

**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 **March 31, 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: **001-38529**

AIRO Group Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

3721

(Primary Standard Industrial
Classification Code Number)

88-0812695

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

**8444 Westpark Drive
McLean, Virginia 22102
(505) 338-2434**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Captain Joseph D. Burns
Chief Executive Officer**

**8444 Westpark Drive, McLean, Virginia 22102
(505) 338-2434**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.000001 per share	AIRO	The NASDAQ Stock Market LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 May 12, 2026, there were 31,445,644 shares of the registrant's common stock, \$0.000001 par value, outstanding.



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Item 1. Financial Statements

AIRO GROUP HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

(Amounts in thousands, except par value amounts)

	March 31, 2026	December 31, 2025
ASSETS		
Current assets:		
Cash	\$ 54,227	\$ 74,358
Restricted cash	189	193
Accounts receivable, net	8,098	12,385
Related party receivables	74	393
Inventory	22,507	11,639
Prepaid expenses and other current assets	9,513	7,508
Total current assets	94,608	106,476
Property and equipment, net	9,917	8,986
Right-of-use operating lease assets	3,032	3,278
Goodwill	569,284	571,653
Intangible assets, net	82,064	83,487
Other assets	210	259
Total assets	<u>\$ 759,115</u>	<u>\$ 774,139</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,661	\$ 6,599
Related party payables	7,807	8,892
Accrued expenses	8,475	7,624
Operating lease liabilities, current	887	902
Deferred revenue	3,557	4,497
Related party borrowings	5	1,161
Current maturities of debt	740	1,190
Total current liabilities	32,132	30,865
Long-term debt, net of current maturities	500	500
Deferred tax liability	1,046	1,046
Long-term deferred revenue	16	8
Operating lease liabilities, noncurrent	2,224	2,478
Other long-term liabilities	800	50
Total liabilities	36,718	34,947
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.000001 par value; 1,000,000 shares authorized; 32,653 issued and 31,435 outstanding as of March 31, 2026 and 32,594 issued and 31,376 outstanding as of December 31, 2025	-	-
Additional paid-in capital	964,524	963,022
Treasury shares, 1,218 shares as of March 31, 2026 and December 31, 2025	(21,220)	(21,220)
Accumulated other comprehensive income	5,103	7,947
Accumulated deficit	(226,010)	(210,557)
Total stockholders' equity	722,397	739,192
Total liabilities and stockholders' equity	<u>\$ 759,115</u>	<u>\$ 774,139</u>

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

AIRO GROUP HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

<i>(Amounts in thousands, except per share amounts)</i>	Three months ended March 31,	
	2026	2025
Revenue	\$ 8,901	\$ 11,795
Cost of revenue	6,536	4,862
Gross profit	2,365	6,933
Operating expenses:		
Research and development	6,704	3,666
Sales and marketing	1,977	1,433
General and administrative	10,842	4,915
Total operating expenses	19,523	10,014
Loss from operations	(17,158)	(3,081)
Other income (expense):		
Interest income (expense), net	376	(1,267)
Other (expense) income, net	(316)	2,662
Total other income	60	1,395
Loss before income tax benefit (expense)	(17,098)	(1,686)
Income tax benefit (expense)	1,645	(287)
Net loss	\$ (15,453)	\$ (1,973)
Net loss per share – basic and diluted	\$ (0.49)	\$ (0.12)
Weighted-average number of shares of common stock used in computing net loss per share, basic and diluted	31,395	16,387

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

AIRO GROUP HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

UNAUDITED

<i>(Amounts in thousands)</i>	Three months ended March 31,	
	2026	2025
Net loss	\$ (15,453)	\$ (1,973)
Other comprehensive (loss) income:		
Foreign currency translation, net of tax	(2,844)	5,640
Total other comprehensive (loss) income	(2,844)	5,640
Comprehensive (loss) income	\$ (18,297)	\$ 3,667

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

AIRO GROUP HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

UNAUDITED

<i>(Amounts in thousands)</i>	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Capital	Shares	Amount	(Loss)	Deficit	Equity
Balance as of January 1, 2026	31,376	\$ -	\$ 963,022	1,218	\$ (21,220)	\$ 7,947	\$ (210,557)	\$ 739,192
RSU vesting	59	-	-	-	-	-	-	-
Stock-based compensation	-	-	1,502	-	-	-	-	1,502
Foreign currency translation adjustment	-	-	-	-	-	(2,844)	-	(2,844)
Net loss	-	-	-	-	-	-	(15,453)	(15,453)
Balance as of March 31, 2026	<u>31,435</u>	<u>\$ -</u>	<u>\$ 964,524</u>	<u>1,218</u>	<u>\$ (21,220)</u>	<u>\$ 5,103</u>	<u>\$ (226,010)</u>	<u>\$ 722,397</u>

<i>(Amounts in thousands)</i>	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Capital	Loss	Deficit	Equity
Balance as of January 1, 2025	16,387	\$ -	\$ 764,692	\$ (9,509)	\$ (206,453)	\$ 548,730
Stock-based compensation	-	-	125	-	-	125
Foreign currency translation adjustment	-	-	-	5,640	-	5,640
Net loss	-	-	-	-	(1,973)	(1,973)
Balance as of March 31, 2025	<u>16,387</u>	<u>\$ -</u>	<u>\$ 764,817</u>	<u>\$ (3,869)</u>	<u>\$ (208,426)</u>	<u>\$ 552,522</u>

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

AIRO GROUP HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

<i>(Amounts in thousands)</i>	Three months ended March 31,	
	2026	2025
Cash flows from operating activities:		
Net loss	\$ (15,453)	\$ (1,973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,502	125
Provision for credit losses	15	8
Non-cash interest	-	417
Non-cash investor note interest	-	186
Depreciation and amortization	3,130	3,138
Amortization of right-of-use lease assets	289	84
Change in fair value of contingent consideration	-	(2,738)
Changes in operating assets and liabilities:		
Accounts receivable	4,064	8,175
Related party receivables	319	-
Prepaid expenses and other assets	(2,073)	(5,762)
Inventory	(11,110)	(3,653)
Accounts payable, accrued expenses and other long-term liabilities	5,141	(1,677)
Related party payables	(2,064)	36
Lease liabilities	(314)	(74)
Deferred revenue	(850)	(6,288)
Deferred compensation	-	243
Net cash used in operating activities	<u>(17,404)</u>	<u>(9,753)</u>
Cash flows from investing activities:		
Purchase of property and equipment and investment in intangible assets	(2,073)	(345)
Net cash used in investing activities	<u>(2,073)</u>	<u>(345)</u>
Cash flows from financing activities:		
Change in lines of credit	-	(127)
Proceeds from borrowings	-	3,500
Repayments on borrowings	(464)	(1,662)
Proceeds from related party borrowings	-	200
Repayments on related party borrowings	(176)	-
Debt issuance costs paid	-	(70)
Net cash (used in) provided by financing activities	<u>(640)</u>	<u>1,841</u>
Effect of exchange rate changes	(18)	1,055
Net decrease in cash and restricted cash	(20,135)	(7,202)
Cash and restricted cash as of beginning of period	74,551	20,911
Cash and restricted cash as of end of period	<u>\$ 54,416</u>	<u>\$ 13,709</u>
Supplemental disclosures of non-cash information:		
Initial recognition of warrant liability	<u>\$ -</u>	<u>\$ 2,885</u>
Deferred consideration for licensing arrangement	<u>\$ 1,000</u>	<u>\$ -</u>
Reclass between related party payables and related party borrowings	<u>\$ 1,007</u>	<u>\$ -</u>

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

AIRO GROUP HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

Nature of Operations

AIRO Group Holdings, Inc., a Delaware corporation (“Holdings” or the “Company”), is a technologically differentiated aerospace, autonomy, and air mobility platform targeting 21st century aerospace and defense opportunities. The Company is organized into four operating segments: (i) Drones, (ii) Avionics, (iii) Training, and (iv) Electric Air Mobility. The Drones segment develops, manufactures, and sells drones and expects to provide drone services, such as Drone as a Service (“DaaS”), for military and commercial end users. The Avionics segment develops, manufactures, and sells avionics for military and general aviation aircraft, drones, and electric vertical takeoff and landing (“eVTOL”) aircraft. The Training segment currently provides military pilot training. The Electric Air Mobility segment is developing autonomous eVTOL platforms for defense, government, cargo logistics, and remote operations applications.

Consolidation and Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Holdings and its wholly owned subsidiaries, including Old AGI, Inc. f/k/a AIRO Group, Inc., AIRO Drone, LLC (“AIRO Drone”), Agile Defense, LLC (“Agile Defense”), Coastal Defense, Inc. (“Coastal Defense”), Jaunt Air Mobility, LLC (“Jaunt”), Sky-Watch A/S (“Sky-Watch”) and Aspen Avionics, Inc. (“Aspen Avionics”). All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of such interim results. Certain information and disclosures normally included in unaudited condensed consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2025 (“Form 10-K”) as filed with the Securities and Exchange Commission (“SEC”). The condensed consolidated balance sheet as of December 31, 2025 has been derived from the audited consolidated financial statements as of that date.

The results for the unaudited interim condensed consolidated statements of operations are not necessarily indicative of results to be expected for the year ending December 31, 2026 or for any future interim period.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As of March 31, 2026, the Company had cash and restricted cash of \$54.4 million of which \$0.2 million was either restricted or was designated to only being used for Sky-Watch operations and working capital of \$62.5 million.

Management believes that the existing cash on hand is sufficient to meet its obligations and fund planned operations for at least the next twelve months from the date these condensed consolidated financial statements are issued.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These judgments, estimates, and assumptions are used to determine litigation and claims and other asset and liability amounts. The Company bases its estimates and judgments on historical experience along with other pertinent information available at the time the estimate is made. However, future events are subject to change and the estimates and judgments may require adjustments. Actual results could differ from these estimates, and these differences may be material.

Business Risk and Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and accounts receivable. Cash is maintained with financial institutions and its composition and maturities are regularly monitored by management. Deposits at any time may exceed federally insured limits. The Company performs ongoing credit evaluations of its customers and generally does not require collateral for accounts receivable. A large portion of the Company's sales result in partial prepayments prior to shipment from customers. Otherwise, customer invoices generally have payment terms of net 30 days and do not contain a significant financing component.

