share and a stated value of $1,000 per share ("Stated Value"), initially convertible into up to 8,565,737 shares of the Company's Common Stock at an initial conversion price of $2.51 per share (the "Series K Preferred Stock") and (ii) warrants to acquire up to an aggregate of 8,565,737 shares of Common Stock (the "Series K Warrants") at an exercise price of $2.51 per share (collectively, the "Series K Private Placement").

The Series K Private Placement is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D of the Securities Act and in reliance on similar exemptions under applicable state laws. Each of the Series K Investors has represented to the Company that it is an accredited investor within the meaning of Rule 501(a) of Regulation D and that it is acquiring the applicable securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The Series K Preferred Stock and Series K Warrants were offered and sold without any general solicitation by the Company or its representatives.

The closing of the Series K Private Placement occurred on April 29, 2026 (the "Closing Date"). The aggregate gross proceeds from the Series K Private Placement were $21,500,000. The Company expects to use the net proceeds from the Series K Private Placement for general corporate purposes.

The Series K Purchase Agreement contains certain representations and warranties, covenants and indemnification provisions customary for similar transactions. The representations, warranties and covenants contained in the Series K Purchase Agreement were made solely for the benefit of the applicable parties to the Series K Purchase Agreement and may be subject to limitations agreed upon by the applicable contracting parties. Among other covenants, the Series K Purchase Agreement requires the Company to hold a meeting of its stockholders not later than June 26, 2026, to seek approval for the issuance of shares of Common Stock in excess of 19.99% of the Company's issued and outstanding shares of Common Stock at prices below the "Minimum Price" (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) on the date of the Series K Purchase Agreement pursuant to the terms of the Series K Preferred Stock and the applicable Series K Warrants (the "Stockholder Approval" and the date on which such Stockholder Approval is received, the "Stockholder Approval Date").

In connection with the Series K Private Placement, pursuant to an engagement letter, dated as of April 23, 2026 (the "Series K GPN Agreement") with GP Nurmenkari Inc. ("GPN"), the Company engaged GPN to act as placement agent in connection with the Series K Private Placement, pursuant to which, the Company agreed to (i) pay GPN a cash fee equal to 8% of the gross proceeds of the Series K Private Placement (including any cash proceeds realized by the Company from the exercise of any outstanding warrants of the Company), (ii) reimbursement and payment of certain expenses up to $10,000, and (iii) issue GPN on the Closing Date, warrants to purchase up to an aggregate number of shares of Common Stock equal to 8% of the aggregate number of shares of Common Stock initially underlying the Series K Preferred Stock issued in the Series K Private Placement, including upon exercise of any outstanding warrants of the Company, with terms identical to the Series K Warrants.

The shares of Series K Preferred Stock are convertible into shares of Common Stock (the "Series K Conversion Shares") at the election of the holder at any time at an initial conversion price of $2.51 per share (the "Series K Conversion Price"). The Series K Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications, stock combinations and the like and dilutive issuances (in each case, subject to certain exceptions).

The holders of the Series K Preferred Stock are entitled to dividends of 7% per annum ("Dividends"), compounded each calendar quarter, which are payable in arrears (i) on the first trading day of each calendar quarter (each, a "Dividend Date"), with the first Dividend Date being July 1, 2026, in cash out of funds legally available therefor; provided that a holder of the Series K Preferred Stock and the Company may mutually agree to convert any Dividends into shares of Common Stock at a price to be mutually determined by the Company and such holder, which shall not be less than the lower of (x) $0.502, which was 20% of the "Minimum Price" (as defined in Rule 5635 of the Nasdaq Stock Market) on the date of the Series K Purchase Agreement and (y) 20% of the "Minimum Price" (as defined in Rule 5635 of the Nasdaq Stock Market) on the Stockholder Approval Date, in each case, subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events, or, in any case, such lower amount as permitted, from time to time, by the Nasdaq Capital Market (the "Floor Price").

The holders of the Series K Preferred Stock are entitled to vote with holders of the Common Stock on an as-converted basis, with the number of votes to which each holder of Series K Preferred Stock is entitled to be calculated assuming a conversion price of $2.51 per share, which was the Minimum Price (as defined in Rule 5635 of the Rules of the Nasdaq Stock Market) applicable immediately before the execution and delivery of the Series K Purchase Agreement, subject to certain beneficial ownership limitations as set forth in the Series K Certificate of Designations.

The Series K Certificate of Designations includes certain Triggering Events (as defined in the Series K Certificate of Designations), including, among other things, the suspension from trading or the failure of the Company's Common Stock to be trading or listed (as applicable) on an eligible market for a period of five (5) consecutive trading days and the Company's failure to pay any amounts due to the holders of the Series K Preferred Stock when due. Upon the occurrence and during the continuance of a Triggering Event, the Series K Preferred Stock accrue dividends at the rate of 15% per annum. In addition, in connection with a Triggering Event, each holder of Series K Preferred Stock will be able to require the Company to redeem in cash any or all of the holder's Series K Preferred Stock at a premium set forth in the Series K Certificate of Designations. Further, upon a Triggering Event, a holder of the Series K Preferred Stock, at such holder's option, by delivery of a notice of conversion ("Triggering Event Conversion Notice") to the Company, convert all, or any number of shares of Series K Preferred Stock held by such holder into shares of Common Stock at a price equal to the lowest of (i) the applicable Series K Conversion Price as in effect on the applicable date of conversion, and (ii) the greater of (x) the Floor Price and (y) 80% of the lowest volume weighted average price of the Common Stock of any trading day during the twenty (20) consecutive trading day period ending and including the trading day immediately preceding the delivery or deemed delivery of the applicable Triggering Event Conversion Notice.

Notwithstanding the foregoing, the Company's ability to settle conversions using shares of Common Stock is subject to certain limitations set forth in the Series K Certificate of Designations, including a limit on the number of shares that may be issued until the time, if any, that the Company has obtained the Stockholder Approval. Further, a holder of shares of Series K Preferred Stock may not convert any portion of such holder's shares of Series K Preferred Stock to the extent that the holder, together with its affiliates, would beneficially own more than 4.99% (or, at the election of the holder, 9.99%) of the Company's outstanding shares of Common Stock immediately after conversion, except that upon at least 61 days' prior notice from the holder to the Company, the holder may increase the beneficial ownership limitation to up to 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the conversion.

The Company is subject to certain affirmative and negative covenants regarding the incurrence of indebtedness, the existence of liens, the repayment of indebtedness, the payment of cash in respect of dividends (other than dividends pursuant to the Series K Certificate of Designations), distributions or redemptions, and the transfer of assets, among other matters. In addition, the Company is required to, from the Closing Date until the date on which less than 1,050 shares of the Company's Series I Preferred Stock are outstanding, at all times, maintain unencumbered, unrestricted cash and cash equivalents on hand in amount equal to at least 20% of the aggregate stated value of the Series I Preferred Stock then outstanding.

Series K Preferred Stock

The terms of the Series K Preferred Stock are as set forth in the Certificate of Designations of the Series K Convertible Preferred Stock (the "Series K Certificate of Designations"), which was filed with the Secretary of State for the State of Delaware on April 27, 2026. All shares of capital stock of the Company rank junior to shares of the Series K Preferred Stock, with respect to the preferences as to dividends, distributions and payments upon the liquidation, dissolution and winding up of the Company.

Series K Warrants

The Series K Warrants will be exercisable for shares of Common Stock (the "Series K Warrant Shares") immediately, at an exercise price of $2.51 per share and expire five years from the date of issuance. The exercise price of each Series K Warrant is subject to customary adjustments for stock dividends, stock splits, reclassifications, stock combinations and the like and dilutive issuances (in each case, subject to certain exceptions). There is no established public trading market for the Series K Warrants and the Company does not intend to list the Series K Warrants on any national securities exchange or nationally recognized trading system.

