

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **March 31, 2026**

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

For the transition period from: _____ to _____

Commission File Number: **001-40730**

DRAGONFLY ENERGY HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

85-1873463

(IRS Employer
Identification No.)

**12915 Old Virginia Road
Reno, Nevada**

(Address of principal executive offices)

89521

(Zip Code)

(775) 622-3448

(Registrant's telephone number, including area code)

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	DFLI	The Nasdaq Capital Market
Redeemable Warrants, exercisable for common stock	DFLIW	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (Section 232.405 of this chapter) during the preceding 12 months (or 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 12,815,340 shares of the registrant's common stock, par value \$0.0001 per share, issued and outstanding.



DRAGONFLY ENERGY HOLDINGS CORP.
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DRAGONFLY ENERGY HOLDINGS CORP.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	March 31, 2026	December 31, 2025
Current Assets		
Cash and cash equivalents	\$ 8,637	\$ 18,270
Accounts receivable, net of allowance for credit losses	2,979	4,215
Inventory	24,299	24,234
Prepaid expenses	1,115	1,088
Prepaid inventory	811	937
Prepaid income tax	359	353
Other current assets	1,758	1,083
Total Current Assets	39,958	50,180
Property and Equipment		
Machinery and equipment	18,183	17,794
Office furniture and equipment	432	432
Leasehold improvements	7,634	7,563
Vehicle	33	33
Total	26,282	25,822
Less accumulated depreciation and amortization	(5,875)	(5,081)
Property and Equipment, Net	20,407	20,741
Operating lease right of use asset, net	14,951	15,240
Other assets	379	388
Total Assets	\$ 75,695	\$ 86,549
Current Liabilities		
Accounts payable	\$ 9,139	\$ 10,322
Accrued payroll and other liabilities	2,518	4,053
Accrued tariffs	341	943
Customer deposits	118	121
Deferred revenue, current portion	1,000	1,000
Dividends Payable	502	317
Notes payable, current portion, net of debt issuance costs	466	433
Operating lease liability, current portion	2,447	2,533
Financing lease liability, current portion	28	35
Total Current Liabilities	16,559	19,757
Long-Term Liabilities		
Deferred revenue, net of current portion	2,333	2,583
Warrant liabilities	207	713
Notes payable, non current portion, net of debt issuance costs	9,859	9,212
Operating lease liability, net of current portion	19,955	20,470
Financing lease liability, net of current portion	23	28
Total Long-Term Liabilities	32,377	33,006
Total Liabilities	48,936	52,763
Commitments and Contingencies (See Note 5)		
Redeemable Preferred Stock		
Preferred stock-Series A, 5,000 shares at \$0.0001 par value, authorized, no shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	-	-
Preferred stock-Series B, 25,000 shares at \$0.0001 par value, authorized, 25,000 and 25,000 shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	22,849	22,256
Stockholders' Equity		
Preferred stock, 4,995,000 shares at \$0.0001 par value, authorized, no shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	-	-
Common stock, 400,000,000 shares at \$0.0001 par value, authorized, 12,148,783 and 12,078,713 shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	1	1
Additional paid in capital	162,627	163,622
Accumulated deficit	(158,718)	(152,093)
Total Stockholders' Equity	3,910	11,530
Total Liabilities and Stockholders' Equity	\$ 75,695	\$ 86,549

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

DRAGONFLY ENERGY HOLDINGS CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	For The Three Months Ended March 31	
	2026	2025
Net Sales	\$ 9,704	\$ 13,356
Cost of Goods Sold	7,994	9,428
Gross Profit	1,710	3,928
Operating Expenses		
Research and development	980	1,000
General and administrative	4,482	6,357
Selling and marketing	1,975	2,485
Total Operating Expenses	7,437	9,842
Loss From Operations	(5,727)	(5,914)
Other (Expense) Income		
Interest expense, net	(1,465)	(4,701)
Other income	61	-
Change in fair market value of warrant liability	506	3,818
Total Other Expense	(898)	(883)
Net Loss Before Taxes	(6,625)	(6,797)
Income Tax Expense (Benefit)	-	-
Net Loss	\$ (6,625)	\$ (6,797)
Less: Preferred Stock Dividends	(1,095)	-
Net Loss Attributable to Common Shareholders	\$ (7,720)	\$ (6,797)
Loss Per Share- Basic & Diluted	\$ (0.64)	\$ (9.28)
Weighted Average Number of Shares - Basic & Diluted	12,083,461	732,762

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

DRAGONFLY ENERGY HOLDINGS CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(IN THOUSANDS, EXCEPT SHARE DATA)