The Company's operational structure includes an existing operating business and early-stage businesses in emerging and developing markets that are concentrated in an industry characterized by rapid technological advances, changes in customer requirements, and evolving regulatory requirements and industry standards. Any significant delays in the development or introduction of products or services, or any failure by the Company to anticipate or to respond adequately to technological developments in its industry, changes in customer requirements, or changes in regulatory requirements or industry standards, could have a material adverse effect on the Company's business and operating results.

The Company's business, results of operations, and financial condition for the foreseeable future will likely continue to depend on sales to a relatively small number of customers. In the future, these customers may decide not to purchase the Company's products, may purchase fewer products than in previous years, or may alter their purchasing patterns. Further, the amount of revenue attributable to any single customer or customer concentration generally may fluctuate in any given period. In addition, a decline in the production levels of one or more of the Company's major customers could reduce revenue. The loss of one or more key customers, a reduction in sales to any key customer, or the Company's inability to attract new significant customers could negatively impact revenue and adversely affect the Company's business, results of operations, and financial condition.

Significant Accounting Policies

No material changes have been made to the Company's significant accounting policies disclosed in Note 1. *The Company and Summary of Significant Accounting Policies*, of its audited consolidated financial statements included in the Form 10-K.

Recently Adopted Accounting Standards

In July 2025, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2025-05, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses for Accounts Receivable and Contract Assets*, which provides a practical expedient to simplify the estimation of expected credit losses on current accounts receivable and current contract assets arising from revenue transactions under Accounting Standards Codification ("ASC") 606. The Company adopted this guidance effective January 1, 2026. The adoption did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

Recent 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 disclosure of certain costs and expenses on an interim and annual basis in the notes to the consolidated financial statements. The guidance is effective for annual reporting periods beginning after December 15, 2026 and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. The guidance is to be applied either (1) prospectively to financial statements issued for reporting periods after the effective date or (2) retrospectively to any or all prior periods presented in the financial statements. The Company is currently evaluating the potential impact of adopting this new guidance on its consolidated financial statements and related disclosures.

In December 2025, the FASB issued ASU 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*, which establishes authoritative guidance on the recognition, measurement, presentation, and disclosure of government grants received by business entities. The ASU requires entities to recognize a government grant when it is probable that both (1) the entity will comply with the conditions attached to the grant and (2) the grant will be received. For grants related to assets, an entity may apply either a deferred income approach or a cost accumulation approach, and for grants related to income, an entity should recognize income on a systematic basis as related expenses are incurred. The ASU also includes expanded disclosure requirements regarding the nature of government grants received, the accounting policies adopted, and significant terms and conditions of the grants. The guidance is effective for annual reporting periods beginning after December 15, 2029. Early adoption is permitted. The Company is currently evaluating the potential impact of adopting this new guidance on its consolidated financial statements and related disclosures.

In December 2025, the FASB issued ASU 2025-11, *Interim Reporting (Topic 270): Narrow-Scope Improvements*, which amends the guidance in ASC 270, *Interim Reporting*. The objective of this new guidance is to improve the clarity and navigability of the interim reporting guidance without changing the fundamental nature of interim reporting or expanding or reducing the interim disclosure requirements currently in U.S. GAAP. The amendments clarify the scope and applicability of ASC 270, specify the form and content of interim financial statements and accompanying notes, and consolidate the interim disclosures required under U.S. GAAP into a single comprehensive list. The ASU also introduces a disclosure principle that an entity must disclose events and changes occurring after the end of the last annual reporting period that have a material impact on the entity, consistent with the principle that previously existed under certain SEC interim reporting rules. The amendments are effective for interim reporting periods within annual reporting periods beginning after December 15, 2028. Early adoption is permitted, and the amendments may be applied either prospectively or retrospectively to prior interim periods presented. The Company is currently evaluating the potential impact of adopting this new guidance on its consolidated financial statements and related disclosures.

In December 2025, the FASB issued ASU 2025-12, *Codification Improvements*, which provides technical corrections, clarifications, and improvements to the FASB ASC across multiple Topics. The amendments are generally not expected to change current accounting practices materially but may affect application of certain guidance such as diluted earnings per share in loss periods and other technical areas. The amendments are effective for annual reporting periods beginning after December 15, 2026, including interim periods within those annual periods, with early adoption permitted. An entity may elect the transition method on an issue-by-issue basis. The Company is evaluating the impact of ASU 2025-12 on its consolidated financial statements and related disclosures.

2. Net Loss Per Share

Basic net loss per share is determined using the weighted average number of common shares outstanding during the period. Diluted net loss per share is based on the treasury stock method and computed by dividing net loss available to common stockholders by the diluted weighted-average shares of common stock outstanding during each period. The potentially dilutive shares are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when the effect is dilutive.

The potentially dilutive shares of common stock that have been excluded from the calculation of net loss per share because of the anti-dilutive effect are as follows as of March 31, 2026: 0.4 million warrants, 0.2 million stock options, and 0.5 million unvested restricted stock units (“RSUs”). The potentially dilutive shares of common stock that have been excluded from the calculation of net loss per share because of the anti-dilutive effect are as follows as of March 31, 2025: 0.1 million warrants, 0.3 million stock options, and 0.3 million contingent restricted stock awards, 2.2 million potential shares issuable under debt conversion agreements, 0.6 million potential shares issuable for contingent interest payments, and 0.1 million shares potentially issuable under unsecured promissory notes in the event that the Company’s initial public offering was not completed by May 31, 2025. The number of potentially dilutive shares is based on the maximum number of shares issuable on exercise or conversion of the related securities as of the period end. Such amounts have not been adjusted for the treasury stock method or weighted-average outstanding calculations as required if the securities were dilutive.

3. Stock, Warrants and Equity Incentive Plan

The Company’s authorized capital stock consists of 1.0 billion shares of common stock, par value \$0.000001 per share, and 10.0 million shares of preferred stock, par value \$0.000001 per share. All of the authorized preferred stock is undesignated.

Common Stock

The Company has reserved the following shares of authorized but unissued common stock as of March 31, 2026: 0.2 million shares for stock options, 0.4 million shares for warrants, 0.5 million shares for RSUs, and 2.0 million shares available for issuance under the Equity Incentive Plan described below.

Warrants

The Company assumed warrants to purchase 0.1 million shares of the Company’s common stock as part of the merger with Jaunt. These warrants expire ten years from the date of issuance, March 10, 2022, have an exercise price of \$16.83 per share and were outstanding as of March 31, 2026 and December 31, 2025. The Company determined that these warrants are equity classified.

In September 2024, the Company executed a financing advisor agreement with Cantor Fitzgerald & Co. as compensation for assistance with the initial public offering (“IPO”), pursuant to which the Company agreed to issue warrants to certain of the underwriters upon the closing of the IPO (the “Underwriter Warrants”) exercisable for the number of shares of common stock equal to 5% of the total number of shares of common stock sold in such IPO. In conjunction with the IPO, the Company issued the Underwriter Warrants, which are exercisable into 345,000 shares of common stock. The Company determined the fair value of the Underwriter Warrants at the grant date on June 12, 2025 to be \$2.0 million which was recorded as an issuance cost against IPO proceeds during the year ended December 31, 2025. The Underwriter Warrants have an exercise price of \$11.00 and can be exercised between December 12, 2025 and June 12, 2030. The Underwriter Warrants remain outstanding as of March 31, 2026 and December 31, 2025.

Equity Incentive Plan

In March 2025, the Board of Directors adopted, and the stockholders approved, the AIRO Group Holdings, Inc. 2025 Equity Incentive Plan (the “2025 Plan”). The 2025 Plan provides for the grant of incentive stock options (“ISOs”) to employees, including employees of any parent or subsidiary, and for the grant of non-statutory stock options, stock appreciation rights, restricted stock awards, RSUs, performance awards, and other forms of stock awards to employees, directors, and consultants, including employees and consultants of the Company’s affiliates. The initial share reserve of the Company’s common stock authorized for issuance under the 2025 Plan was 1.9 million shares. Effective January 1, 2026, the share reserve automatically increased by 0.9 million shares pursuant to the plan’s “evergreen” provision.

The share reserve will continue to increase annually through January 1, 2035 by 3% of the outstanding shares of common stock or a lesser amount approved by the Board of Directors. The maximum number of shares issuable upon exercise of ISOs under the 2025 Plan is 5.7 million.

During the three months ended March 31, 2026, the Company granted 0.3 million RSUs under the 2025 Plan and recognized \$1.5 million of stock-based compensation expense related to these RSUs. The weighted-average grant date fair value per share of RSUs granted during the period was \$10.63. As of March 31, 2026, there were 0.3 million unvested RSUs outstanding under the 2025 Plan. Total unrecognized compensation expense related to unvested RSUs was \$3.2 million as of March 31, 2026, which is expected to be recognized over a weighted average period of 2.7 years.

4. Goodwill

The changes in the carrying value of goodwill were as follows:

<i>(In Thousands)</i>	Avionics	Drones	Electric Air Mobility	Training	Total
Balance as of January 1, 2026	\$ -	\$ 121,765	\$ 434,347	\$ 15,541	\$ 571,653
Effect of exchange rate	-	(2,369)	-	-	(2,369)
Balance as of March 31, 2026	<u>\$ -</u>	<u>\$ 119,396</u>	<u>\$ 434,347</u>	<u>\$ 15,541</u>	<u>\$ 569,284</u>
Balance as of January 1, 2025	\$ -	\$ 107,620	\$ 434,347	\$ 15,541	\$ 557,508
Effect of exchange rate	-	4,514	-	-	4,514
Balance as of March 31, 2025	<u>\$ -</u>	<u>\$ 112,134</u>	<u>\$ 434,347</u>	<u>\$ 15,541</u>	<u>\$ 562,022</u>

The Company evaluates goodwill for impairment as of October 1 each year, and more frequently if events or circumstances indicate that there may be impairment. The Company completed its most recent annual goodwill impairment test as of October 1, 2025 and determined that no goodwill impairment existed. No triggering events were identified during the three months ended March 31, 2026 that would require an interim impairment assessment.