A holder of the Series K Warrants may not exercise any portion of such holder's Series K Warrants to the extent that the holder, together with its affiliates, would beneficially own more than 4.99% (or, at the election of the holder, 9.99%) of the Company's outstanding shares of Common Stock immediately after exercise, except that upon at least 61 days' prior notice from the holder to the Company, the holder may increase the beneficial ownership limitation to up to 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the exercise.

Registration Rights

The Series K Preferred Stock, the Series K Conversion Shares, the Series K Warrants and the Series K Warrant Shares have not been registered under the Securities Act.

In connection with the Series K Purchase Agreement, on April 27, 2026, the Company and the Series K Investors entered into a Registration Rights Agreement (the "Series K Registration Rights Agreement"), pursuant to which the Company is obligated, among other things, to (A) file a resale registration statement (the "Series K Registration Statement") with the SEC to register for resale promptly following the Closing Date, but in no event later than 30 calendar days after the Closing Date, the sum of (i) 200% of the maximum number of Series K Conversion Shares issuable upon conversion of the Series K Preferred Stock ((x) assuming for purposes hereof that the shares of Series K Preferred Stock are convertible at the Floor Price and (y) any such conversion shall not take into account any limitations on the conversion of the Series K Preferred Stock set forth in the Series K Certificate of Designations) and (ii) 200% of the maximum number of Series K Warrant Shares issuable upon exercise of the Series K Warrants ((x) assuming for purposes hereof that such Series K Warrants will be exercised at the initial exercise price as set forth in such Series K Warrants and (y) any such exercise shall not take into account any limitations on the exercise of such Series K Warrants as set forth therein), in each case subject to the adjustments set forth in the Series K Certificate of Designations and Series K Warrants, (B) have such Series K Registration Statement declared effective by the Effectiveness Deadline (as defined in the Series K Registration Rights Agreement and as may be amended from time to time), and (C) maintain the registration until the earlier of (x) the date on which the holders of the Series K Preferred Stock or Series K Warrants may sell their Series K Conversion Shares or Series K Warrant Shares without restriction pursuant to Rule 144 under the Securities Act, and (y) the date on which such holders no longer hold any Series K Conversion Shares or Series K Warrant Shares. The Company will be obligated to pay certain liquidated damages to the Series K Investors if the Company fails to file the Series K Registration Statement when required, fails to cause the Series K Registration Statement to be declared effective by the SEC when required, or fails to maintain the effectiveness of the Series K Registration Statement pursuant to the terms of the Series K Registration Rights Agreement.

Omnibus Amendments and Warrants

On April 27, 2026, the Company entered into an Omnibus Waiver, Consent, Notice and Amendment Agreement (the "Series H-7 Omnibus Amendment") with the Required Holders (as defined in the Certificate of Designations of the Series H-7 Convertible Preferred Stock (the "Series H-7 Certificate of Designations"), pursuant to which, the Required Holders agreed to amend and restate the Series H-7 Certificate of Designations by filing an Amended and Restated Certificate of Designations of the Series H-7 Preferred Stock (the "Amended and Restated Series H-7 Certificate of Designations") with the Secretary of State of the State of Delaware. The Amended and Restated Series H-7 Certificate of Designations (i) extends the maturity date of the Series H-7 Convertible Preferred Stock to October 27, 2027, and (ii) removes the amortization payments and related terms and covenants.

On April 27, 2026, the Company entered into an Omnibus Waiver, Consent, Notice and Amendment Agreement (the "Series I Omnibus Amendment" and together with the Series H-7 Omnibus Amendment, the "Omnibus Amendments") with the Required Holders (as defined in the Certificate of Designations of the Series I Convertible Preferred Stock (the "Series I Certificate of Designations"), pursuant to which, the Required Holders agreed to amend and restate the Series I Certificate of Designations by filing an Amended and Restated Certificate of Designations of the Series I Preferred Stock (the "Amended and Restated Series I Certificate of Designations") with the Secretary of State of the State of Delaware. The Amended and Restated Series I Certificate of Designations (i) extends the maturity date of the Series I Convertible Preferred Stock to October 27, 2027, and (ii) removes the amortization payments and related terms and covenants.

Pursuant to the Omnibus Amendments, the Company agreed to issue to the Required Holders, warrants to purchase up to an aggregate of 1,000,000 shares of the Company's Common Stock (the "Waiver Warrants"), pro rata based on the number of shares of Series H-7 Preferred Stock and Series I Preferred Stock held as of the date of the Omnibus Amendments.

The Waiver Warrants will be exercisable for shares of Common Stock immediately, at an exercise price of $5.00 per share and expire five years from the date of issuance. The exercise price of each Waiver Warrant is subject to customary adjustments for stock dividends, stock splits, reclassifications, stock combinations and the like (in each case, subject to certain exceptions). There is no established public trading market for the Waiver Warrants and the Company does not intend to list the Waiver Warrants on any national securities exchange or nationally recognized trading system.

Altucher Consulting Agreement

As previously disclosed, on August 4, 2025, the Company entered into a consulting services agreement (the "Prior Altucher Consulting Agreement") with James Altucher and Z-List Media, Inc. (the "Prior Consultants"), pursuant to which, the Prior Consultants agreed to provide certain consulting services to the Company.

On April 27, 2026, the Company and the Prior Consultants agreed to amend and restate the Prior Altucher Consulting Agreement by entering into an amended and restated consulting services agreement (the "Altucher Consulting Agreement") by and between the Company and JD Advisors, LLC, an affiliate of the Prior Consultants (the "Consultant"). Pursuant to the Altucher Consulting Agreement, the Consultant agreed to provide certain consulting services to the Company, including but not limited to: contributing to product development and roadmap decisions, leading and advising on marketing strategy, branding and go-to-market execution, assisting with recruiting, hiring and team-building efforts, managing and guiding social media presence and communications and supporting general management initiatives across the business and any other consulting or advisory services which the Company reasonably requests that the Consultant provide to the Company. The Altucher Consulting Agreement has a term of two years unless earlier terminated pursuant to the terms of the Altucher Consulting Agreement or upon the mutual written consent of the Company and the Consultant in accordance with the terms of the Altucher Consulting Agreement.

Pursuant to the Altucher Consulting Agreement, and subject to the Consultant entering into a warrant cancellation agreement for the purpose of cancelling previously issued warrants to purchase up to 900,000 shares of Common Stock under the Prior Altucher Consulting Agreement, the Company will issue to the Consultant warrants to purchase up to an aggregate of 900,000 shares of Common Stock, consisting of: (i) a warrant to purchase up to 300,000 shares of Common Stock at an exercise price of $3.00 per share, which are immediately exercisable upon issuance (the "First Tranche Warrant"), (ii) a warrant to purchase up to 200,000 shares of Common Stock at an exercise price of $6.00 per share, which will be exercisable six months from the date of issuance (the "Second Tranche Warrant"), (iii) a warrant to purchase up to 200,000 shares of Common Stock at an exercise price of $9.00 per share (the "Third Tranche Warrant"), which will be exercisable twelve months from the date of issuance, and (iv) a warrant to purchase up to 200,000 shares of Common Stock at an exercise price of $12.00 per share (the "Fourth Tranche Warrant" and together with the First Tranche Warrant, the Second Tranche Warrant and the Third Tranche Warrant, the "Consultant Warrants"), which will be exercisable eighteen months from the date of issuance, in each case, with each Consultant Warrant subject to exercisability, forfeiture and such other terms as set forth therein and will have a term of five years from the date of the applicable issuance.

The Consultant Warrants and shares issuable upon exercise of such Consultant Warrants were issued pursuant to an exemption from registration requirements of the Securities Act. There is no established public trading market for the Consultant Warrants and the Company does not intend to list the Consultant Warrants on any national securities exchange or nationally recognized trading system.

Amendments to Rights Agreement

As previously reported in a Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 1, 2025, on July 31, 2025, the Board declared a dividend of one preferred share purchase right for each outstanding share of Company Stock (as defined in the Rights Agreement (as defined below)) pursuant to the terms of that certain Rights Agreement, dated as of July 31, 2025, as the same may be amended from time to time (the "Rights Agreement"), between the Company and Equiniti Trust Company LLC, as rights agent (the "Rights Agent").