	Series A Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated (Deficit)	Total
	Shares	Amount	Shares	Amount			
Balance - January 1, 2026	-	-	12,078,713	\$ 1	\$ 163,622	\$ (152,093)	\$ 11,530
Net loss	-	-	-	-	-	(6,625)	(6,625)
Cashless exercise of liability classified warrants	-	-	69,985	-	-	-	-
Shares issued for vested restricted stock units	-	-	85	-	-	-	-
Dividends Preferred Series B - Paid-in-kind	-	-	-	-	(125)	-	(125)
Dividends Preferred Series B	-	-	-	-	(502)	-	(502)
Accretion of discount on Series B Preferred	-	-	-	-	(468)	-	(468)
Stock compensation expense	-	-	-	-	100	-	100
Balance - March 31, 2026	<u>-</u>	<u>-</u>	<u>12,148,783</u>	<u>\$ 1</u>	<u>\$ 162,627</u>	<u>\$ (158,718)</u>	<u>\$ 3,910</u>
Balance - January 1, 2025	-	-	723,265	\$ -	\$ 72,750	\$ (82,154)	\$ (9,404)
Net loss	-	-	-	-	-	(6,797)	(6,797)
Common stock issued in public offering (ATM), net of costs	-	-	2,316	-	63	-	63
Redeemable preferred stock issued, net	350	3,180	-	-	-	-	-
Shares issued for vested restricted stock units	-	-	2,195	-	-	-	-
Conversion of preferred stock to common stock	(30)	(273)	31,189	-	273	-	273
Stock compensation expense	-	-	-	-	220	-	220
Balance - March 31, 2025	<u>320</u>	<u>2,907</u>	<u>758,965</u>	<u>\$ -</u>	<u>\$ 73,306</u>	<u>\$ (88,951)</u>	<u>\$ (15,645)</u>

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

DRAGONFLY ENERGY HOLDINGS CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(IN THOUSANDS)

	2026	2025
Cash Flows From Operating Activities		
Net Loss	\$ (6,625)	\$ (6,797)
Adjustments to Reconcile Net Loss to Net Cash		
Used in Operating Activities		
Stock based compensation	100	220
Amortization of debt discount	921	1,095
Change in fair market value of warrant liability	(506)	(3,818)
Non-cash interest expense (paid-in kind)	-	3,579
Provision for credit losses	6	103
Depreciation and amortization	794	859
Amortization of right of use of assets	289	658
Changes in Assets and Liabilities		
Accounts receivable	1,230	(1,915)
Inventory	(65)	(12)
Prepaid expenses	(27)	(126)
Prepaid inventory	126	(669)
Prepaid income tax	(6)	-
Other current assets	(675)	54
Other assets	9	-
Accounts payable and accrued expenses	(2,899)	3,379
Operating lease liabilities	(601)	(706)
Accrued tariffs	(602)	30
Deferred revenue	(250)	(250)
Income tax payable	-	(4)
Customer deposits	(3)	(180)
Total Adjustments	(2,159)	2,297
Net Cash Used in Operating Activities	(8,784)	(4,500)
Cash Flows From Investing Activities		
Purchase of property and equipment	(279)	(778)
Net Cash Used in Investing Activities	(279)	(778)

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

DRAGONFLY ENERGY HOLDINGS CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(IN THOUSANDS)

(continued from previous page)	2026	2025
Cash Flows From Financing Activities		
Proceeds from public offering (ATM), net	-	63
Repayment of note payable	(241)	-
Proceeds from preferred stock offering, net of fees	-	3,180
Principal payments on finance leases	(12)	(11)
Payment of dividends	(317)	-
Net Cash (Used in) Provided by Financing Activities	<u>(570)</u>	<u>3,232</u>
Net Decrease in Cash and cash equivalents	(9,633)	(2,046)
Beginning Cash and cash equivalents - beginning of period	18,270	4,849
Ending Cash and cash equivalents - end of period	<u>\$ 8,637</u>	<u>\$ 2,803</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes	\$ -	\$ 2
Cash paid for interest	<u>\$ 965</u>	<u>\$ 1</u>
Supplemental Non-Cash Investing and Financing Activities		
Purchases of property and equipment, not yet paid	<u>\$ 360</u>	<u>\$ 929</u>
Recognition of warrant liability - Investor Warrants	<u>\$ -</u>	<u>\$ 697</u>
Conversion of preferred stock to common stock	<u>\$ -</u>	<u>\$ 273</u>
Accrued dividends	<u>\$ 502</u>	<u>\$ -</u>
Dividends paid in kind	<u>\$ 125</u>	<u>\$ -</u>
Accretion of preferred stock discount	<u>\$ 468</u>	<u>\$ -</u>

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

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 1 - NATURE OF BUSINESS

Dragonfly Energy Holdings Corp. (the “Company”) sells lithium ion battery packs for use in a wide variety of applications. The Company sells to distributors under the Dragonfly Energy brand name, and sells direct to consumers under the trade name Battleborn Batteries. In addition, the Company develops technology for improved lithium ion battery manufacturing and assembly methods.