5. Intangible Assets, Net

Intangible assets, net, consist primarily of intangible assets acquired through business combinations. During the three months ended March 31, 2026, the Company also capitalized \$1.3 million related to a manufacturing license agreement that provides rights to intellectual property, technical data, and know-how used to manufacture and commercialize products. The agreement is recorded as a definite-lived intangible asset and is amortized on a straight-line basis over its five-year contractual term.

Intangible assets, net consisted of the following as of March 31, 2026 and December 31, 2025:

<i>(In Thousands)</i>	Weighted Average Remaining Life (Years)	As of March 31, 2026		
		Gross	Accumulated Amortization	Carrying Value
Developed technology - definite lived	8.7	\$ 100,045	\$ 35,069	\$ 64,976
Developed technology - indefinite lived	N/A	66	-	66
Tradenames - definite lived	3.1	1,926	1,225	701
Tradenames - indefinite lived	N/A	8,738	-	8,738
Customer relationships	3.1	20,285	14,159	6,126
Patents	6.2	586	358	228
Manufacturing license agreement	4.9	1,250	21	1,229
		<u>\$ 132,896</u>	<u>\$ 50,832</u>	<u>\$ 82,064</u>

<i>(In Thousands)</i>	As of December 31, 2025			
	Weighted Average Remaining Life (Years)	Gross	Accumulated Amortization	Carrying Value
Developed technology – definite lived	8.9	\$ 100,179	\$ 33,136	\$ 67,043
Developed technology – indefinite lived	N/A	66	-	66
Tradenames - definite lived	3.3	1,933	1,153	780
Tradenames - indefinite lived	N/A	8,738	-	8,738
Customer relationships	3.3	20,339	13,717	6,622
Patents	6.3	585	347	238
		<u>\$ 131,840</u>	<u>\$ 48,353</u>	<u>\$ 83,487</u>

Amortization expense is reported on the condensed consolidated statements of operations line items as shown in the table below for the three months ended March 31:

<i>(In Thousands)</i>	2026	2025
Cost of revenue	\$ 87	\$ 107
Research and development	1,910	1,893
Sales and marketing	496	701
General and administrative	110	87
	<u>\$ 2,603</u>	<u>\$ 2,788</u>

Total estimated future amortization expense as of March 31, 2026 is as follows:

<i>(In Thousands)</i>	Amount
2026 (remaining)	\$ 7,894
2027	10,307
2028	10,126
2029	8,648
2030	7,280
Thereafter	29,005
	<u>\$ 73,260</u>

6. Inventory

Inventory consisted of the following as of March 31, 2026 and December 31, 2025:

<i>(In Thousands)</i>	March 31, 2026	December 31, 2025
Raw materials	\$ 11,477	\$ 7,052
Work in process	2,579	1,503
Finished goods	8,451	3,084
Total	<u>\$ 22,507</u>	<u>\$ 11,639</u>

Inventory increased by \$10.9 million as of March 31, 2026 compared to December 31, 2025, primarily due to increased inventory levels in the Drones segment to support anticipated shipments during the remainder of 2026.

7. Balance Sheet Details

Prepaid expenses and other current assets consisted of the following as of March 31, 2026 and December 31, 2025:

<i>(In Thousands)</i>	March 31, 2026	December 31, 2025
Prepaid insurance	\$ 506	\$ 835
Prepaid taxes	3,316	464
Value added tax	436	616
Vendor prepayments	4,226	4,984
Other	1,029	609
	<u>\$ 9,513</u>	<u>\$ 7,508</u>

Accrued expenses consisted of the following as of March 31, 2026 and December 31, 2025:

<i>(In Thousands)</i>	March 31, 2026	December 31, 2025
Accrued legal and professional fees	\$ 995	\$ 945
Payroll related expenses	5,180	5,026
Accrued warranty	217	299
Accrued taxes	386	385
Other accrued expenses	1,697	969
	<u>\$ 8,475</u>	<u>\$ 7,624</u>

8. Commitments and Contingencies

Joint Venture Agreement

On November 13, 2025, AIRO Drone entered into a Joint Venture and Operating Agreement (the “JV Agreement”) with Nord Drone Group, LLC (“NDG”), a Ukrainian limited liability company, pursuant to which AIRO Drone and NDG will form AIRO Nord-Drone, LLC, a Delaware limited liability company (the “JV”). Pursuant to the terms of the JV Agreement, the JV will develop, manufacture, and commercialize unmanned aerial systems primarily designed for delivering munitions, targeting U.S., North Atlantic Treaty Organization (“NATO”), and Ukrainian defense markets. Each of the parties will contribute operational resources and capabilities to the JV. The Company will contribute business development, sales, manufacturing, engineering, and government certification resources, as well as manufacturing facilities in the United States, while NDG will contribute intellectual property, engineering data, operational resources, and manufacturing facilities in Ukraine. In addition, the Company will reimburse NDG for reasonable out-of-pocket costs incurred by NDG in obtaining NATO certification required by the JV Agreement, up to a maximum amount of \$50,000 within 30 days of the closing of the JV.

Each party to the JV will receive 50% of the limited liability company interests of the JV. The JV will be governed by a five-member board of managers, with each party appointing two directors and the acting chairman of the Company’s board of directors serving as the fifth director and chairman of the JV.

The consummation of the JV is subject to various closing conditions, including executing certain ancillary agreements between the parties and the JV, including intellectual property license, manufacturing, and services agreements, and obtaining any regulatory approval required under applicable law or by any governmental authority. Unless revised, the JV Agreement (as amended) will terminate and the JV will not be consummated if closing does not occur on June 30, 2026.

There can be no assurance that closing conditions under the JV Agreement will be satisfied or when or that the JV will be consummated on the terms described herein or at all. The JV involves material risks including operational challenges related to NDG’s location in Ukraine during ongoing military conflict, complex export control and sanctions compliance requirements, and potential regulatory scrutiny regarding foreign defense partnerships.

Litigation

A civil action was filed against Old AGI, Inc. in the Circuit Court of Cook County, State of Illinois in February 2022 (the “2022 Lawsuit”). The claimant alleged that an agreement for certain services entered into in March 2020 was breached and resulted in damages to claimant. This case was dismissed on July 5, 2022. However, the court allowed the claimant to amend its complaint. On August 5, 2022, the claimant filed its amended complaint, and the Company filed its response on October 12, 2022. The parties have engaged in discovery and mandatory arbitration. The arbitration resulted in an award in favor of the Company, which was contested by the claimant. On December 19, 2024, the Circuit Court denied the Company’s motion for summary judgment. In February 2026, the Company and the claimant filed documents to request that the 2022 Lawsuit be dismissed in its entirety, and the matter was subsequently dismissed without prejudice.

Aside from the above matter, the Company is not a party to any material legal proceedings and is not aware of any pending or threatened claims. From time to time, the Company may be subject to various legal proceedings and claims that arise in the ordinary course of its business activities. Legal contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss or the measurement of a loss can be complex. The Company will accrue losses that are both probable and reasonably estimable.

9. Segment Information

The Company reports segment information based on the “management” approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company’s reportable segments. The Company’s chief operating decision maker has been identified as the chief executive officer. The Company periodically reevaluates its reportable and operating segments. The Company manages its business primarily based upon four operating segments: Avionics, Drones, Electric Air Mobility and Training. In accordance with the segment reporting accounting standard, the Company evaluated the economic similarity of its operating segments and determined that each of these operating segments represents a reportable segment.

- **Avionics:** This segment develops, manufactures, and sells avionics and GPS sensors for general aviation (“GA”), unmanned aircraft systems (“UAS”) and eVTOL applications. The Company’s avionics products are focused on GA aftermarket, original equipment manufacturer (“OEM”) display, integration and connected panel solutions.
- **Drones:** This segment offers direct operation of drones and drone systems, provision of drone-derived information, and the development of drone-optimized communication services. Additionally, it consists of development and commercialization of market leading mini unmanned aircraft systems (“mUAS”) for professional users, primarily in the defense and security markets. The mUAS includes internally developed software, hardware, and mechanical system components. Operations cover sourcing, manufacturing, assembly, quality assurance testing activities and logistics.
- **Electric Air Mobility:** This segment is designing and developing dual-use electric and hybrid-electric compound rotorcraft aircraft, with a near-term focus on cargo-configured and multi-role autonomous platforms supporting middle-mile logistics, tactical resupply, emergency medical delivery, law enforcement, intelligence, surveillance and reconnaissance (“ISR”), and other commercial and government missions.
- **Training:** This segment provides and operates military aircraft for U.S. military services and Department of War (“DoW”) (formerly referred to as the U.S. Department of Defense) contractors. Segment revenues are earned from (1) flying training missions as part of armed forces training groups, and (2) providing aircraft and support services to DoW contractors.