On April 27, 2026, the Company entered into that certain Amendment to Rights Agreement, by and between the Company and the Rights Agent (the "Rights Amendment"), to amend the definition of "Exempt Person" under the Rights Agreement to include any person that the Board has determined in good faith to be deemed an "Exempt Person" by adopting resolutions waiving the applicability of the Rights Agreement to such person. On April 27, 2026, the Board adopted such resolutions in connection with the transactions contemplated by the JDA, including the issuance of the Series J Preferred Stock, accordingly, the Rights Agreement does not apply to Kopin or any of its affiliates or any future acquiror of Kopin in connection with the transactions contemplated by the JDA or the other transaction agreements entered into in connection therewith.

Equity Incentive Grants

On April 27, 2026 (the "Board Approval Date"), the Board of the Company approved grants to Joshua Silverman, the Company's Chief Executive Officer, subject to the stockholder approval of an amendment to the Company's Long-Term Incentive Plan (as amended, the "Plan") increasing the authorized share limit under the Plan (the "Incentive Plan Authorized Share Stockholder Approval"), consisting of restricted shares of Common Stock equal to an aggregate value of $900,000, calculated as of the Board Approval Date (the "RSA Award"), vesting (i) 25% as of the date of the Incentive Plan Authorized Share Stockholder Approval (the "Incentive Plan Approval Date"), (ii) 25% on June 30, 2026, (iii) 25% on September 30, 2026, and (iv) 25% on December 31, 2026, provided Mr. Silverman continues to provide services to the Company through the applicable vesting date and subject to the terms and conditions of the Plan.

On the Board Approval Date, the Board of the Company also approved grants to each of Sebastian Giordano, Zvi Joseph, Greg Schiffman, and Wayne Walker, each a director of the Company (the "Directors"), of stock options to acquire the number of shares of Common Stock equal to an aggregate value of $338,000 or, $84,500 each, as of the Board Approval Date, utilizing the black-scholes valuation method to calculate the applicable number of shares on such date with an exercise price equal to the fair market value of the Company's Common Stock on the Incentive Plan Approval Date (the "Director Stock Options"). The Director Stock Options will be issued on the Incentive Plan Approval Date and will be issued pursuant to, and be subject to the terms and conditions of, the Plan. The Director Stock Options will vest (a) 25% as of the Incentive Plan Approval Date; (b) 25% on June 30, 2026; (c) 25% on September 30, 2026; and (d) 25% on December 31, 2026, provided the Director continues to provide services to the Company through the applicable vesting date.

Corporate Changes

On April 27, 2026, the Company filed a Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation to change the name of the Company from "StableX Technologies, Inc." to "Fabric.AI, Inc." effective as of April 27, 2026. The Company believes the name change better reflects the Company's transition to its new infrastructure strategy, involving building fabless semiconductor technologies to power AI factories and smart data centers optimized for producing intelligence at scale. The Company's ticker for its common stock changed to "FABC" and began trading under the new symbol on Nasdaq on April 29, 2026.

Components of Results of Operations

Revenue

The Company has not generated revenue during the three and six months ended June 30, 2026 or 2025. The Company does not expect to generate revenue until it has successfully developed and commercialized products, including the Neural I/o™ chip being developed under its Joint Development and License Agreement with Kopin Corporation.

Cost of Goods Sold

Cost of goods sold primarily consists of costs of materials and personnel costs associated with manufacturing operations, and an accrual for post-sale warranty claims. The Company incurred cost of goods sold or $0 and $239,040 during the three and six months ended June 30, 2026 or 2025, respectively. The Company does not expect to incur significant cost of goods sold until it has commenced commercialization of products incorporating its semiconductor technologies.

Operating Expenses

Our operating expenses consist of general and administrative and research and development expenses. Third party consulting services is the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities and utility costs.

Research and Development Expense

Research and development expense consists primarily of prototype expenses, product strategic advisory fees, and third-party engineering and contractor support costs. The Company expects research and development expenses to increase in future periods as development activities under its Joint Development and License Agreement with Kopin Corporation for the Neural I/o™ chip accelerate.

General and Administrative Expense

General and administrative expenses consist primarily of consulting fees and related expenses, legal, audit and tax, third-party professional services, and allocated overhead.

Other (Expense) Income

Other (expense) income consists of income received or expenses incurred for activities outside of our core business. Other (expense) income consists primarily of interest expense, unrealized gain/loss on marketable securities, unrealized gain/loss on digital assets, and the changes in fair value of the warrant and the derivative liability.

Provision for Income Taxes

Provision for income taxes consists of estimated income taxes due to the United States government and to the state tax authorities in jurisdictions in which we conduct business. In the case of a tax deferred asset, we reserve the entire value for future periods.

Results of Operations

Three months ended June 30, 2026, compared to three months ended June 30, 2025

The following table sets forth our results of operations for each of the periods set forth below:

	For the Three Months Ended June 30,		
	2026	**2025**	**Change**
Revenue	$ —	$ —	$ —
Cost of goods sold	—	239,040	(239,040)
Gross loss	—	(239,040)	239,040
Operating expenses:			
Research and development	689,892	349,951	339,941
General and administrative	2,639,185	1,199,323	1,439,862
Total operating expenses	3,329,077	1,549,274	1,779,803
Loss from operations	(3,329,077)	(1,788,314)	(1,540,763)
Other income (expense):			
Interest income	30,594	7,961	22,633
Change in fair value - warrant liability	—	(13,254,700)	13,254,700
Change in fair value - derivative liability	43,000	1,130,000	(1,087,000)
Change in fair value – anti-dilution liability	(8,044,334)	—	(8,044,334)
Unrealized gain (loss) on marketable securities	62,805	(7,457)	70,262
Change in fair value of digital assets	75,054	—	75,054
Realized gain on marketable securities	26,123	94,492	(68,369)
Gain on sale of assets	218,803	—	218,803
Consent and waiver fee – Series H-7	-	(350,000)	350,000
Other income, net	(1,565,000)	25,000	(1,590,000)
Total other expense, net	(9,152,955)	(12,354,704)	3,201,749
Net loss	$ (12,482,032)	$ (14,143,018)	$ 1,660,986

Cost of goods sold

Cost of goods sold was $0 for the three months ended June 30, 2026, as compared to $239,040 for the same period in 2025, a decrease of $239,040, or 100%. The decrease was primarily due to impairment charges related to inventory used in the manufacturing of the Vanish.

Research and development expense

Research and development ("R&D") expense was $689,892 for the three months ended June 30, 2026, as compared to $349,951 for the same period in 2025, an increase of $339,941 or 97.1%. The increase was primarily due to (i) R&D design and re-engineering of the Vanish being substantially completed in the prior year and (ii) expense related to the Kopin JDA for the quarter ended June 30, 2026. The Company expects R&D expenses to continue to increase in future periods as development activities under its Joint Development and License Agreement with Kopin Corporation for the Neural I/o^{TM} chip accelerate.

General and administrative expenses

The majority of our operating losses from continuing operations resulted from general and administrative expenses. General and administrative expenses consist primarily of costs associated with our overall operations and with being a public company. These costs include personnel, legal and financial professional services, insurance, investor relations, and compliance related fees.

General and administrative expense was $2,639,185 for the three months ended June 30, 2026, compared to $1,199,324 for the same period in 2025, an increase of $1,439,861, or 120.1%.

The increase was primarily due to stock-based compensation expense of $673,666 related to stock options and RSUs granted and vested during the three months ended June 30, 2026, to members of the board and employees, and $655,268 in warrant expense related to consulting services, compared to the same period in 2025.