On December 15, 2025, the Company’s Board of Directors approved a 1-for-10 reverse stock split of the Company’s common stock, par value \$0.0001 per share and a corresponding proportional reduction in the number of common stock shares issued and outstanding. The reverse stock split was effected upon market open on December 18, 2025, and shares of Common Stock began trading on a split-adjusted basis as of market open on December 18, 2025.

All shares of Common Stock, stock option awards and per share amounts contained in the Consolidated Financial Statements and Notes have been retroactively adjusted to reflect the 1-for-10 reverse stock split.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP for interim financial information, and with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) set forth in Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim financial statements furnished reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Unaudited interim results are not necessarily indicative of the results for the full fiscal year. These condensed consolidated financial statements should be read along with the Annual Report on Form 10-K filed with the SEC on March 30, 2026 of the Company for the annual period ended December 31, 2025. The consolidated balance sheet as of December 31, 2025 was derived from the audited consolidated financial statements as of and for the year then ended.

Principles of consolidation

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and present the consolidated financial statements of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the three months ended March 31, 2026 and 2025, the Company incurred losses from operations and had negative cash flow from operations. As of March 31, 2026, the Company had \$8,637 in cash and cash equivalents and a working capital of \$23,399. The Company's ability to achieve profitability and positive cash flow depends on its ability to increase revenue, contain its expenses and maintain compliance with the financial covenants in its outstanding indebtedness agreements.

In 2025, the Company completed several capital raising and debt restructuring transactions, resulting in aggregate net cash proceeds of approximately \$90,930 and modifications to its term loan that extended the maturity to October 2027, deferred principal and interest payments, reduced outstanding principal (including partial cancellation and conversion of principal into preferred stock), and established minimum liquidity covenants. On January 30, 2026, the Company also entered into an at-the-market equity offering program under which it may, at its discretion and subject to market conditions, issue and sell up to \$50 million of its common stock from time to time. Refer to Annual Report on Form 10-K for the period ended December 31, 2025 for additional information regarding these equity offerings and term loan amendments.

Management has evaluated the conditions and events described above in relation to the Company's obligations coming due within one year after the date these condensed consolidated financial statements are issued. Based on this evaluation, the capital raise and debt restructuring activities completed in 2025 and early 2026, including access to the at-the-market equity offering program, and the Company's ability to maintain covenant compliance with a monthly liquidity minimum of \$5,000, management has concluded that although substantial doubt was initially raised, its plans have alleviated substantial doubt about the Company's ability to continue as a going concern within one year after the date these condensed consolidated financial statements are issued.

Inventory

Inventories (**Note 4**), which consist of raw materials and finished goods, are stated at the lower of cost (first in, first out) or net realizable value, net of reserves for obsolete inventory. The Company continually analyzes its slow moving and excess inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company established reserves. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates its estimate of future demand. Products that are determined to be obsolete are written down to net realizable value. The Company had a reserve of \$560 and \$300 as of March 31, 2026 and December 31, 2025, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company utilizes the use of estimates in its calculations for the reserve for obsolete or slow moving inventory, going concern, right of use asset, warrant liability, equity based compensation, income taxes, leases, right-of-use asset impairment, and license arrangement.

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

Revenue is recognized when control of the promised goods is transferred to the customer or reseller, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Revenue associated with products holding rights of return are recognized when the Company concludes there is not a risk of significant revenue reversal in the future periods for the expected consideration in the transaction. There are no material instances including discounts and refunds where variable consideration is constrained and not recorded at the initial time of sale. Generally, our revenue is recognized at a point in time for standard promised goods at the time of shipment when title and risk of loss pass to the customer.

The Company recognizes revenue from right-to-access license agreements upon the transfer of control to the customer. Upfront fees are deferred and recognized over the estimated period of benefit. Royalties are recognized as revenue when the customer's underlying sales occur. The transaction price and timing of revenue recognition are adjusted as necessary to reflect changes in expectations.

The Company may receive payments at the onset of the contract before delivery of goods for customers in the retail channel. Payment terms for distributors and OEMs are typically due within 30-90 days after shipment. In such instances, the Company records a customer deposit liability. The Company recognizes these contract liabilities as sales after the revenue criteria are met. As of March 31, 2026 and December 31, 2025, the contract liability related to the Company's customer deposits were approximately \$118 and \$121, respectively.

The Company recognized \$121 of the contract liability as of December 31, 2025 during the three months ended March 31, 2026. During the three months ended March 31, 2025, the Company recognized \$306 of the contract liability that was recorded as a January 1, 2025 beginning balance.