The Company evaluates the performance of its reportable segments based on the net income (loss) for each reporting segment. Presented below are reconciliations of the reportable segment total revenues to the condensed consolidated revenues and the reportable segment total net income (loss) to the condensed consolidated net loss for the three months ended March 31, 2026 and 2025:

<i>(In Thousands)</i>	Three months ended March 31, 2026				
	Avionics	Drones	Electric Air Mobility	Training	Total
Revenue	\$ 1,705	\$ 6,532	\$ -	\$ 664	\$ 8,901
Cost of revenue	1,271	4,603	-	662	6,536
Gross profit	434	1,929	-	2	2,365
Research and development	708	3,803	2,193	-	6,704
Sales and marketing	284	1,192	-	496	1,972
General and administrative	723	4,101	370	1,003	6,197
Interest expense	-	2	-	14	16
Interest income	-	(64)	-	-	(64)
Other expense (income), net	-	19	(6)	72	85
Income tax benefit	-	(1,645)	-	-	(1,645)
Segment loss	\$ (1,281)	\$ (5,479)	\$ (2,557)	\$ (1,583)	(10,900)
Unallocated amounts:					
Corporate expenses					4,650
Interest income, net					(328)
Other expense, net					231
Net loss					\$ (15,453)

Three months ended March 31, 2025

<i>(In Thousands)</i>	Avionics	Drones	Electric Air Mobility	Training	Total
Revenue	\$ 2,249	\$ 8,483	\$ -	\$ 1,063	\$ 11,795
Cost of revenue	1,192	2,654	-	1,016	4,862
Gross profit	1,057	5,829	-	47	6,933
Research and development	245	1,546	1,875	-	3,666
Sales and marketing	274	663	-	496	1,433
General and administrative	407	2,262	277	757	3,703
Interest expense	16	108	-	67	191
Interest income	-	(88)	-	-	(88)
Other expense (income), net	1	(84)	(1,783)	(802)	(2,668)
Income tax expense	-	287	-	-	287
Segment income (loss)	<u>\$ 114</u>	<u>\$ 1,135</u>	<u>\$ (369)</u>	<u>\$ (471)</u>	<u>409</u>
Unallocated amounts:					
Corporate expenses					1,212
Interest expense, net					1,164
Other expense, net					6
Net loss					<u>\$ (1,973)</u>

The following table presents revenue by geographic area for the three months ended March 31, 2026 and 2025:

Three months ended March 31, 2026					
<i>(In Thousands)</i>	Avionics	Drones	Electric Air Mobility	Training	Total
United States	\$ 1,011	\$ 1	\$ -	\$ 664	\$ 1,676
Europe	538	6,263	-	-	6,801
Other	156	268	-	-	424
	<u>\$ 1,705</u>	<u>\$ 6,532</u>	<u>\$ -</u>	<u>\$ 664</u>	<u>\$ 8,901</u>
Three months ended March 31, 2025					
<i>(In Thousands)</i>	Avionics	Drones	Electric Air Mobility	Training	Total
United States	\$ 1,394	\$ 32	\$ -	\$ 1,063	\$ 2,489
Europe	497	8,451	-	-	8,948
Other	358	-	-	-	358
	<u>\$ 2,249</u>	<u>\$ 8,483</u>	<u>\$ -</u>	<u>\$ 1,063</u>	<u>\$ 11,795</u>

The following table presents revenue by products and services for the three months ended March 31, 2026 and 2025:

Three months ended March 31, 2026					
<i>(In Thousands)</i>	Avionics	Drones	Electric Air Mobility	Training	Total
Products	\$ 1,693	\$ 5,576	\$ -	\$ -	\$ 7,269
Services	12	956	-	664	1,632
	<u>\$ 1,705</u>	<u>\$ 6,532</u>	<u>\$ -</u>	<u>\$ 664</u>	<u>\$ 8,901</u>
Three months ended March 31, 2025					
<i>(In Thousands)</i>	Avionics	Drones	Electric Air Mobility	Training	Total
Products	\$ 2,242	\$ 6,678	\$ -	\$ -	\$ 8,920
Services	7	1,805	-	1,063	2,875
	<u>\$ 2,249</u>	<u>\$ 8,483</u>	<u>\$ -</u>	<u>\$ 1,063</u>	<u>\$ 11,795</u>

The following table presents capital expenditures, depreciation and amortization, stock-based compensation and contingent consideration fair value adjustments for the three months ended March 31, 2026 and 2025:

<i>(In Thousands)</i>	Three months ended March 31, 2026				
	Avionics	Drones	Electric Air Mobility	Training	Total ⁽¹⁾
Depreciation and amortization	\$ 128	\$ 523	\$ 1,700	\$ 758	\$ 3,109
Stock-based compensation	2	1,237	11	2	1,252
Capital expenditures	131	597	-	1,004	1,732

(1) The totals above exclude corporate amounts, including \$0.02 million of depreciation and amortization, \$0.3 million of stock-based compensation, and \$0.3 million of capital expenditures.

<i>(In Thousands)</i>	Three months ended March 31, 2025				
	Avionics	Drones	Electric Air Mobility	Training	Total
Depreciation and amortization	\$ 123	\$ 508	\$ 1,700	\$ 807	\$ 3,138
Stock-based compensation	-	-	125	-	125
Contingent consideration fair value adjustments	-	(135)	(1,800)	(803)	(2,738)
Capital expenditures	-	345	-	-	345

The following table presents tangible long-lived assets by geographic area as of March 31, 2026 and December 31, 2025:

<i>(In Thousands)</i>	March 31, 2026					
	Avionics	Drones	Electric Air Mobility	Training	Corporate	Total
United States	\$ 644	\$ -	\$ 3	\$ 5,979	\$ 91	\$ 6,717
Europe	-	3,200	-	-	-	3,200
	<u>\$ 644</u>	<u>\$ 3,200</u>	<u>\$ 3</u>	<u>\$ 5,979</u>	<u>\$ 91</u>	<u>\$ 9,917</u>

<i>(In Thousands)</i>	December 31, 2025					
	Avionics	Drones	Electric Air Mobility	Training	Corporate	Total
United States	\$ 544	\$ -	\$ 3	\$ 5,484	\$ -	\$ 6,031
Europe	-	2,955	-	-	-	2,955
	<u>\$ 544</u>	<u>\$ 2,955</u>	<u>\$ 3</u>	<u>\$ 5,484</u>	<u>\$ -</u>	<u>\$ 8,986</u>

Total segment assets reconciled to condensed consolidated amounts are as follows as of March 31, 2026 and December 31, 2025:

<i>(In Thousands)</i>	Total Segment assets					
	Avionics	Drones	Electric Air Mobility	Training	Corporate	Total
March 31, 2026	\$ 4,030	\$ 174,911	\$ 504,844	\$ 29,204	\$ 46,126	\$ 759,115
December 31, 2025	\$ 3,795	\$ 178,064	\$ 506,214	\$ 30,387	\$ 55,679	\$ 774,139

Government Regulation

The Company is subject to various local, state, federal and international laws and regulations relating to the development, manufacturing, sale and distribution of its products, systems and services, and it is the Company's policy to comply with the applicable laws in each jurisdiction in which it conducts business. Regulations include but are not limited to those related to import and export controls, corruption, bribery, environment, government procurement, wireless communications, competition, product safety, workplace health and safety, employment, labor and data privacy.

Drones

Because it contracts with the DoW and other agencies of the U.S. government—and, for certain of those contracts, requires access to classified information—the Company’s Drones segment is subject to extensive federal statutes and regulations, including the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, the Truthful Cost and Pricing statute, the Foreign Corrupt Practices Act, the False Claims Act, and the regulations implementing the National Industrial Security Program Operating Manual (“NISPOM”). The NISPOM regulations establish the security requirements applicable to classified contracts and programs, facility security clearances, and personnel security clearances. The federal government audits and reviews contractors’ performance on contracts, pricing practices, cost accounting systems and practices, and compliance with applicable laws, regulations and standards. Like most government contractors, the Drones segment’s contracts are audited and reviewed regularly by federal agencies, including the Defense Counterintelligence and Security Agency, the Defense Contract Management Agency and the Defense Contract Audit Agency.

In addition, the Drones segment is subject to industry-specific regulations due to the nature of the products and services it provides. For example, certain aspects of its business are subject to further regulation by additional U.S. government authorities, including: (i) the Federal Aviation Administration (“FAA”), which regulates airspace for all aircraft in the U.S. National Airspace System; (ii) the National Telecommunications and Information Administration and the Federal Communications Commission, which regulate the wireless communications upon which its UAS depend in the U.S. and also regulate any device that emits radiofrequency emissions as a result of its operations; (iii) the Directorate of Defense Trade Controls of the U.S. Department of State, which administers the International Traffic in Arms Regulations that regulate the export of controlled technical data, defense articles and defense services and (iv) the Bureau of Industry and Security of the U.S. Department of Commerce, which regulates matters relating to U.S. national security and technology.

Electric Air Mobility

A transport category type certification is the highest level in safety provided by the Civil Aviation Authorities. Jaunt intends to certify under CAR 529, single pilot (instrument flight rules and comply with Category Enhanced of European Union Aviation Safety Agency (“EASA”) SC-VTOL-01 by:

- using System Safety Assessment processes (Aerospace Recommended Practice (“ARP”) 4761 with ARP 4754A) that are industry standard for commercial transport aircraft (Exposure Draft 79A);
- designing flight critical systems to meet the requirements of a probability of catastrophic failure of less than 10⁻⁹ per flight hour (less than once every billion flight hours);
- developing robust software design processes to meet Development Assurance Level A for functions that could exhibit catastrophic failures; and
- meeting requirements for bird strike, fatigue and damage tolerance, lightning strike, fire protection, and designing and incorporating elements for crashworthiness right from conceptual stage.

In the near-term, the efforts of the Electric Air Mobility segment will focus on cargo logistics, ISR, remote operations, and other commercial and government applications, including obtaining FAA certification and advancing the development and commercialization of autonomous cargo and multi-role eVTOL platforms. The segment is currently focused on autonomous aircraft platforms, including the JC250 and JX250 variants, designed to support middle-mile logistics, tactical resupply, ISR, emergency medical delivery, law enforcement, and related missions. Passenger applications may represent a longer-term opportunity. Its aircraft will be required to comply with regulations governing aircraft design, production, and airworthiness, and its operations will be required to comply with regulations governing, among other things, operational safety and citizenship. In the United States, this primarily includes regulations put forth by the FAA and the Department of Transportation. Outside the United States, similar requirements are generally administered by the national civil aviation and transportation authorities of each country.

Avionics

Aspen Avionics designs and manufactures equipment under worldwide aviation regulatory agency approvals. These include but are not limited to FAA, EASA, Transport Canada Civil Aviation, and National Civil Aviation Agency of Brazil regulations. These govern the design, test, certification, installation, and manufacturing of Aspen’s equipment.