Other income and expense

For the three months ended June 30, 2026, the Company recorded a $3,201,749 decrease of other expense, net. The decrease for the three months ended June 30, 2026 and 2025, is primarily due to: (i) the Company recognizing a loss of $0 and $13,254,700, respectively, for the change in fair value – warrant liability, a decrease of $13,254,700, due to the Series H-7 Warrants and Series I Warrants being reclassified to equity during the year ended December 31, 2025; (ii) the Company recognizing a gain of $43,000 and $1,130,000, respectively, for the change in fair value – derivative liability, a decrease of $1,087,000, due primarily to the Series H-7 Preferred Stock being fully noticed during the three months ended June 30, 2025, resulting in a gain of $1,130,000; (iii) the Company recognizing a loss of $8,044,334 and $0, respectively, for the change in fair value – anti-dilution liability, due to the Company's recognition of the anti-dilution liability resulting from the anti-dilution provisions related to the Series J Preferred Stock issued during the three months ended June 30, 2026; and (iv) the Company recognizing a loss of $1,565,000 and a gain of $25,000, respectively, for other income (expense), due to the $1,565,000 in issuance costs related to the Waiver Warrants issued in the three months ended June 30, 2026.

Six months ended June 30, 2026, compared to six months ended June 30, 2025

The following table sets forth our results of operations for each of the periods set forth below:

	For the Six Months Ended June 30,		
	2026	**2025**	**Change**
Revenue	$ —	$ —	$ —
Cost of goods sold	—	239,040	(239,040)
Gross loss	—	(239,040)	239,040
Operating expenses:			
Research and development	814,756	657,681	157,075
General and administrative	4,215,376	2,865,145	1,350,231
Total operating expenses	5,030,132	3,522,826	1,507,306
Loss from operations	(5,030,132)	(3,761,866)	(1,268,266)
Other income (expense):			
Interest income	40,595	34,201	6,394
Change in fair value - warrant liability	—	(12,174,100)	12,174,100
Change in fair value - derivative liability	37,000	2,661,000	(2,624,000)
Change in fair value – anti-dilution liability	(8,044,334)	—	(8,044,334)
Unrealized gain (loss) on marketable securities	53,959	(79,164)	133,123
Change in fair value of digital assets	(538,609)	—	(538,609)
Realized gain on marketable securities	64,100	305,554	(241,454)
Gain on sale of assets	218,803	—	218,803
Consent and waiver fee – Series H-7	—	(350,000)	350,000
Other income, net	(1,697,889)	66,368	(1,764,257)
Total other expense, net	(9,866,375)	(9,536,141)	(330,234)
Net loss	$ (14,896,507)	$ (13,298,007)	$ (1,598,500)

Cost of goods sold

Cost of goods sold was $0 for the six months ended June 30, 2026, as compared to $239,040 for the same period in 2025, a decrease of $239,040, or 100%. The decrease was primarily due to impairment charges related to inventory used in the manufacturing of the Vanish.

Research and development expense

Research and development ("R&D") expense was $814,756 for the six months ended June 30, 2026, as compared to $657,681 for the same period in 2025, an increase of $157,075 or 23.9%. The increase was primarily due (i) to R&D design and re-engineering of the Vanish being substantially completed and (ii) expense related to the Kopin JDA for the quarter ended June 30, 2026. The Company expects R&D expenses to continue to increase in future periods as development activities under its Joint Development and License Agreement with Kopin

Corporation for the Neural I/o™ chip accelerate.

General and administrative expenses

The majority of our operating losses from continuing operations resulted from general and administrative expenses. General and administrative expenses consist primarily of costs associated with our overall operations and with being a public company. These costs include personnel, legal and financial professional services, insurance, investor relations, and compliance related fees.

General and administrative expense was $4,215,376 for the six months ended June 30, 2026, compared to $2,865,145 for the same period in 2025, an increase of $1,350,231, or 47.1%.

The increase was primarily due to stock-based compensation expense of $673,666 related to stock options and RSUs granted and vested during the six months ended June 30, 2026, to members of the board and employees, and $1,266,736 in warrant expense related to consulting services, compared to the same period in 2025. This was partially mitigated by a decrease in salaries and related consulting expenses decreasing by $399,522 for the six months ended June 30, 2026, compared to the same period in 2025, due to the decreased headcount and shift in business direction from manufacturing.

Other income and expense

For the six months ended June 30, 2026, the Company recorded a $330,234 increase of other expense, net. The increase for the six months ended June 30, 2026 and 2025, is primarily due to: (i) the Company recognizing a loss of $0 and $12,174,100, respectively, for the change in fair value – warrant liability, a decrease of $12,174,100, due to the Series H-7 Warrants and Series I Warrants being reclassified to equity during the year ended December 31, 2025; (ii) the Company recognizing a gain of $37,000 and $2,661,000, respectively, for the change in fair value – derivative liability, a decrease of $2,624,000, due primarily to the Series H-7 Preferred Stock being fully noticed during the six months ended June 30, 2025, resulting in a gain of $2,661,000; (iii) the Company recognizing a loss of $8,044,334 and $0, respectively, for the change in fair value – anti-dilution liability, due to the Company's recognition of the anti-dilution liability resulting from the anti-dilution provisions related to the Series J Preferred Stock issued during the six months ended June 30, 2026; and (iv) the Company recognizing a loss of $1,697,889 and a gain of $66,368, respectively, for other income (expense), primarily due to the $1,565,000 in issuance costs related to the Waiver Warrants issued in the six months ended June 30, 2026.

Off-Balance Sheet Commitments and Arrangements

The Company has not entered into any off-balance sheet financial guarantees or other off-balance sheet commitments to guarantee the payment obligations of any third parties. The Company has not entered into any derivative contracts that are indexed to the Company's shares and classified as stockholder's equity or that are not reflected in the Company's financial statements included in this Quarterly Report on Form 10-Q. Furthermore, the Company does not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. The Company does not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

Liquidity and Capital Resources

Our primary uses of cash are to fund our semiconductor development activities, including our obligations under the Joint Development and License Agreement (the "JDA") with Kopin Corporation, research and development and operational staffing, and general corporate expenses. Historically, our sources of cash have. Consisted principally of proceeds from the sale of equity and debt securities, including preferred stock and warrants. We have incurred recurring losses from operations and expect to continue to incur net losses as we invest in the development of our technologies, and we expect our cash needs to increase as our semiconductor development activities progress.

As of June 30, 2026, we had $3,635,883 in cash and cash equivalents, $5,114,563 in restricted cash, $18,035,777 in marketable securities, and working capital of $30,616,155. As of December 31, 2025, we had $4,981,798 in cash and cash equivalents, $110,264 in restricted cash, $3,168,362 in marketable securities and working capital of $7,567,805.

As of the date of this filing, the Company had approximately $7.5 million in cash and cash equivalents and $20.4 million in marketable securities.

During the quarter ended June 30, 2026, we completed several financing transactions that materially increased our liquidity. On April 29, 2026, we. Closed a private placement of Series K Convertible Preferred Stock and warrants for aggregate gross proceeds of $21,500,000, of which $19,720,000 was received in net proceeds. We also entered into omnibus amendments with the holders of our Series H-7 and Series I Preferred Stock that extended the maturity dates of those securities to October 27, 2027, and removed the related installment (amortization) payment obligations. These amendments eliminated near-term mandatory cash redemption and deferred our cash needs to future periods.

Based on our current cash position and operating plan, and taking into account the additional liquidity generated by the financing transactions completed during the quarter, management believes that our existing cash and cash equivalents and marketable securities will be sufficient to fund our operations for at least the next twelve months following the date of this report.

Our future liquidity requirements or future capital needs will depend on, among other things, capital required to fund our semiconductor technology development activities, including our obligations under the JDA, operational staffing and support requirements, as well as the timing and amount of future revenue and product costs. Our business is capital-intensive, and future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the results of our strategic initiatives, the timing of new product introductions and the continuing market acceptance of our products and services. We are working to control expenses and deploy our capital in the most efficient manner.