On July 29, 2024, Dragonfly Energy Corp. ("Legacy Dragonfly"), a wholly-owned subsidiary of the Company, and Battle Born Battery Products, LLC ("Battle Born LLC"), a wholly-owned subsidiary of Legacy Dragonfly, entered into a License Agreement (the "License Agreement") with Stryten Energy LLC. The \$5,000 initial licensing fee is being recognized as revenue on a straight-line basis over five years. The Company has recorded \$250 in revenue related to the license agreement during the three months ended March 31, 2026. As of March 31, 2026 and December 31, 2025, the contract liability related to the Company's deferred revenue was approximately \$3,333 and \$3,583, respectively.

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disaggregation of Revenue

The following table present our disaggregated revenues by distribution channel:

Sales	For the Three Months Ended March 31,	
	2026	2025
Direct to customer	3,702	5,015
Original equipment manufacture	5,752	8,091
License fee revenue	250	250
Total	\$ 9,704	\$ 13,356

Product Warranty

The Company offers assurance type warranties from 5 to 10 years on its products. The Company estimates the costs associated with the warranty obligation using historical data of warranty claims and costs incurred to satisfy those claims. The Company estimates, based upon a review of historical warranty claim experience, the costs that may be incurred under its warranties and record a liability in the amount of such estimate at the time a product is sold. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of our recorded warranty liability and adjust the accrual as claims data and historical experience warrants. The Company has assessed the costs of fulfilling its existing assurance type warranties and has determined that the estimated outstanding warranty obligation at March 31, 2026 and December 31, 2025 to be \$861 and \$867, respectively. The Company incurred warranty expense of \$98 and \$123 for the three months ended March 31, 2026 and 2025, respectively.

The following table reflects the activity in the Company's warranty obligation for the three months ended March 31, 2026:

	March 31, 2026
Beginning warranty obligation	867
Provision of warranty expense	98
Settlement of warranty claims	(104)
Ending warranty obligation	\$ 861

Concentrations

As of March 31, 2026, receivables from Customer A, Customer B, and Customer C comprised approximately 12%, 10%, and 10%, respectively, of accounts receivable. As of December 31, 2025, receivables from Customer D comprised approximately 31% of accounts receivable. There are no other significant accounts receivable concentration.

Sales from Customer D comprised approximately 14% of the Company's total revenue for the three months ended March 31, 2026. Sales from Customer D comprised approximately 18% of the Company's total revenue for the three months ended March 31, 2025.

As of March 31, 2026, payables to Vendor A and Vendor B comprised approximately 43% and 10%, respectively, of accounts payables. As of December 31, 2025, payables to Vendor A, Vendor C, and Vendor D comprised approximately 36%, 16%, and 12%, respectively, of accounts payables.

For the three months ended March 31, 2026, Vendor A and Vendor E accounted for approximately 13% and 10%, respectively, of the Company's total purchases. For the three months ended March 31, 2025, Vendor A accounted for approximately 21% of the Company's total purchases.

Stock-Based Compensation

The Company accounts for stock based compensation arrangements with employees and non-employee consultants using a fair value method which requires the recognition of compensation expense for costs related to all stock based payments, including stock options (**Note 11**). The fair value method requires the Company to estimate the fair value of stock based payment awards to employees and non-employees on the date of grant using an option pricing model. Stock based compensation costs are based on the fair value of the underlying option calculated using the Black Scholes option pricing model and recognized as expense on a straight line basis over the requisite service period, which is the vesting period. Restricted stock unit awards are valued based on the closing trading value of the Company's common stock on the date of grant and then amortized on a straight-line basis over the requisite service period of the award. The Company measures equity-based compensation awards granted to non-employees at fair value as the awards vest and recognizes the resulting value as compensation expense at each financial reporting period.

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation (continued).

Determining the appropriate fair value model and related assumptions requires judgment, including estimating stock price volatility, expected dividend yield, expected term, risk free rate of return, and the estimated fair value of the underlying common stock. Due to the lack of company specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The historical volatility is calculated based on a period of time commensurate with the expected term assumption. The group of representative companies have characteristics similar to the Company, including stage of product development and focus on the lithium ion battery industry. The Company uses the simplified method, which is the average of the final vesting tranche date and the contractual term, to calculate the expected term for options granted to employees as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The risk free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company uses an assumed dividend yield of zero as the Company has never paid dividends and has no current plans to pay any dividends on its common stock. The Company accounts for forfeitures as they occur.

Income Taxes

On July 4, 2025, the One Big Beautiful Bill (the “OBBB”) Act was signed into law in the United States. The OBBB Act includes significant provisions, such as the permanent extension and modification of certain provisions of the U.S. Tax Cuts and Jobs Act of 2017, modifications to the international tax framework and the restoration of favorable tax treatment for certain business provisions. The legislation has multiple effective dates, with certain provisions beginning in 2025 and others beginning at various dates through 2027. The Company does not expect the OBBB Act to materially impact the Company’s income tax position as of March 31, 2026.