The FAA regulates the manufacture, repair and operation of all aircraft and aircraft parts operated in the United States. Its regulations are designed to ensure that all aircraft and aviation equipment are continuously maintained in proper condition to ensure safe operation of the aircraft. Similar rules apply in other countries. All aircraft must be maintained under a continuous condition monitoring program and must periodically undergo thorough inspection and maintenance. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. Certification and conformance are required prior to installation of a part on an aircraft. Aircraft operators must maintain logs concerning the utilization and condition of aircraft engines, life-limited engine parts and airframes. In addition, the FAA requires that various maintenance routines be performed on aircraft engines, some engine parts, and airframes at regular intervals based on cycles or flight time. Engine maintenance must also be performed upon the occurrence of certain events, such as foreign object damage in an aircraft engine or the replacement of life-limited engine parts. Such maintenance usually requires that an aircraft engine be taken out of service. Aspen Avionics' operations may in the future be subject to new and more stringent regulatory requirements. In that regard, Aspen Avionics closely monitors the FAA and industry trade groups to understand how potential future regulations might impact it. The Company's businesses that sell defense products directly to the U.S. government or for use in systems delivered to the U.S. government can be subject to various laws and regulations that govern pricing and other factors.

10. Revenue

The Company generates revenue from (i) product sales, including avionics, Global Navigation Satellite System ("GNSS") technologies, and mUAS/commercial drones; (ii) services, including training, support, and drone services; (iii) research and development ("R&D") contracts; and (iv) sales-based royalties.

Product revenue is recognized at a point in time upon shipment or delivery when control transfers to the customer. Service revenue, including support, training, and drone services, is recognized over time as services are performed, generally on a straight-line basis over the service period. Extended warranties are service-type warranties and are recognized over the contractual term, typically two to three years. Revenue from R&D contracts is recognized over time using an input method based on costs incurred relative to total estimated costs. Sales-based royalties are recognized at a point in time as underlying sales occur.

The following table summarizes revenue recognized at a point in time and over time for the three months ended March 31, 2026 and 2025:

<i>(In Thousands)</i>	Three Months ended March 31,	
	2026	2025
Point in time	\$ 7,932	\$ 9,993
Over time	969	1,802
	<u>\$ 8,901</u>	<u>\$ 11,795</u>

Contract liabilities as of March 31, 2026 and December 31, 2025 were \$3.6 million and \$4.5 million, respectively. The majority of contract liabilities are expected to be recognized as revenue during 2026. The Company had no significant contract assets as of March 31, 2026 and December 31, 2025. During the three months ended March 31, 2026, the Company recognized \$1.0 million in revenue previously included in contract liabilities as of December 31, 2025.

Revenue is also disaggregated by segment and geography. See Note 9. *Segment Information*.

11. Related Party Transactions

Related party transactions include the following:

- Aspen Avionics has a Commercialization Agreement with Centro Italiano Ricerche Aerospaziali S.p.A ("CIRA"), a stockholder of Aspen Avionics, whereby CIRA licensed certain technology to Aspen Avionics. As consideration for the license, CIRA will receive a royalty based on each unit sold by Aspen Avionics. In March 2020, Aspen Avionics entered into an agreement with CIRA to settle unpaid royalty amounts due under a development agreement. The Company owed \$0.6 million to CIRA as of March 31, 2026 and December 31, 2025.
- Aspen Avionics owed \$0.4 million to Accord Global, a stockholder, as of March 31, 2025, which was fully settled during the year ended December 31, 2025. Sales to Accord Global were zero and \$0.4 million during the three months ended March 31, 2026 and 2025, respectively. There were no amounts due from Accord Global as of March 31, 2026 or December 31, 2025.
- As of December 31, 2025, Coastal Defense had net receivables of \$0.4 million due from Failor Services, Inc. ("Failor"), which is owned by a stockholder of the Company, included in "Related party receivables" on the condensed consolidated balance sheets. This balance was fully settled during the three months ended March 31, 2026, with no amounts outstanding as of that date. No purchases were made from Failor during the three months ended March 31, 2026 or 2025. Coastal Defense also pays for certain expenses on Failor's behalf, which are reimbursable.

- Coastal Defense entered into unsecured due on demand notes with two stockholders (the “Stockholder Notes”). Interest is charged at 7.00% per year. As of March 31, 2026 and December 31, 2025, the total outstanding balance of the Stockholder Notes was \$1.0 million and \$1.1 million, respectively.

During 2025, the Company engaged in settlement discussions with one counterparty, Jeffrey F. Parker as executor of the estate of Kenneth Parker, and received a proposed settlement pursuant to which the Company is expected to pay the counterparty \$1.0 million in full satisfaction of the obligations. The proposed settlement reflects a comprehensive resolution that includes offsets for amounts owed by Failor and Coastal Restaurant Group (“CRG”) to Coastal Defense. As of December 31, 2025, Coastal Defense’s recorded balances relating to these items were as follows: (i) amount due to Jeffrey F. Parker related to the Stockholder Notes of \$1.0 million, (ii) amount due from Failor of \$0.4 million, and (iii) an immaterial amount due from CRG, resulting in a net amount due of \$0.6 million. The proposed settlement payment of \$1.0 million exceeds the net recorded balance by \$0.4 million, which was accrued at December 31, 2025 and included in “Related party payables” on the condensed consolidated balance sheets.

In January 2026, the Company made a payment of \$0.1 million to one of the stockholders. In March 2026, the Company finalized the settlement with Jeffrey F. Parker. The remaining \$1.0 million was paid in April 2026.

- Coastal Defense uses West Run LLC (“West Run”) as a subcontractor for its military exercises. West Run is owned by both a Coastal Defense employee and a shareholder of the Company and the wife of Coastal Defense’s former President. The Company owed \$0.2 million to West Run as of March 31, 2026 and December 31, 2025, respectively.
- Edvard Per Erik Svehag, a member of the Company’s Board of Directors, is a director of Dangroup ApS (“Dangroup”) and indirectly beneficially owns approximately 60% of Dangroup. Dangroup was also a former shareholder of Sky-Watch, which the Company acquired in March 2022.

On June 28, 2024, the Company signed an Incentive Agreement whereby the Company will pay Dangroup 20% of Sky-Watch’s earnings before interest, taxes, depreciation and amortization (“EBITDA”) as an incentive bonus for their continued involvement in Sky-Watch’s governance, management and/or other operations commencing on January 1, 2025 for an initial term of five years.

On June 28, 2024, the Company signed a Consulting Agreement whereby the Company will pay a Mr. Svehag 2.5% of Sky-Watch’s EBITDA as a consulting fee for his assistance with branding and rolling out products and services into new and additional markets commencing on January 1, 2024. In February 2026, the Company hired Mr. Svehag as an employee and terminated the Consulting Agreement. The amounts owed under this agreement are included in “Accrued expenses” on the condensed consolidated balance sheet as of March 31, 2026 but were included in “Related party payables” on the condensed consolidated balance sheet as of December 31, 2025.

During the three months ended March 31, 2026 and 2025, the Company recorded \$0.6 million and \$0.5 million of expense, respectively, within general and administrative expense related to these agreements.

12. Subsequent Events

In April 2026, the Company paid the remaining \$1.0 million to Jeffrey F. Parker, which fully settled the Stockholder Notes as described in Note 11.

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements are subject to substantial risks and uncertainties and are based on estimates and assumptions. All statements other than statements of historical facts, including statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, financing needs, plans or intentions relating to markets, and business trends and other information contained in this Quarterly Report on Form 10-Q are forward-looking statements, including statements about:

- our ability to grow and manage growth profitably;
- our financial and business performance and business metrics;
- our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects and plans;
- the implementation, market acceptance and success of our business model;
- our market opportunity and the potential growth of that market;
- our ability to compete effectively in a competitive industry;
- our ability to protect and enhance our corporate reputation and brand;
- the impact from future regulatory, judicial, and legislative changes in our industry;
- our ability to effect our growth strategies, acquisitions or investments successfully; and
- our future capital requirements and sources and uses of cash.

These statements are subject to known and unknown risks, uncertainties and assumptions that could cause actual results to differ materially from those projected or otherwise implied by the forward-looking statements. The following factors, among others, may cause actual results to differ materially from those expressed or implied in our forward-looking statements:

- our dependence on a limited number of customers for most of our revenue;
- our lack of long-term commitments from our customers;
- our ability to successfully integrate the businesses and personnel of acquired companies, including AIRO Drone, LLC (“AIRO Drone”), Agile Defense, LLC (“Agile Defense”), Coastal Defense, Inc. (“Coastal Defense”), Jaunt Air Mobility, LLC (“Jaunt”), Sky-Watch A/S (“Sky-Watch”) and Aspen Avionics, Inc. (“Aspen Avionics”), and our ability to realize the anticipated synergies and benefits of such acquisitions;
- our ability to keep pace with technological advances and our dependence on advances in technology by other companies, many of which have substantially greater resources than we do;
- our ability to acquire additional aircraft to support our Training segment on acceptable terms or at all;
- the impact that our customers may experience from service failures or interruptions due to defects in the software, infrastructure, components or engineering system that comprise our products and services, or due to errors in product installation;
- our dependence on the continuing efforts of our key personnel and on our ability to attract and retain highly skilled personnel and senior management;
- we have identified material weaknesses in our internal control over financial reporting which, if not corrected, could affect the reliability of our condensed consolidated financial statements;
- our failure to comply with applicable government regulations;
- any disruptions or threatened disruptions to our relationships with our distributors, suppliers, customers and employees, including shortages in components for our products;
- our sales to the U.S. government, particularly to agencies of the DoW, and a decline in government budgets, funding, changes in spending or budgetary priorities, or delays in contract awards;

- budget uncertainty, the risk of future budget cuts, the impact of continuing resolution funding mechanisms, the debt ceiling and government shutdowns, and changing funding and acquisition priorities;
- changes in the supply, demand and/or prices for our products and services and our ability to perform under existing contracts and obtain new contracts;
- the complexities and uncertainty of obtaining and conducting international business, including export compliance and other reporting and compliance requirements;
- the impact of potential security and cyber threats or the risk of unauthorized access to our, our customers' and/or our suppliers' information and systems;
- our ability to respond and adapt to changes in economic, capital market, and political conditions in the U.S. and globally, such as from the global sanctions and export controls with respect to Russia, and any changes therein, and including changes related to financial market conditions, banking industry disruptions, fluctuations in commodity prices or supply (including energy supply), inflation, interest rates and foreign currency exchange rates, disruptions in global supply chain and labor markets, and geopolitical risks, including in the Middle East and Ukraine;
- our failure to develop new products or integrate new technology into current products;
- unfavorable results in legal proceedings;
- the accuracy of our estimates regarding expenses, future revenues, capital requirements and needs for additional financing; and
- our expectations regarding the period during which we will qualify as an emerging growth company and smaller reporting company.