In addition to our operating cash needs, we have obligations under the JDA with Kopin to fund initial development of the project technology, and following a successful prototype demonstration, we expect to negotiate a production plan that may require additional payments. We also have obligations associated with out outstanding preferred stock, including quarterly cash dividends and potential cash redemptions upon the occurrence of certain triggering events or a change in control, as described further below. These obligations may require the expenditure of a substantial portion of our cash resources, and if we do not have sufficient cash to satisfy them, we may need to raise additional equity or debt capital, delay, reduce or eliminate certain development programs, sell assets, or merge with another entity. We. Cannot provide any assurance that additional capital will be available on acceptable terms, or at all.

Summary of Cash Flows

The following table summarizes our cash flows:

	For the Six Months Ended June 30,	
	2026	**2025**
Cash Flows:		
Net cash used in operating activities	$ (7,219,867)	$ (4,100,960)
Net cash provided by (used in) investing activities	$ (13,467,487)	$ 1,024,773
Net cash provided by (used in) financing activities	$ 24,345,738	$ (7,881,527)

Operating Activities

During the six months ended June 30, 2026, we used $7,219,867 in cash from operating activities, a increase in use of $3,118,907 compared to the cash used in operating activities of $4,100,960 during the same period in 2025.

The increase in cash used in operating activities is primarily due to an increase prepaid expenses resulting from the prepayment of research and development costs to Kopin in connection with the Kopin Joint Development Agreement, which was partially mitigated by a decrease in non-cash items reconciling net loss which consisted of stock-based compensation resulting from stock options, RSUs, and consulting warrants during the six months ended June 30, 2026, non-cash financing expense related to the Waiver Warrants issued for the Series H-7 and Series I preferred stock omnibus amendment on April 27, 2026, and the anti-dilution liability in connection with the Series K Preferred Stock.

Investing Activities

During the six months ended June 30, 2026, the Company had $13,467,487 in cash used in investing activities as compared to $1,024,773 of cash provided by investing activities during the same period in 2025, an increase in cash used of $14,492,260.

The change was primarily driven by lower levels of activity in marketable securities during the current period. During the six months ended June 30, 2026, the Company invested $19,504,729 in marketable securities and received $4,755,373 in proceeds from sales of such securities, compared to $23,257,290 of purchases and $24,282,063 of proceeds during the same period in 2025.

Financing Activities

During the six months ended June 30, 2026, the Company was provided cash of $24,345,738 by financing activities as compared to $7,881,527 cash used in financing activities for the same period in 2025, an increase in cash provided of $32,227,265.

The increase in cash provided was due to (i) $19,720,000 in net proceeds from the sale of the Company's Series K Preferred Stock and $5,029,269 in proceeds from the exercises of Series H-7 and Series I preferred warrants during the six months ended June 30, 2026. The Company had no cash providing financing activities during the same period in 2025.

Preferred Stock and Warrant Obligations

Our outstanding preferred stock and warrants give rise to obligations that may affect our liquidity and our ability to raise capital.

Series K Preferred Stock

We issued Series K Convertible Preferred Stock in April 2026 for aggregate gross proceeds of $21,500,000. Holders are entitled to cash dividends of 7% per annum, compounded quarterly, payable in arrears out of funds legally available therefor, which increase to 15% per annum, upon the occurrence and continuance of a triggering event. Upon a triggering event or a change in control, holders may require us to redeem their shares in cash at a premium, and upon certain bankruptcy events the shares become mandatorily redeemable. Our Series K Certificate of Designations also contains restrictive covenants, including requirement to maintain minimum unencumbered cash, restrictions on incurring indebtedness and on redeeming or paying dividends on other capital stock, and participation rights in future offerings, which may limit our flexibility in raising capital. The Series K Preferred Stock and Series K Warrants also contain anti-dilution provisions that could increase dilution to common stockholders and make it more difficult for us to raise additional equity capital.

Series J Preferred Stock

In connection with the Joint Development and License Agreement with Kopin, we issued Series J Convertible Preferred Stock to Kopin as non-cash consideration for the license to the project technology; the issuance did not provide us with any cash proceeds. Holders are entitled to dividends of 6% per annum, payable semi-annually, which we may elect to pay in cash or in kind through the issuance of additional shares of Series J Preferred Stock. The Series J Preferred Stock contains anti-dilution provisions that may require us to issue additional shares of Series J Preferred Stock to Kopin upon certain issuances of Common Stock or Common Stock Equivalents, which could increase dilution to our common stockholders and make it more difficult for us to raise additional equity capital.

Series H-7 and Series I Preferred Stock

The April 2026 amendments extended the maturity dates of our Series H-7 and Series I Preferred Stock to October 27, 2027, and removed the installment (amortization) payment obligations. Holders of each series are entitled to cash dividends (8% per annum for Series H-7 and 7% per annum, for Series I, each compounding and increasing to 15% upon a triggering event), and may require cash redemption at a premium upon the occurrence of a triggering event. Our Series H-7 Certificate of Designations requires us to maintain unencumbered cash and cash equivalents of at least 120% of the aggregate stated value of outstanding Series H-7 Preferred Stock, and our Series I Certificate of Designations requires us to maintain unencumbered cash and cash equivalents of at least 50% of the aggregate stated value of outstanding Series I Preferred Stock. As of June 30, 2026, we had $110,865 in restricted cash. These cash maintenance requirements, together with the potential for cash dividends and cash redemptions upon triggering events, may require the expenditure of a substantial portion of our cash resources.

Known Trends, Events, and Uncertainties

The emergence and effects of public health crises, such as pandemics and epidemics, along with geopolitical conflicts, including the consequences of the ongoing war between Russia and Ukraine and between Israel and various factors in the Middle East, including related sanctions and countermeasures, are difficult to predict, and could adversely impact geopolitical and macroeconomic conditions, the global economy, and contribute to increased market volatility, which may in turn adversely affect our business and operations.

In April 2026, the Company commenced a strategic transition toward a new business model focused on the design and development of fabless semiconductor technologies for AI data center infrastructure, including MicroLED-based optical interconnects. The Company's ability to successfully execute this strategy is subject to significant uncertainties, including its ability to successfully develop and commercialize the Neural I/o™ chip, its dependence on Kopin Corporation for key technology and manufacturing capabilities, competition from established semiconductor companies with substantially greater resources, the evolving regulatory landscape for AI technologies and semiconductor exports, and the Company's ability to raise sufficient capital to fund development activities. The semiconductor industry is characterized by rapid technological change, and there can be no assurance that the Company's products, if successfully developed, will achieve market acceptance or generate revenue sufficient to sustain operations.

Other than as discussed above and elsewhere in this report, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of our unaudited condensed consolidated financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our unaudited condensed consolidated financial statements are prepared. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions.

We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Except as described below, our critical accounting estimates have not changed materially from those previously reported in our Form 10-K. During the quarter ended June 30, 2026, in connection with our strategic transition and the Kopin Joint Development Agreement, we identified critical accounting estimates and judgments relating to (i) the fair value of the non-cash consideration transferred and the indefinite-lived classification and related impairment assessment of the acquired license intangible asset, (ii) the recurring fair value measurement of the anti-dilution liability, (iii) the initial fair value measurement and temporary (mezzanine) equity classification of the newly issued Series J and Series K Convertible Preferred Stock, and (iv) the significant unobservable inputs used in our Level 3 fair value measurements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including our principal executive and principal financial officers, we evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2026. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that 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 the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2026, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were ineffective due to the material weakness in internal control over financial reporting discussed below.

A material weakness is a significant deficiency or a combination of significant deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weakness and Remediation Plan

As previously reported on our Annual Report on Form 10-K for the period ended December 31, 2025, we identified a material weakness in our internal control over financial reporting due to the fact that (i) we were unable to document, formalize, implement and revise where necessary controls, policies and procedure documentation to evidence a system of controls, inclusive of IT controls, including testing of such controls that is consistent with our current personnel and available resources; (ii) we failed to document, maintain and test effective control activities over our control environment, risk assessment, information technology and monitoring components; and (iii) we had insufficient segregation of duties, oversight of work performed and lack of compensating controls in our finance and accounting functions, including, without limitation, the processing, review and authorization of all routine and non-routine transactions, due to limited personnel and resources.