Net Loss per Common Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss earnings per share is calculated using the weighted-average number of common shares outstanding during the period and, if dilutive, the weighted-average number of potential shares of common stock.

The weighted-average number of common shares included in the computation of diluted net loss gives effect to all potentially dilutive common equivalent shares, including outstanding stock options and warrants.

Common stock equivalent shares are excluded from the computation of diluted net loss per share if their effect is antidilutive. In periods in which the Company reports a net loss, diluted net loss per share is generally the same as basic net loss per share since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

The following table sets forth the number of potential shares of common stock that have been excluded from diluted net loss per share because their effect was anti-dilutive:

	March 31,	
	2026	2025
Warrants	855,349	5,225,616
Restricted stock units	29,523	32,359
Series A Preferred Stock	-	384,000
Options	130,084	16,194
Weighted average number of common shares-basic	<u>1,014,956</u>	<u>5,658,169</u>

Reclassifications

Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the current year’s presentation. These reclassifications had no impact on previously reported net loss, total assets, total liabilities, stockholders’ equity, or the previously reported net decrease in cash and cash equivalents.

Segment Reporting

Operating segments are identified (**Note 12**) as components of the Company for which separate discrete financial information is available and that are regularly reviewed by the Company’s Chief Executive Officer, the chief operating decision maker, to make decisions about resource allocation and assess performance. The Company currently manages its business through two operating and reportable segments.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently issued accounting pronouncements:

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 a public entity to disclose additional information about specific expense categories in the notes to the financial statements on an annual and interim basis. It is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. In January 2025, the FASB issued ASU 2025-01 to clarify that all public entities, including non-calendar year-end entities, should adopt the disclosure requirements of ASU 2024-03. The Company is currently evaluating the impact.

In July 2025, the FASB issued ASU 2025-05, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets, which provides a practical expedient related to the estimation of expected credit losses for certain financial assets measured on an amortized cost basis, including current accounts receivable and current contract assets under FASB Accounting Standards Codification 606 - Revenues from Contracts with Customers. Under the practical expedient, a public entity may assume that current conditions as of the balance sheet date remain unchanged over the remaining life of the financial asset when developing reasonable and supportable forecasts used to estimate expected credit losses. This ASU is effective for the Company on January 1, 2026, with early adoption permitted. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In December 2025, the FASB issued ASU 2025-11, Interim Reporting (Topic 270): Narrow-Scope Improvements, which clarifies interim disclosure requirements and the applicability of Topic 270. This ASU is effective for the Company on January 1, 2028, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company’s own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes between the following:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the Company’s own assumptions about the inputs that market participants would use in pricing the asset or liability.

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NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents assets and liabilities that were measured at fair value in the Unaudited Condensed Consolidated Balance Sheets on a recurring basis as of March 31, 2026.

	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
	As of March 31, 2026				
Liabilities					
Warrant liability- Term Loan	\$ 181	\$ 181	\$ -	\$ 181	\$ -
Warrant liability- June Public Offering	26	26	-	26	-
Total liabilities	<u>\$ 207</u>	<u>\$ 207</u>	<u>\$ -</u>	<u>\$ 207</u>	<u>\$ -</u>

The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheets on a recurring basis as of December 31, 2025:

	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
	As of December 31, 2025				
Liabilities					
Warrant liability- Term Loan	\$ 565	\$ 565	\$ -	\$ 565	\$ -
Warrant liability- June Public Offering	148	148	-	148	-
Total liabilities	<u>\$ 713</u>	<u>\$ 713</u>	<u>\$ -</u>	<u>\$ 713</u>	<u>\$ -</u>

The carrying amounts of accounts receivable and accounts payable are considered level 1 and approximate fair value as of March 31, 2026 and December 31, 2025 because of the relatively short maturity of these instruments.

The carrying value of the term loan as of March 31, 2026 and December 31, 2025 approximates fair value as the interest rate does not differ significantly from the current market rates available to the Company for similar debt and is considered Level 2.

There was no Level 3 activity for the three months ended March 31, 2026 and 2025.

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NOTE 4 - INVENTORY

Inventory consists of the following:

	March 31, 2026	December 31, 2025
Raw material	\$ 20,579	\$ 20,933
Finished goods	3,720	3,301
Total inventory	<u>\$ 24,299</u>	<u>\$ 24,234</u>

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Litigation

From time to time the Company may be named in claims arising in the ordinary course of business. Currently, no legal proceedings, governmental actions, administrative actions, investigations or claims are pending against the Company or involve the Company that, in the opinion of the Company's management, could reasonably be expected to have a material adverse effect on the Company's business and financial condition.

Operating Leases

The Company has leases related to the main office, warehouse space, research and development lab, engineering office, and sales office, all located in Reno, Nevada. The leases require annual escalating monthly payments ranging from \$111 to \$309.