In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target” or “will” or the negative of these terms or other similar expressions intended to identify statements about the future. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read the section titled “Risk Factors” included in our Annual Report on Form 10-K for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report on Form 10-Q will prove to be accurate. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

You should read this Form 10-Q and the documents that we reference in this report and have filed as exhibits to the report, completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements in this Form 10-Q by these cautionary statements.

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

The following is management’s discussion and analysis of the major factors that influenced our financial condition and results of operations as of and for the three months ended March 31, 2026. This analysis should be read in conjunction with the audited consolidated financial statements as of December 31, 2025 and 2024 and for each of the two years then ended, together with the related notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2025 (the “Form 10-K”) and with the unaudited condensed consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the sections titled “Note Regarding Forward-Looking Statements” and “Risk Factors” in this Quarterly Report on Form 10-Q for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. All references to “we”, “us”, “our”, and the “Company” refer to AIRO Group Holdings, Inc.

Overview

We are a technologically differentiated aerospace, autonomy, and air mobility platform targeting 21st century aerospace and defense opportunities. We leverage decades of industry expertise and connections across the drone, aviation, and avionics markets to provide leading solutions to the aerospace and defense market. We offer connected and diversified solutions providing operational synergies across our segments and are powered by an international footprint as well as supplier and public sector relationships. Supported by complementary and innovative technologies, we believe we bring a unique value proposition to the market and are well-positioned to become a differentiated leader in the industry.

Our business is organized into four operating segments, each of which represents a critical growth vector in the aerospace and defense market: Drones, Avionics, Training, and Electric Air Mobility. These four segments collectively target a combined total addressable market estimated to be over \$315.4 billion by 2030.

Drones. The Drones segment develops, manufactures, and sells drones and will provide drone services, such as DaaS, for military and commercial end users. Our military drones are sold through our Sky-Watch brand, which is a key supplier to European NATO countries. A critical point of differentiation lies in our drones’ ability to perform in a GPS-denied environment, which is a technology application relevant for both military and commercial end markets. The segment’s portfolio includes the RQ-35 platform and the recently introduced next-generation RQ-70 ISR platform, which is designed to support expanded operational capabilities, including longer flight range, higher payload capacity, upgraded sensor options, and enhanced autonomous mission operations.

Avionics. The Avionics segment develops, manufactures, and sells avionics for military and general aviation aircraft, drones, and eVTOLs. Our avionics products include flight displays, Connected Panels, and GPS/GNSS sensors, all of which have been installed on legacy military aircraft and general aviation platforms. We sell our avionics products through our Aspen Avionics brand, which is well-recognized in the general aviation aftermarket sector with over 20 years of operating history and long-term customer loyalty for our value proposition. We also serve as an avionics supplier for OEMs, including Robinson Helicopters, Pilatus, Honeywell, and Joby Aviation. We believe our avionics solutions have a considerable market opportunity as general aviation fleets continue to age, with owners and operators seeking to upgrade the avionics technology on their aircraft.

Training. The Training segment currently provides military pilot training. We offer professional training and consulting services to the U.S. military, select NATO countries, and other U.S. allies under our Coastal Defense brand. These offerings include adversary air, close air support, ISR, aircraft leasing, pilot training, ground liaison services, and Joint Terminal Attack Controller training, as well as full joint theatre ISR and simulated ground strike training. We work closely with special military forces such as SEAL teams, the U.S. Naval Air Warfare Center, and United States Air Force Air Combat Command, and are a mandated recipient on a \$5.7 billion DoW Indefinite Delivery Indefinite Quantity (“IDIQ”) Contract and a \$1.9 million IDIQ Contract. Our personnel’s top security clearances and established relationships at the Pentagon provide us with a differentiated ability to bid on mandates. The Company is evaluating the strategic fit and long-term role of its Training segment. The Training segment remains a valuable asset with significant long-term opportunity, but the segment is capital-intensive and often requires meaningful ongoing investment.

Electric Air Mobility. The Electric Air Mobility segment, operated through our Jaunt brand, is developing dual-use electric and hybrid-electric compound rotorcraft aircraft. Our near-term focus is on cargo-configured and multi-role autonomous aircraft platforms, including the JC250 and JX250 variants, designed to support middle-mile logistics, tactical resupply, emergency medical delivery, law enforcement, ISR, and other commercial and government missions. The JC250 is designed as an autonomous cargo drone platform for logistics missions, while the JX250 is designed as a variant platform for ISR and logistics applications. These platforms are being designed to support extended operational range, payload flexibility, and autonomous mission capabilities for commercial and government use cases. We plan to pursue certification of our aircraft under existing CAR 529 Transport Category Rotorcraft standards. Our aircraft integrate characteristics of both rotary- and fixed-wing platforms through our patented compound rotorcraft configuration, which has accumulated over 300 piloted flight hours across multiple Jaunt demonstrator aircraft. We are evaluating both fully electric and hybrid-electric propulsion architectures to support varying mission requirements, including extended range and increased operational flexibility. We believe this compound rotorcraft architecture, combined with electric and hybrid-electric propulsion strategies, provides favorable range, payload capacity, and mission adaptability relative to conventional rotorcraft and certain eVTOL configurations. Upon certification, we expect our cargo-configured aircraft to serve as the initial foundation of our commercialization efforts.

Key Factors Affecting Our Performance

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including the following.

Customer Concentration and Drone Segment Revenue Concentration

We believe that our operating results for the foreseeable future will continue to depend to a significant extent on sales attributable to certain end customers with such concentration primarily attributable to our Drones segment.

Lack of Long-Term Customer Commitments

Our sales are generally made on a purchase order basis, and we typically do not have long-term purchase commitments from our customers. As a result, customers may cancel, reduce, reschedule, or otherwise modify their purchase orders, which may affect anticipated sales. In addition, the timing and size of purchase orders, as well as modifications to existing orders, may vary from period to period and could cause fluctuations in our operating results.

Global Supply Chain

We are dependent on a global supply chain and, in recent years, have experienced supply chain disruptions that resulted in delays and increased costs which adversely affected our performance. These disruptions impacted our ability to procure raw materials, microelectronics, and certain commodities on a timely basis and/or at expected prices, and have been driven by supply chain constraints and macroeconomic conditions, including inflation and labor market shortages. Current geopolitical conditions, including conflicts and other causes of strained intercountry relations, as well as sanctions and other trade restrictions, continue to contribute to these issues. Furthermore, our suppliers and subcontractors have been affected by these same factors. We also experience periodic shortages of electronic and mechanical parts. Management continues to proactively manage the supply and transportation of parts during regular sales inventory and operations meetings. This proactive planning is an integral part of our normal operations and has allowed us to anticipate potential shortages and introduce redundancy along our supply chain. These mitigation efforts have not introduced new material risks related to product quality, reliability or regulatory approval of products. We continue to monitor the condition of our supply chain and evaluate our procurement strategy to reduce any negative impact on our business, financial condition, and results of operations. We have implemented actions and programs designed to mitigate the impacts of supply chain disruptions, but anticipate that we and others in our industry will continue to face such challenges for the foreseeable future. The supply chain disruptions discussed above did not materially impact our outlook, business goals, results of operations or capital resources during 2025 or the first three months of 2026.

Geopolitical Matters

We operate in a complex and evolving global security environment, and our business is affected by geopolitical and security issues. Conflicts, including the conflict between Russia and Ukraine, conflicts in the Middle East and heightened tension in the Pacific region, have elevated global security concerns resulting in increased interest for our products and services as countries seek to improve their security posture. In addition, security assistance provided by NATO and its allies to Ukraine has increased demand to replenish NATO stockpiles, resulting in additional and potential future orders, including for the ramp-up in production capacity for certain products. We continue to expect additional orders over the next several years attributable to the global threat environment.

Economic Environment

Our business and financial performance is also affected by elevated levels of inflation and interest rates. Certain costs, including rising labor rates and supplier costs, have increased as a result of inflation, and have adversely affected our margins on certain programs. Due to the nature of our government and commercial aerospace businesses, and their respective customer and supplier contracts, we are not always able to offset cost increases by increasing our contract value or pricing, in particular on our fixed-price contracts. Increasing material, component, and labor prices could subject us to losses in our fixed price contracts in the event of cost overruns. In addition, higher interest rates have increased the cost of borrowing and tightened the availability of capital. Among other things, these effects can affect our ability to acquire equipment and constrain our customers' purchasing power and decrease orders for our products and services and impact the ability of our customers to make payments and of our suppliers to perform. Moreover, volatility in interest rates and financial markets can lead to economic uncertainty, an economic downturn or recession and impact the demand for our products and services as well as our supply chain.

Development of the Electric Air Mobility Market

Our future revenue for our Electric Air Mobility segment will be tied to the continued development of autonomous cargo and logistics operations and short distance aerial transportation. While we believe the global market for electric air mobility will be large, it remains undeveloped and there is no guarantee of future demand. Our current focus is on the development and commercialization of autonomous cargo and multi-role eVTOL platforms for logistics, ISR, defense, government, and related commercial applications. We anticipate receiving certification of our 33% downscaled cargo eVTOL under drone rules as early as 2027. Our business will require significant investment leading up to launching these services, including, but not limited to, final engineering designs, prototyping and testing, manufacturing, software development, certification, operator training, infrastructure, and commercialization. We benefit from supplier cost sharing, whereby our suppliers have agreed to defer their non-recurring engineering costs until commercialization, which has reduced our initial funding requirements prior to commercialization.

Key Components of Results of Operations

Revenue

Revenue consists primarily of product sales, fees for consulting services, licensing revenue, warranty sales, and after sale services. A majority of our revenue is derived from the Drones segment. To date, our Electric Air Mobility segment has not generated material revenue.