This material weakness continues to exist as of June 30, 2026.

Our management has been engaged in developing and implementing remediation plans to address the material weaknesses described above. Until we have sufficient technical accounting resources, we have engaged external consultants to provide support and to assist us in our evaluation of more complex applications of GAAP to aid in the remediation efforts of the material weakness.

We continue to enhance corporate oversight over process-level controls and structures to ensure that there is appropriate assignment of authority, responsibility, and accountability to enable remediation of our material weaknesses. As we continue to evaluate, and work to improve, our internal control over financial reporting, management may determine that additional measures to address control deficiencies or modifications to the remediation plan are necessary.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter 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

From time to time, we may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if it considers that it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated, provisions for loss are made based on management's assessment of the most likely outcome.

The information set forth in Note 16. Commitments and Contingencies of the Notes to unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q is incorporated by reference herein.

There are no other material proceedings in which any of our directors, officers, affiliates, any registered or beneficial stockholder of more than 5% of our common stock, or any associate of any of the foregoing is an adverse party or has a material interest adverse to our interest.

ITEM 1A. RISK FACTORS

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with our business, financial condition and results of operations previously disclosed in "Item 1A. Risk Factors" of our Annual Report for the year ended December 31, 2025 on Form 10-K, as filed with the SEC on March 30, 2026. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-Q. The following information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes in Part I, Item 1, "Financial Statements" and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q.

We are a development-stage company with no revenue from our semiconductor operations and a limited operating history in the AI semiconductor industry. There can be no assurance that we will successfully develop, commercialize, or achieve market acceptance of our technologies.

We commenced our strategic transition toward the design and development of fabless semiconductor technologies for AI data center infrastructure in April 2026. We have a limited operating history in the AI semiconductor industry, have not generated any revenue from our semiconductor operations, and have not yet completed a prototype of our initial product, the Neural I/o™ chip. Our ability to generate revenue will depend on our successful development and commercialization of our MicroLED-based optical interconnect technology, which is subject to significant technological, engineering, and manufacturing risks. There can be no assurance that we will be able to develop products that meet their intended performance specifications, manufacture them at commercially viable cost levels, or achieve market acceptance. If we are unable to successfully execute our semiconductor strategy, our business, financial condition, and results of operations could be materially and adversely affected.

We are substantially dependent on our collaboration with Kopin Corporation for the development and manufacturing of our semiconductor products. If our relationship with Kopin is disrupted or terminated, our business could be materially and adversely affected.

Our semiconductor strategy is substantially dependent on our collaboration with Kopin Corporation pursuant to the JDA dated April 27, 2026 and the related Commercial Supply Agreement. Kopin is the sole provider of the MicroLED technology that is foundational to our Neural I/o chip. Under the Supply Agreement, all products incorporating the project technology must be manufactured exclusively by or on behalf of Kopin, and we are required to purchase our entire requirements for products from Kopin, subject to limited exceptions for supply failure events. If Kopin is unable or unwilling to continue to perform under the JDA or Supply Agreement, experiences manufacturing difficulties, fails to meet quality or delivery requirements, or if the JDA or Supply Agreement is terminated for any reason, we may be unable to develop or commercialize our products on the timelines we anticipate, or at all. In the event of termination arising from our breach, failure to fund, or a bankruptcy event, Kopin has the right to continue to develop, use, and commercialize the project technology without restriction, and we have agreed to assign to Kopin all of our right, title, and interest in the project technology. Any disruption in our relationship with Kopin could have a material adverse effect on our business, financial condition, and results of operations.

Our MicroLED-based optical interconnect technology is at an early stage of development and may not achieve the performance characteristics or cost levels necessary for commercial viability.

Our initial product under development, the Neural I/o chip, is at an early stage of development. We have not yet completed a prototype, and there can be no assurance that the chip will achieve its intended performance specifications, including with respect to bandwidth, latency, and power efficiency. MicroLED-based optical interconnect technology for data center applications is a nascent technology, and we face significant technical challenges in developing a commercially viable product. The development process may take longer, cost more, or encounter more technical obstacles than we currently anticipate. Even if we successfully develop a working prototype, we may face additional challenges in scaling manufacturing, achieving acceptable yield rates, and reducing per-unit costs to levels that are competitive with incumbent copper-based and laser-based interconnect solutions. If we are unable to demonstrate the technological viability of our products or bring them to market in a timely manner, our business and prospects could be materially and adversely affected.

We face intense competition from established semiconductor companies with significantly greater resources, and our products may not be able to compete effectively.

The markets for AI infrastructure and data center interconnect technologies are intensely competitive and subject to rapid technological change. We face competition from established providers of copper-based and laser-based interconnect solutions, including large, diversified semiconductor companies and specialized optical interconnect providers, many of which have significantly greater financial, technical, manufacturing, marketing, and distribution resources than we do. Many of our potential competitors have longer operating histories, larger and more established customer bases, and more extensive research and development capabilities. We may also face competition from new entrants into the MicroLED interconnect space or from alternative technologies that we have not yet anticipated. If our competitors develop technologies that are superior to ours, or if they are able to bring competing products to market before us, our ability to achieve market acceptance could be significantly impaired, which would materially and adversely affect our business and results of operations.

We will require substantial additional capital to fund our semiconductor development activities, and there can be no assurance that such capital will be available on acceptable terms, or at all.

Our semiconductor development activities will require substantial capital investment. Pursuant to the JDA, we have agreed to pay Kopin up to $15,000,000 for the initial development of the project technology, and following a successful prototype demonstration, the parties expect to negotiate a production plan that may include an additional payment by us of approximately $15,000,000 to $25,000,000. In addition to our obligations under the JDA, we expect to incur significant costs related to research and development, personnel, equipment, and general corporate activities as we scale our operations. While we have raised significant funds through recent financing transactions, these funds may not be sufficient to fund our development activities through commercialization. If we are unable to raise additional capital when needed, we may be required to delay, reduce, or eliminate certain development programs, which could materially and adversely affect our business, financial condition, and prospects.

Our semiconductor products may be subject to export control restrictions and trade regulations that could limit our ability to sell products internationally or collaborate with foreign partners.

The design, development, and potential sale of semiconductor technologies for AI data center applications are subject to U.S. export control laws and regulations, including the Export Administration Regulations administered by the Bureau of Industry and Security and economic sanctions programs administered by the Office of Foreign Assets Control. The U.S. government has significantly expanded export controls applicable to advanced semiconductor technologies, AI-related hardware, and supercomputing components in recent years. If our products, once developed, are classified under export-controlled categories, we may be required to obtain licenses or authorizations prior to export, and certain destinations, entities, or end uses may be prohibited entirely. Changes to export control regulations, the Entity List, or the imposition of new sanctions could limit our ability to sell products in key international markets, restrict our ability to collaborate with foreign partners or contract manufacturers, or otherwise materially and adversely affect our business.

Environmental, health and safety (EHS) laws and regulations may expose us to liability, and such liability and compliance with these laws and regulations may adversely affect our business.

The semiconductor industry is subject to a variety of international, federal, state, local and non-U.S. laws and regulations governing pollution, environmental protection and occupational health and safety, including those relating to the release, storage, use, discharge, handling, generation, transportation, disposal, and labeling of, and human exposure to, hazardous and toxic materials, product composition, and the investigation and cleanup of contaminated sites, including sites we currently or formerly owned or operated, due to the release of hazardous materials, regardless of whether we caused such release. We are also required to obtain environmental permits from governmental authorities for some of our operations. We cannot be assured that we have been or will be at all times in complete compliance with such EHS laws, regulations and permits. Failure to comply with such EHS laws and regulations could subject us to civil or criminal costs, obligations, sanctions or property damage or personal injury claims, or suspension of our facilities' operating permits.

Changes in EHS laws or regulations may require us to invest in costly equipment or make manufacturing process changes and may adversely affect the sourcing, supply and pricing of materials used in our products. We believe that our model of a fabless company minimizes those risks, although any such changes may require us to conduct careful audits of our vendors or even to replace vendors, which may involve costs in qualifying or making adjustments for the work with another vendor.