On May 8, 2025, the Company entered into a sixth lease amendment with its landlord to extend the lease term for an additional sixty-four (64) month period for the research and development lab and engineering office in Reno, Nevada. Under the terms of the amended lease, the base rent due shall be fully abated for the four (4) month period commencing on August 1, 2025, and ending on November 30, 2025. The lease is set to expire on November 30, 2030.

The following table presents the breakout of the operating leases as of:

	March 31, 2026	December 31, 2025
Operating lease right-of-use assets	\$ 14,951	\$ 15,240
Short-term operating lease liabilities	2,447	2,533
Long-term operating lease liabilities	19,955	20,470
Total operating lease liabilities	<u>\$ 22,402</u>	<u>\$ 23,003</u>
Weighted average remaining lease term	7.69 years	7.88 years
Weighted average discount rate	8.00%	7.99%

Assumptions used in determining our incremental borrowing rate include our implied credit rating and an estimate of secured borrowing rates based on comparable market data.

At March 31, 2026, the future minimum lease payments under these operating leases are as follows:

Fiscal Years Ending	
December 31, 2026 ⁽¹⁾	\$ 3,221
December 31, 2027	3,746
December 31, 2028	3,860
December 31, 2029	3,614
December 31, 2030	3,446
Thereafter	12,600
Total lease payments	<u>30,487</u>
Less imputed interest	8,085
Total operating lease liabilities	<u>\$ 22,402</u>

(1) Represents scheduled payments for the remaining nine-month period ending December 31, 2026.

Lease cost	Classification	For The Three Months Ended March 31,	
		2026	2025
Operating lease cost	Cost of goods sold	\$ 452	\$ 627
Operating lease cost	Research and development	43	40
Operating lease cost	General and administration	233	817
Operating lease cost	Selling and marketing	14	13
Total lease cost		<u>\$ 742</u>	<u>\$ 1,497</u>

All lease costs included in the schedule above are fixed.

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NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Financing Leases

The Company entered into finance lease agreements for equipment to support the Company's operations. Payments under the finance lease agreements are fixed for a term of 3-5 years. The leased assets are recognized in property plant & equipment.

The following table presents the breakout of the financing leases as of:

	March 31, 2026	December 31, 2025
Finance lease right-of-use assets	\$ 76	\$ 85
Short-term finance lease liabilities	28	35
Long-term finance lease liabilities	23	28
Total finance lease liabilities	\$ 51	\$ 63
Weighted average remaining lease term	2.10 years	2.15 years
Weighted average discount rate	5.2%	5.2%

Assumptions used in determining our incremental borrowing rate include our implied credit rating and an estimate of secured borrowing rates based on comparable market data.

At March 31, 2026, the future minimum lease payments under these financing leases are as follows:

Fiscal Years Ending	
December 31, 2026 ⁽¹⁾	\$ 24
December 31, 2027	18
December 31, 2028	9
December 31, 2029	3
Total lease payments	54
Less imputed interest	3
Total financing lease liabilities	\$ 51

(1) Represents scheduled payments for the remaining nine-month period ending December 31, 2026.

Other Contingencies

In March 2025, the Company agreed to pay LithiumHub a total of \$2,500, of which approximately \$562 is payable in 2025 and approximately \$1,938 is payable in 2026, in exchange for a non-exclusive license in LithiumHub Technologies, LLC's patent rights related to the Patents-in-Suit. In accordance with the Settlement Agreement, the Company and LithiumHub terminated the ongoing patent litigation between them. The Settlement Agreement includes no admission of infringement by the Company. On October 22, 2025, the Company paid the settlement amount in full.

NOTE 6 - LONG TERM DEBT

Term Loan Agreement

As of March 31, 2026 and December 31, 2025, the Company had an outstanding term loan (the "Term Loan") under a Term Loan, Guarantee and Security Agreement (the "Term Loan Agreement"), dated October 7, 2022, with EICF Agent LLC, as agent, and certain lenders. As amended, the Term Loan matures on October 7, 2027 and requires monthly installments based on 0.4167% of the principal amount of Term Loans outstanding beginning December 1, 2025. The obligations under the Term Loan Agreement are secured by a first priority lien on substantially all of the Company's assets, including certain mortgaged properties.