Cost of Revenue

Cost of revenue includes direct labor (including salary, benefits and taxes), material costs and indirect production costs. Indirect production costs include indirect labor, purchasing, quality and manufacturing leadership, consumables, freight, charges for inventory reserves and amortization of intangible assets. We expect our cost of revenue to fluctuate based on a number of factors including, among others, availability and ability to obtain suitable aircraft, availability and cost of raw materials, such as lithium, and fluctuations in the labor market, in particular with respect to individuals who are highly skilled and specialized, such as pilots, and foreign currency exchange rates.

Operating Expenses

Research and Development

Research and development (“R&D”) expenses consist primarily of personnel expenses, including salaries, benefits, costs of consulting, equipment and materials, direct allocable overhead costs, including staff development cost, travel costs and technology costs, and amortization of intangible assets. We expect our R&D expenses to increase as we continue to invest in our infrastructure and technology and seek to develop new products and services.

Sales and Marketing

Sales and marketing expenses include salary, benefits and taxes, commissions, travel, costs of leased airplanes, advertising, trade shows and amortization of intangible assets. We expect our sales and marketing expenses to increase as we seek to build out our capabilities in these areas to acquire new customers.

General and Administrative

General and administrative expenses include costs of executive leadership, corporate governance, consulting fees, accounting and finance operations, travel, and support functions, including human resources and information technology. We expect our general and administrative expenses to increase as we incur additional costs associated with being a public company and certain terms of our consulting and incentive agreements become effective.

Other Income (Expense)

Interest Expense, Net

Interest expense, net consists primarily of the interest expense from borrowings relating to third-party and related party notes, net of interest income earned on cash deposits.

Other Income (Expense), Net

Other income (expense), net includes changes in fair value on contingent consideration obligations and other liabilities, the impact from debt and other liability settlements, and foreign currency exchange adjustments based on the terms of payments related to an earnout obligation.

Income Tax Benefit (Expense)

Income tax benefit (expense) primarily consists of income taxes in certain foreign jurisdictions in which we conduct business.

Non-GAAP Financial Measures

To supplement our condensed consolidated financial statements prepared and presented in accordance with GAAP, we use EBITDA, Adjusted EBITDA and Adjusted EBITDA margin, as described below, to facilitate analysis of our financial and business trends and for internal planning and forecasting purposes.

We define (1) EBITDA as net loss before interest (income) expense, income tax (benefit) expense, and depreciation and amortization, (2) Adjusted EBITDA as net loss before interest (income) expense, income tax (benefit) expense, depreciation and amortization, stock-based compensation, and contingent consideration fair value adjustments, and (3) Adjusted EBITDA margin as Adjusted EBITDA divided by revenue. The above items are excluded from our Adjusted EBITDA measure because these items are either non-cash in nature, or because the amount and timing of these items is unpredictable, or because they are not driven by core results of operations, thereby rendering comparisons with prior periods and competitors less meaningful. We believe Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our results of operations, as well as provides a useful measure for period-to-period comparisons of our business performance. Moreover, we have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measurement used by our management internally to make operating decisions, including those related to analyzing operating expenses, evaluating performance, and performing strategic planning and annual budgeting.

These non-GAAP financial measures should not be considered as alternatives to performance measures derived in accordance with GAAP. Our presentation of these non-GAAP financial measures should not be construed to imply that our future results will be unaffected by items that are excluded from these metrics. In addition, our definitions of these non-GAAP financial measures may be different from similarly titled non-GAAP measures used by other companies. These non-GAAP financial measures have limitations as an analytical tool, and you should not consider any of these non-GAAP financial measures in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that our non-GAAP financial measures:

- do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- exclude depreciation and amortization expense, and although these are non-cash expenses, the assets being depreciated may have to be replaced in the future, increasing our cash requirements; and
- do not reflect provision for or benefit from income taxes that reduces cash available to us.

Because of these limitations, we consider, and you should consider, the non-GAAP financial measures alongside other financial performance measures, including net income (loss) and our other GAAP results. A reconciliation of EBITDA and Adjusted EBITDA to net income (loss), and Adjusted EBITDA Margin to net income (loss) margin, the most directly comparable financial measures stated in accordance with GAAP, is provided below. Investors are encouraged to review the related GAAP financial measures and the reconciliation of the non-GAAP financial measure to their most directly comparable GAAP financial measure.

(in thousands, except percentages)	Three Months Ended March 31,	
	2026	2025
Net loss	\$ (15,453)	\$ (1,973)
Depreciation and amortization	3,130	3,138
Income tax (benefit) expense	(1,645)	287
Interest (income) expense, net	(376)	1,267
EBITDA	(14,344)	2,719
Stock-based compensation	1,502	125
Contingent consideration fair value adjustments	-	(2,738)
Adjusted EBITDA	\$ (12,842)	\$ 106
Net loss margin	(173.6)%	(16.7)%
Adjusted EBITDA Margin	N.m.	0.9%

N.m. – Not meaningful

Results of Operations

Three Months Ended March 31, 2026 and 2025

The following table shows our consolidated financial results for the three months ended March 31, 2026 and 2025:

(in thousands, except percentages)	Three months ended March 31,		Period over period change	
	2026	2025	\$	%
Revenue	\$ 8,901	\$ 11,795	\$ (2,894)	(24.5)%
Cost of revenue	6,536	4,862	1,674	34.4%
Gross profit	2,365	6,933	(4,568)	(65.9)%
Operating expenses:				
Research and development	6,704	3,666	3,038	82.9%
Sales and marketing	1,977	1,433	544	38.0%
General and administrative	10,842	4,915	5,927	120.6%
Total operating expenses	19,523	10,014	9,509	95.0%
Loss from operations	(17,158)	(3,081)	(14,077)	(456.9)%
Other income (expense):				
Interest income (expense)	376	(1,267)	1,643	129.7%
Other (expense) income, net	(316)	2,662	(2,978)	(111.9)%
Total other income	60	1,395	(1,335)	(95.7)%
Net loss before income tax benefit (expense)	(17,098)	(1,686)	(15,412)	(914.1)%
Income tax benefit (expense)	1,645	(287)	1,932	673.2%
Net loss	\$ (15,453)	\$ (1,973)	\$ (13,480)	(683.2)%

Revenue

For the three months ended March 31, 2026 compared to the same period in 2025, revenue decreased by \$2.9 million, driven by a \$2.0 million decrease in the Drones segment, a \$0.5 million decrease in the Avionics segment, and a \$0.4 million decrease in the Training segment. The decrease in the Drones segment was primarily attributable to lower order volume during the period. The decrease in the Avionics segment reflects the impact of a facility relocation, with sales activity improving toward the end of the quarter. The decrease in the Training segment reflects lower sales during the period.

Cost of Revenue

For the three months ended March 31, 2026 compared to the same period in 2025, cost of revenue increased by \$1.7 million, primarily due to an increase of \$1.9 million and \$0.1 million within the Drones and Avionics segments, respectively, partially offset by a \$0.4 million decrease in the Training segment. Gross margin was 26.6% during the three months ended March 31, 2026 compared to 58.8% during the same period in 2025. The decline in gross margin was primarily driven by a 39.2% decrease in the Drones segment, reflecting lower order volume, production timing, and an atypical sales mix during the quarter, with fewer new drone system sales and a higher concentration of lower-margin upgrades, modifications, and support-related orders. Gross margin in the Avionics segment decreased by 21.5% due to a temporary disruption from a facility relocation and lower sales volume. The Training segment margin also decreased by 4.2% due to lower sales.

Operating Expenses

Research and Development

For the three months ended March 31, 2026 compared to the same period in 2025, R&D expense increased by \$3.0 million primarily due to a \$2.3 million increase in the Drones segment, a \$0.5 million increase in the Avionics segment, and a \$0.3 million increase in the Electric Air Mobility segment. The increase in the Drones segment was primarily driven by higher personnel and consulting costs related to ongoing strategic and development initiatives. The increase in the Avionics segment reflects targeted investments within the platform, while the increase in the Electric Air Mobility segment was primarily due to higher personnel costs supporting development programs.

Sales and Marketing

For the three months ended March 31, 2026 compared to the same period in 2025, sales and marketing expense increased by \$0.5 million, primarily due to higher personnel costs within the Drones segment.

General and Administrative

For the three months ended March 31, 2026 compared to the same period in 2025, general and administrative expense increased by \$5.9 million, primarily driven by a \$3.4 million increase in corporate expenses, including a \$2.3 million increase in compensation expense, a \$0.3 million increase in insurance, a \$0.4 million increase in professional fees, a \$0.2 million increase in lease expense, and a \$0.2 million increase in other corporate overhead. The remaining increase reflects higher expenses across our operating segments, including a \$1.8 million increase in the Drones segment, a \$0.3 million increase in the Avionics segment, a \$0.2 million increase in the Training segment, and a \$0.1 million increase in the Electric Air Mobility segment. The increase in the Drones segment was primarily due to higher equity-based compensation, personnel, and operating costs, while the increases in the Avionics, Training, and Electric Air Mobility segments were primarily attributable to higher personnel and operating costs.

Other Income

Interest Expense, Net

For the three months ended March 31, 2026, net interest income was \$0.4 million, compared to net interest expense of \$1.3 million for the three months ended March 31, 2025. The 2025 amount included both cash and non-cash interest expense related to loan agreements with Libertas Funding, LLC (“Libertas”) and WebBank.

Other Income (Expense), Net

For the three months ended March 31, 2026, other expense was \$0.3 million, compared to other income of \$2.7 million for the three months ended March 31, 2025. The 2025 amount included a \$1.8 million decrease in the fair value of the Company’s contingent obligation originating from the Jaunt acquisition, and a \$0.9 million decrease in the fair value of contingent promissory notes with certain acquired companies, including Agile Defense, Coastal Defense, and AIRO Drone.

Income Tax Expense

For the three months ended March 31, 2026, our income tax benefit was \$1.6 million as compared to \$0.3 million of income tax expense for the three months ended March 31, 2025. The income tax benefit for 2026 was primarily attributable to a pre-tax loss at Sky-Watch, whereas the 2025 tax expense was primarily attributable to pre-tax income.