In the event of an incident involving hazardous materials, we could be liable for damages and such liability could exceed the amount of any liability insurance coverage and the resources of our business. In addition, in the event of the discovery of contaminants or the imposition of clean up obligations for which we are responsible, we may be required to take remedial or other measures which could have a material adverse effect on our business, financial condition and results of operations. In response to environmental concerns, some customers and government agencies impose requirements for the elimination and/or labeling of hazardous substances, such as lead (which is widely used in soldering connections in the process of semiconductor packaging and assembly), in electronic equipment, as well as requirements related to the take-back of products discarded by customers.

EHS laws and regulations have tended to become more stringent over time, causing a need to redesign technologies, imposing greater compliance costs and increasing risks and penalties associated with violations, which could seriously harm our business.

In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on environmental, social and governance (ESG) matters and related disclosures. These changing rules, regulations and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations.

We have no full-time employees and rely heavily on consultants and contractors, which may limit our ability to execute our business strategy.

As of June 30, 2026, we had zero full-time employees and rely on consultants and contractors to supplement our capabilities. Our future success depends in significant part on our ability to attract, retain, and motivate qualified engineering, scientific, and management personnel. Competition for such personnel in the semiconductor industry is intense, and we may not be able to attract or retain the personnel necessary to execute our semiconductor development strategy. Our reliance on consultants and contractors may also create challenges related to intellectual property protection, continuity of institutional knowledge, and the consistent execution of our development programs. If we are unable to build and maintain an adequate team to support our operations, our business and results of operations could be materially and adversely affected.

Our fabless business model makes us dependent on third-party manufacturers, and our business may be adversely affected by supply chain disruptions, tariffs, or geopolitical risks.

We operate as a fabless semiconductor company and intend to outsource the fabrication and manufacturing of our chips to third-party contract manufacturers. This model makes us dependent on the manufacturing capacity, quality, and timeliness of our manufacturing partners. A significant portion of global semiconductor manufacturing capacity is concentrated in Asia, and trade tensions between the United States and certain countries have resulted in increased tariffs, export restrictions, and supply chain disruption risk. Changes in trade policy, the imposition of new or increased tariffs on semiconductor components or materials, or disruption of international supply chains could increase our costs, limit access to manufacturing partners, or delay product development and commercialization. Additionally, our dependence on Kopin as the exclusive manufacturer of products incorporating the project technology means that any disruption to Kopin's manufacturing capabilities could directly and materially impact our ability to deliver products to customers.

Because we operate a fabless business model, we may not be eligible for certain U.S. government incentives and tax credits offered to promote domestic semiconductor production.

From time to time, governments may provide subsidies or make other investments that could give competitive advantages to certain semiconductor companies. For example, in 2022, the U.S. government passed the Creating Helpful Incentives to Produce Semiconductors & Sciences Act to provide $52.7 billion of funding to U.S.-based semiconductor companies to promote domestic production. Because we operate a fabless business model, we may not be eligible for such incentives from the U.S. government at this time.

We jointly own intellectual property developed under our collaboration with Kopin, and our dependence on Kopin's existing intellectual property may limit our ability to independently commercialize our technology.

Intellectual property developed through our collaboration with Kopin is jointly owned by both companies. Our technology leverages Kopin's patented bi-directional NeuralDisplay™ architecture, and we are dependent on Kopin's existing intellectual property portfolio as a foundation for our product development. While Kopin has granted us a non-exclusive, royalty-free, worldwide license under its background technology for developing and commercializing the project technology, we do not have sole ownership or exclusive rights to much of the intellectual property underlying our products. If our relationship with Kopin deteriorates, or if Kopin's intellectual property rights are challenged or invalidated by third parties, our ability to develop and commercialize our products could be materially impaired. Additionally, we may face claims of intellectual property infringement from third parties, particularly given the competitive nature of the semiconductor industry, and defending against such claims could be costly and time-consuming.

Holders of our shares of Series K Preferred Stock are entitled to certain payments under the Series K Certificate of Designations that may be paid in cash, which may require the expenditure of a substantial portion of our cash resources.

The holders of the Series K Preferred Stock are entitled to dividends of 7% per annum ("Dividends"), compounded each calendar quarter, which are payable in arrears on the first trading day of each calendar quarter (each, a "Dividend Date"), with the first Dividend Date being July 1, 2026, in cash out of funds legally available therefor; provided that a holder of the Series K Preferred Stock and the Company may mutually agree to convert any Dividends into shares of Common Stock at a price to be mutually determined by the Company and such holder, which shall not be less than the lower of (x) $0.502, which was 20% of the "Minimum Price" (as defined in Rule 5635 of the Nasdaq Stock Market) on the date of the Purchase Agreement and (y) 20% of the "Minimum Price" (as defined in Rule 5635 of the Nasdaq Stock Market) on the Stockholder Approval Date, in each case, subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations or other similar events, or, in any case, such lower amount as permitted, from time to time, by the Nasdaq Capital Market (the "Floor Price"). Upon the occurrence and during the continuance of a Triggering Event (as defined in the Series K Certificate of Designations), the Series K Preferred Stock accrue dividends at the rate of 15% per annum. In connection with a Triggering Event, each holder of Series K Preferred Stock will be able to require us to redeem in cash any or all of the holder's Series K Preferred Stock at a premium set forth in the Series K Certificate of Designations. If such Triggering Event occurs, our financial condition and results of operations could be materially affected.

If we do not have sufficient cash resources to make these payments, we may need to raise additional equity or debt capital, and we cannot provide any assurance that we will be successful in doing so. If are unable to raise sufficient capital to meet our payment obligations, we may need to delay, reduce or eliminate certain research and development programs or other operations, sell some or all of our assets or merge with another entity. Our ability to make payments due to the holders of our Series K Preferred Stock using cash is also limited by the amount of cash we have on hand at the time such payments are due as well as certain provisions of the Delaware General Corporation Law.

The Series K Preferred Stock and the Series K Warrants contain certain anti-dilution provisions, which may dilute the interests of our stockholders, depress the price of our common stock, and make it difficult for us to raise additional capital.

Certain events, for example, a Stock Combination Event (as defined in each of the Series K Certificate of Designations and the Series K Warrants) may reduce the conversion price of the Series K Preferred Stock and the exercise price of the Series K Warrants, which in turn may lead to further dilution to the holders of our Common Stock. The Series K Warrants additionally contain anti-dilution provisions applicable to the exercise price. If in the future, while any of the Series K Warrants are outstanding, we may be required upon the occurrence of certain events, to adjust the exercise price of the Series K Warrants, and simultaneously with any adjustment to the exercise price, the number of shares of Common Stock that may be purchased upon exercise of the Series K Warrants shall be increased or decreased proportionately, so that after such adjustment the aggregate exercise price payable thereunder for the adjusted number of shares of Common Stock issuable upon exercise of the Series K Warrants shall be the same as the aggregate exercise price in effect immediately prior to such adjustment. Such adjustments can dilute the book value per share of Common Stock and reduce any proceeds we may receive from the exercise of the Series K Warrants. In addition, the perceived risk of dilution may cause our shareholders to be more inclined to sell their Common Stock, which may in turn depress the price of common shares regardless of our business performance. We may also find it more difficult to raise additional equity capital while any of the Series K Warrants and the Series K Preferred Stock remain outstanding.

The Series K Certificate of Designations contains restrictive covenants and terms that may make it difficult to procure additional financing and that may affect our financial condition and results of operations.