Prior to any amendments, the Term Loan accrued interest based on the Company's senior leverage ratio. From inception through September 30, 2024, interest accrued at a per annum rate equal to adjusted SOFR (subject to a floor of 1.0%) plus 7.0% payable in cash, plus an additional 4.5% to 6.5% payable in kind ("PIK"), depending on the Company's senior leverage ratio. Effective April 1, 2024, interest payable to lenders subject to the regulations of the U.S. Small Business Administration (with \$30,846 of principal outstanding as of that date) was limited to 14.0% per annum, excluding default interest permitted under applicable SBA regulations. From October 1, 2024 through March 31, 2025, interest on the non SBA regulated portion continued to accrue at adjusted SOFR plus 7.0% payable in cash, and 4.5% to 6.5% payable in kind. Beginning April 1, 2025, interest on all outstanding balances will be payable entirely in cash, at a rate equal to adjusted SOFR plus a margin ranging from 11.5% to 13.5%, depending on the Company's senior leverage ratio. Effective October 20, 2025, the Term Loan was amended to adjust the fixed interest rate of the remaining outstanding principal amount under the Term Loan Agreement to a fixed interest rate of 12% per annum, payable monthly commencing December 31, 2025 that will mature in October 2027.

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NOTE 6 - LONG TERM DEBT (CONTINUED)

Term Loan Agreement (continued)

During the three months ended March 31, 2026 and 2025, the Company recognized interest expense of \$576 and \$3,579, respectively. Amortization of the debt issuance costs amounted to \$921 and \$1,095, respectively, for the same periods. As of March 31, 2026, the carrying value of the Term Loan was \$10,325, consisting of \$19,103 in principal net of \$8,778 in unamortized debt discount. As of December 31, 2025, the carrying value of the Term Loan was \$9,645, consisting of \$19,344 in principal net of \$9,699 in unamortized debt discount.

Subsequent to the original execution of the Term Loan Agreement, the Company entered into six amendments which modified terms of the facility, including, but not limited to, interest rate mechanics, the timing of principal payments, and certain financial and operational covenants. All six amendments were in effect as of March 31, 2026.

Financial Covenants

The Company is subject to two restrictive financial covenants, one which pertains to liquidity, requiring the Company to maintain cash and cash equivalents equal to or greater than \$5,000 through December 31, 2026, and a maximum capital expenditure threshold of \$5,000 per year. The financial covenants pertaining to maximum senior leverage ratio and fixed charge coverage ratio are both delayed until the quarter ending March 31, 2027.

At March 31, 2026, the future debt maturities are as follows:

Fiscal Years Ending		
December 31, 2026 ⁽¹⁾	\$	704
December 31, 2027		18,399
Total debt		19,103
Less: Unamortized debt issuance costs		(8,778)
Total carrying amount		10,325
Less: Current portion of debt		(466)
Total long-term debt	\$	9,859

(1) Represents scheduled payments for the remaining nine-month period ending December 31, 2026.

NOTE 7 - RELATED PARTY

On March 15, 2026, the Company's executive leadership team agreed to reduce their salaries by approximately 20% for the remainder of fiscal 2026, effective April 1, 2026. The adjusted salaries are as follows: Dr. Phares - \$498; Mr. Seaburg - \$221; Mr. Bourns - \$264; and Dr. Singh - \$280.

In lieu of cash compensation, the executives were granted stock options under the Company's 2022 Plan at an exercise price of \$2.99 per share: Dr. Phares - 38,269 shares; Mr. Seaburg - 36,607 shares; Mr. Bourns - 20,303 shares; and Dr. Singh 21,534 shares. The options vest in three equal annual installments beginning April 1, 2026, subject to continued service and the terms of the Plan.

Additionally, each non-employee director agreed to a comparable 20% reduction in cash compensation for the remainder of fiscal 2026. In lieu thereof, the directors were granted and aggregated of 13,364 RSUs under the Plan, subject to the same vesting terms and continued Board service.

NOTE 8 - WARRANTS

Common Stock Warrants classified as Equity

Public Warrants

The Company's Public Warrants are classified as equity and as of March 31, 2026 and December 31, 2025, there were 104,695 Public Warrants issued and outstanding.

During the three months ended March 31, 2026 and 2025, no public warrants were exercised.

The following table presents a roll-forward of the Company's equity warrants from January 1, 2026 to March 31, 2026:

	Public Warrants	Underwriters' Warrants	Pre-Funded Underwriters' Warrants
Warrants Outstanding, January 1, 2026	104,695	6,336	500,000
Exercise of warrants	-	-	-

Warrants issued	-	-	-
Underwriters' Warrants Outstanding, March 31, 2026	<u>104,695</u>	<u>6,336</u>	<u>500,000</u>

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NOTE 8 - WARRANTS (CONTINUED)

Common Stock Warrants classified as Liability

Private Placement Warrants

There were 16,682 private warrants outstanding as of March 31, 2026 and December 31, 2025, respectively. The Company accounts for the Private Warrants issued in connection with the Initial Public Offering in accordance with the guidance contained in ASC 815-40. Such guidance provides that because the private warrants do not meet the criteria for equity treatment thereunder, each private warrant must be recorded as a liability. This liability is subject to re-measurement at each balance sheet date.

With each such re-measurement, the warrant liabilities will be adjusted to its current fair value, with the change in fair value recognized in the Company's statement of operations. The Company will reassess the classification at each balance sheet date.