Liquidity and Capital Resources

As of March 31, 2026, we had cash and restricted cash of \$54.4 million, of which \$0.2 million was either restricted or was designated exclusively for Sky-Watch operations, and working capital of \$62.5 million.

Based on our current operating plan and available liquidity, management believes that the Company has sufficient cash and resources to meet its obligations and continue its operations for at least the next 12 months from the date of issuance of the financial statements included in this Quarterly Report on Form 10-Q.

Dangroup Incentive Agreement

Edvard Per Erik Svehag, a member of our Board of Directors, is a director of Dangroup ApS (“Dangroup”) and indirectly beneficially owns approximately 60% of Dangroup. In June 2024, we entered into an Incentive Agreement with Dangroup (the “Dangroup Incentive Agreement”), whereby we agreed to pay Dangroup 20% of Sky-Watch’s EBITDA as an incentive bonus for its continued involvement in Sky-Watch’s governance, management and/or other operations, commencing on January 1, 2025 for an initial term of five years, which shall renew upon mutual agreement of the parties. In December 2024, we amended the Dangroup Incentive Agreement, in addition to the incentive bonus described above, whereby we agreed to transfer to Dangroup shares of our common stock immediately prior to the completion of the IPO such that Dangroup’s ownership was increased to 5% of our capital stock on a fully diluted basis. During the year ended December 31, 2025, we issued 0.5 million shares of our common stock to Dangroup in satisfaction of this agreement. During the three months ended March 31, 2026 and 2025, the Company recorded \$0.5 million of expense within general and administrative expense related to the agreement.

Cash Flows

The following summarizes our cash flows for the periods indicated:

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2026	2025
Net cash used in operating activities	\$ (17,404)	\$ (9,753)
Net cash used in investing activities	(2,073)	(345)
Net cash (used in) provided by financing activities	(640)	1,841

Net Cash Used in Operating Activities

Net cash used in operating activities for the three months ended March 31, 2026 was \$17.4 million, primarily due to a \$15.5 million net loss and a \$11.1 million increase in inventory. These uses were partially offset by non-cash expenses, including \$3.1 million of depreciation and amortization and \$1.5 million of stock-based compensation, as well as working capital changes, including a \$4.1 million decrease in accounts receivable and a \$5.1 million increase in accounts payable, accrued expenses and other long-term liabilities, partially offset by a \$2.1 million increase in prepaid expenses and other assets and a \$2.1 million decrease in related party payables.

Net cash used in operations for the three months ended March 31, 2025 totaled \$9.8 million, and was primarily due to a net loss of \$2.0 million and working capital adjustments, including an increase in prepaid expenses and other assets of \$5.8 million and an increase in inventory of \$3.7 million, as well as a decrease in deferred revenue of \$6.3 million and a decrease in accounts payable, accrued expenses and other long-term liabilities of \$1.7 million, partially offset by a decrease in accounts receivable of \$8.2 million. These were partially offset by non-cash adjustments totaling \$1.2 million, including depreciation and amortization of \$3.1 million, change in fair value of contingent consideration of \$2.7 million, non-cash interest of \$0.6 million, and stock-based compensation of \$0.1 million.

Net Cash Used in Investing Activities

Cash of \$2.1 million and \$0.3 million was used in investing activities during the three months ended March 31, 2026 and 2025, respectively, to purchase property and equipment and intangible assets.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities during the three months ended March 31, 2026 was \$0.6 million due to repayments on third party borrowings and related party borrowings. Net cash provided by financing activities during the three months ended March 31, 2025 was \$1.8 million primarily due to \$3.5 million of proceeds from the Libertas loans and \$0.2 million of related party borrowings proceeds that were partially offset by \$1.7 million of debt repayments including \$1.1 million to Libertas, \$0.4 million to WebBank and \$0.2 million to First Citizens Community Bank.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires management to establish accounting policies that contain estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These policies relate to revenue recognition, goodwill impairment, inventory, income taxes, impairment of indefinite-lived and long-lived assets, and stock-based compensation. We have other important accounting policies and practices; however, once adopted, these other policies either generally do not require us to make significant estimates or assumptions or otherwise only require implementation of the adopted policy and not a judgment as to the policy itself. Management bases its estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Despite our intention to establish accurate estimates and assumptions, actual results may differ from these estimates under different assumptions or conditions. During the three months ended March 31, 2026, management believes there have been no significant changes to the items that we disclosed within our critical accounting policies and estimates in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2025.

Recent Accounting Pronouncements

A summary of recent accounting pronouncements that may have an impact on our consolidated financial statements is included in Note 1 to condensed consolidated financial statements accompanying this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (“SEC”) and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer, with assistance from other members of management, have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2026, and based on their evaluation, have concluded that our disclosure controls and procedures were not effective as of such date due to material weaknesses in internal control over financial reporting, described below.

Background and Remediation of Material Weaknesses

In connection with the preparation of our consolidated financial statements for the years ended December 31, 2025 and 2024, material weaknesses were identified in the design and operating effectiveness of our internal control over financial reporting. In 2024, we identified material weaknesses due to ineffective and information and communication controls, resulting in lack of timely identification and accounting for certain key debt and other agreements. Since fiscal year 2023, there have been misstatements that, individually and in the aggregate, were material to the consolidated financial statements that were identified due to deficiencies related to technical accounting. More specifically, the review controls over the transactions that gave rise to these misstatements lacked sufficient precision and the Company lacked a sufficient complement of personnel with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. Due to the delays we experienced in securing funding during 2024 and 2025, we were not able to hire and train sufficient staff to remediate the previously identified material weaknesses in our internal control over financial reporting. As such, these material weaknesses were not remediated and continued to be present as of March 31, 2026.

We have initiated, and continue to implement, measures intended to remediate the material weaknesses described above and to strengthen our internal control over financial reporting. These measures include:

(i) hiring additional experienced accounting and SEC reporting personnel at the corporate and subsidiary levels and enhancing segregation of duties; (ii) engaging an independent internal auditor and establishing an internal audit plan focused on revenue recognition, complex financing arrangements, and acquisition accounting, with periodic reporting to the Audit Committee; (iii) implementing formal contract-review controls including documented technical accounting reviews for new or amended agreements; (iv) standardizing and documenting our monthly and quarterly close processes, including review and approval controls, checklists, and enhanced management review controls over significant estimates and judgments; and (v) deploying certain technology solutions, including a cloud-based planning and reporting system to reduce manual processes and improve data integrity and transparency.

While we believe these actions represent important steps toward remediation, the material weaknesses will not be considered remediated until the applicable controls are designed, implemented, and operate effectively for a sufficient period of time and management has concluded, through testing, that they are operating effectively. We can provide no assurance that the measures described above will fully remediate the identified material weaknesses. We also may incur significant costs to execute various aspects of our remediation plan.

Changes in Internal Control over Financial Reporting

Except for the material weakness remediation efforts described above, there were no other changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended March 31, 2026 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings and are not aware of any pending or threatened claims. From time to time, we may be subject to various legal proceedings and claims that arise in the ordinary course of our business activities. Regardless of outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Item 1A. Risk Factors

Our business, financial condition and operating results are affected by a number of factors, whether currently known or unknown, including risks specific to us or the aerospace and defense industry as well as risks that affect businesses in general. In addition to the information set forth in this Quarterly Report on Form 10-Q, you should consider carefully the factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025, filed with the SEC on March 31, 2026. The risks and uncertainties disclosed in such Annual Report could materially adversely affect our business, financial condition, cash flows or results of operations and thus our stock price. During the first quarter of 2026, there were no material changes to our previously disclosed risk factors.

These risk factors may be important to understanding other statements in this Quarterly Report and 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 Quarterly Report. Because of such risk factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

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

Use of Proceeds from Initial Public Offering

On June 12, 2025, our Registration Statement on Form S-1, as amended (File No. 333-285149), for the IPO became effective, pursuant to which we registered and sold an aggregate of 6,900,000 shares of our common stock, including the full exercise of the underwriters’ option to purchase additional shares, at a price to the public of \$10.00 per share, for aggregate gross proceeds of \$69.0 million. There has been no material change in the planned use of proceeds from our IPO as described in our prospectus filed pursuant to Rule 424(b)(4) under the Securities Act with the SEC on June 16, 2025.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Adoption, Modification and Termination of Rule 10b5-1 Plans and Certain Other Trading Arrangements

During the quarter ended March 31, 2026, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” (as each term is defined in Item 408 of Regulation S-K).

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company.	8-K	001-38529	3.1	June 16, 2025
3.2	Amended and Restated Bylaws of the Company.	S-1/A	333-285149	3.4	April 10, 2025
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document – The instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104	Cover Page Interactive Data File formatted as Inline XBRL and contained in Exhibit 101				

* The information in Exhibit 32.1 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act (including this report), unless the Company specifically incorporates the foregoing information into those documents by reference.

SIGNATURES

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

AIRO GROUP HOLDINGS, INC.

By: /s/ Captain Joseph D. Burns

Captain Joseph D. Burns
Chief Executive Officer

By: /s/ Dr. Mariya Pylypiv

Dr. Mariya Pylypiv
Chief Financial Officer

Dated: May 14, 2026

CERTIFICATIONS

I, Captain Joseph D. Burns, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AIRO Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph intentionally omitted pursuant to Exchange Act Rule 13a-14(a)];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2026

/s/ Captain Joseph D. Burns

Captain Joseph D. Burns
Chief Executive Officer

CERTIFICATIONS

I, Dr. Mariya Pylypiv, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AIRO Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph intentionally omitted pursuant to Exchange Act Rule 13a-14(a)];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2026

/s/ Dr. Mariya Pylypiv
Dr. Mariya Pylypiv
Chief Financial Officer

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Captain Joseph D. Burns, Chief Executive Officer of AIRO Group Holdings, Inc. (the “Company”), and Dr. Mariya Pylypiv, Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2026, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 14th day of May, 2026.

/s/ Captain Joseph D. Burns

Captain Joseph D. Burns
Chief Executive Officer

/s/ Dr. Mariya Pylypiv

Dr. Mariya Pylypiv
Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of AIRO Group Holdings, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.