The Series K Certificate of Designations contains certain restrictive covenants including but not limited to: maintaining a minimum amount of unencumbered, unrestricted cash and cash equivalents on hand, until the date on which less than 1,050 shares of the Series I Preferred Stock are outstanding; restrictions on incurring any indebtedness until the date on which no shares of Series I Preferred Shares are outstanding, subject to certain exceptions; restrictions on directly or indirectly, redeeming, repurchasing or declaring or paying any cash dividend or distribution on any of our capital stock (other than as required by the Series K Certificate of Designations, the Series A Certificate of Designations, the Series H-7 Certificate of Designations, the Series I Certificate of Designations and Series J Certificate of Designations), and restrictions on directly or indirectly, permitting any of our indebtedness to mature or accelerate prior to the Maturity Date (as defined in the Series K Certificate of Designations). Additionally, the Series K Preferred Stock also contain certain purchase rights (the "Purchase Rights") permitting the holders of the Series K Preferred Stock to acquire upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such holder could have acquired if such holder had held the number of shares of Common Stock acquirable upon complete conversion of all of its shares of Series K Preferred Stock. These restrictive covenants may limit our flexibility in raising capital or incurring any indebtedness, which may have an adverse effect on our financial condition.

Under the Series K Purchase Agreement, we are subject to certain restrictive covenants that may make it difficult to procure additional financing.

The Series K Purchase Agreement contains, among others, the following restrictive covenants: (A) until ninety (90) days following the earlier of (x) the date on which this registration statement is declared effective or (y) the date on which the selling stockholders may sell their shares of Common Stock issuable upon conversion of the Series K Preferred Stock or upon exercise of the Series K Warrants without restriction pursuant to Rule 144 under the Securities Act, we may not issue, offer, sell, grant any option or right to purchase, or otherwise dispose of (or announce any issuance, offer, sale, grant of any option or right to purchase or other disposition of) any equity security or any equity-linked or related security, (B) until all of the Series K Warrants are no longer outstanding, we shall be prohibited from effecting or entering into an agreement to effect any subsequent placement involving a variable rate transaction, and (C) until the date in which no shares of Series K Preferred Stock remain outstanding, the Company must provide the holders of the shares of Series K Preferred Stock the opportunity to participate in any subsequent securities offerings by us.

If we require additional funding while these restrictive covenants remain in effect, we may be unable to effect a financing transaction on terms acceptable to us, or at all, while also remaining in compliance with the terms of the Series K Purchase Agreement, or we may be forced to seek a waiver from the investors party to the Series K Purchase Agreement, which such investors are not obligated to grant to us.

The Series J Preferred Stock and related anti-dilution provisions may result in significant dilution to our common stockholders and may limit our operational and financial flexibility.

Pursuant to the JDA, the Company agreed to issue to Kopin shares of Series J Preferred Stock constituting 19.9% of the pro forma fully-diluted outstanding shares of Common Stock, convertible at the Series J Conversion Price of $2.51 per share. The Series J Certificate of Designations provides that the Maximum Issuance (as defined in the Series J Certificate of Designations) shall be increased upon the occurrence of Dilutive Issuances or Dilutive Conversions by 0.1999 shares of Common Stock for each share of Common Stock issued in connection with such events, until adjustments have been made with respect to an aggregate of $50 million in such issuances. The Company has agreed to take all actions necessary to give full force and effect to these adjustment provisions, including through the issuance of additional shares of Series J Preferred Stock to Kopin. In addition, the Series J Preferred Stock accrues dividends at 6% per annum, payable semi-annually on each Dividend Payment Date, which may be paid as a PIK Dividend through the issuance of additional shares of Series J Preferred Stock having an aggregate stated value equal to the amount of the dividend then due, further increasing the number of shares of Common Stock issuable upon conversion. Without the prior express consent of the Required Holders, the Company may not, among other things, amend its Charter or Bylaws in ways that would adversely affect the Series J Preferred Stock, create or authorize new Senior Preferred Stock or Parity Stock, purchase or redeem Junior Stock, or pay dividends on Junior Stock. These protective provisions, together with the potential for significant dilution from anti-dilution adjustments and PIK Dividends, may restrict the Company's ability to pursue certain corporate transactions or capital raising activities, depress the market price of the Company's Common Stock, and make it more difficult for the Company to raise additional capital on favorable terms.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b-5 Trading Arrangements

None of the Company's officers or directors adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's fiscal quarter ended June 30, 2026, as such terms are defined under Item 408(a) of Regulation S-K.

Murray Consulting Agreement

On August 14, 2026, the Company entered into a consulting agreement with Michael Murray (the "Murray Consulting Agreement"), pursuant to which Mr. Murray will serve as Chairman of the Joint Steering Committee (the "JSC") established by the JDA. Mr. Murray is the Chief Executive Officer of Kopin Corporation, a holder of 19.9% of the Company's equity through Series J Convertible Preferred Stock and the Company's counterparty under the JDA and Supply Agreement. As Chairman of the JSC and pursuant to the terms of the Murray Consulting Agreement, Mr. Murray will provide executive-level guidance on technology strategy, product innovation, market opportunities and ecosystem development, contributions to the recruiting of other steering committee members and offer advice on strategic investments while facilitating alignment among participating organizations. The Murray Consulting Agreement will remain effective for so long as the JDA remains in effect. Mr. Murray may resign as Chairman of the JSC and terminate the Murray Consulting Agreement upon not less than 60 days' prior written notice.

Pursuant to the Murray Consulting Agreement and to incentivize Mr. Murray for his service as Chairman of the JSC, Mr. Murray will be granted stock options to purchase up to 1,716,564 shares of the Company's Common Stock (the

"Murray Options"), subject to the terms and conditions of the Company's standard nonqualified stock option award agreement and the Company's Long-Term Incentive Plan, as amended. The Murray Options have an exercise price of $2.75 per share, the closing price of the Company's Common Stock on the date prior to the date of the effective date of the Murray Consulting Agreement, are subject to specific exercise requirements, and will vest in three equal installments on the first, second, and third annual anniversaries of the effective date of the Murray Consulting Agreement, provided that Mr. Murray is employed by or providing services to the Company through the applicable vesting date.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Fabric.AI, Inc. (incorporated by reference to Exhibit 3.5 to the Company's Current Report of Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
3.2	Amended and Restated Certificate of Designation of Series H-7 Preferred Stock of Fabric.AI, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
3.3	Amended and Restated Certificate of Designation of Series I Preferred Stock of Fabric.AI, Inc. (incorporated by reference to Exhibit 3.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
3.4	Certificate of Designation of Series J Preferred Stock of Fabric.AI, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
3.5	Certificate of Designation of Series K Preferred Stock of Fabric.AI, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
4.1	Form of Series K Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
4.2	Form of Waiver Warrant (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
4.3	Form of Consultant Warrant (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
4.4	Amendment to Rights Agreement, dated as of April 27, 2026, by and between the Company and Equiniti Trust Company, LLC. (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.1	Joint Development and License Agreement, dated April 27, 2026, by and between the Company and Kopin Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.2	Commercial Supply Agreement, dated April 27, 2026, by and between the Company and Kopin Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.3	Form of Securities Purchase Agreement, dated April 27, 2026, by and among the Company and the investors signatory thereto (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.4	Form of Registration Rights Agreement, dated April 27, 2026, by and among the Company and the investors signatory thereto (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.5	Form of Series H-7 Omnibus Waiver, Consent, Notice and Amendment Agreement, dated April 27, 2026, by and among the Company and the investors signatory thereto (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.6	Form of Series I Omnibus Waiver, Consent, Notice and Amendment Agreement, dated April 27, 2026, by and among the Company and the investors signatory thereto (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).

10.7	Amended and Restated Consulting Services Agreement, dated April 27, 2026, by and between the Company and JD Advisors, LLC (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2026).
10.8**	Consulting Services Agreement, dated August 13, 2026, by and between the Company and Michael Murray
31.1**	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS**	Inline XBRL Instance Document
101 SCH**	Inline XBRL Taxonomy Extension Schema Document
101 CAL**	Inline XBRL Taxonomy Calculation Linkbase Document
101 DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101 LAB**	Inline XBRL Taxonomy Labels Linkbase Document
101 PRE**	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

** 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.

FABRIC.AI, INC.

Dated: August 14, 2026

By: */s/ Joshua Silverman*
Joshua Silverman
Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2026

By: */s/ Joseph Ramelli*
Joseph Ramelli
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)