The Private Placement Warrants are classified as Level 2 within the fair value hierarchy. Although these instruments are not actively traded, they are valued based on observable inputs, including the market price of the Company's publicly traded warrants. The Company used a Black-Scholes model to estimate the fair value of the Private Placement Warrants, applying a discount to the value of the Public Warrants to account for the difference in remaining life. Because the valuation primarily relies on observable market data with limited adjustments, the Company determined that classification within Level 2 is appropriate.

Term Loan Warrants

In connection with the entry into the Term Loan Agreement on October 7, 2022, and as a required term and condition thereof, the Company issued (i) the penny warrants to the Term Loan Lenders exercisable to purchase an aggregate of 28,812 shares of Common Stock (the "Original Penny Warrants") and (ii) the \$900.00 warrants to issue warrants to the Term Loan Lenders exercisable to purchase an aggregate of 17,778 shares of Common Stock at \$900 per share (the "\$10 Warrants" and, together with the Original Penny Warrants, the "Term Loan Warrants").

On February 26, 2025, the Company entered into the Fifth Amendment to the Term Loan with the Term Loan Lenders in connection with the February 2025 securities purchase agreement (see **Note 8**). The Fifth Amendment provided for a one-time issuance the February 2025 Penny Warrants to purchase up to 33,000 shares of the Company's Common Stock, at an exercise price of \$0.01 per share. The February 2025 Penny Warrants are immediately exercisable upon issuance and will expire ten years from the date of issuance.

During the three months ended March 31, 2026, Original Penny Warrant holders exercised 70,267 warrants on a cashless basis, with the Company agreeing to issue 69,985 shares of Common Stock in connection with such exercise.

The May 2024 Penny Warrants, the June 2024 Penny Warrants, the September 2024 Penny Warrants, the December 2024 Penny Warrants, and the February 2025 Penny Warrants were valued utilizing a Black-Scholes model to estimate fair value at the grant date, with the following assumptions:

	May 2024 penny warrants	June 2024 penny warrants	September 2024 penny warrants	December 2024 penny warrants	February 2025 penny warrants
Stock price	\$ 107.10	\$ 76.50	\$ 47.70	\$ 27.80	\$ 21.20
Strike price	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Term	10 years	10 years	10 years	10 years	10 years
Volatility	88%	91%	90%	90%	90%
Risk-free rate	4.5%	4.4%	3.8%	4.6%	4.3%

The Company concluded the Penny Warrants are not considered indexed to the Company's Common Stock and to be accounted for as liabilities under ASC 815. As such, the estimated fair value is recognized as a liability each reporting period, with changes in the fair value recognized within income each period. There were no Term Loan Warrants outstanding prior to the merger.

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NOTE 8 - WARRANTS (CONTINUED)

Common Stock Warrants classified as Liability (Continued)

Term Loan Warrants (continued)

The following table provides the significant inputs to the Black-Scholes method for the fair value of the Penny Warrants:

	As of March 31, 2026	As of December 31, 2025
Common stock price	\$ 1.74	\$ 3.25
Exercise price	0.01	0.01
Dividend yield	0%	0%
Term	6.52-8.91	6.77-9.16
Volatility	162.5%	530.8%
Risk-free rate	4.0% - 4.2%	4.0% - 4.2%
Fair value	\$ 1.74	\$ 3.25

The following table provides the significant inputs to the Black-Scholes method for the fair value of the Investor Warrants issued in the June 2023 Offering:

	As of March 31, 2026	As of December 31, 2025
Common stock price	\$ 1.74	\$ 3.25
Exercise price	\$ 180	\$ 180
Dividend yield	0%	0%
Term	2.23	2.48
Volatility	153.7%	571.4%
Risk-free rate	3.7%	3.7%
Fair value	\$ 0.206	\$ 3.25

The following table presents a roll-forward of the Company's warrants from January 1, 2026 to March 31, 2026:

	Private Warrants	Term Loan Warrants	Investor Warrants
Warrants Outstanding, January 1, 2026	16,682	174,215	123,688
Exercise of warrants	-	(70,267)	-
Warrants issued	-	-	-
Warrants Outstanding, March 31, 2026	<u>16,682</u>	<u>103,948</u>	<u>123,688</u>

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NOTE 9 - REDEEMABLE PREFERRED STOCK

Series B Convertible Preferred Stock

The Company's Series B Convertible Preferred Stock (the "Series B Preferred Stock") was issued in connection with the Sixth Amendment to the Term Loan entered into on October 20, 2025, pursuant to which \$25.0 million of outstanding principal was exchanged for 25,000 shares of Series B Preferred Stock with an aggregate liquidation preference of \$25.0 million. The Series B Preferred Stock is non-voting and carries a base liquidation preference of \$1,000 per share, plus accrued and unpaid dividends, senior to the Company's common stock in a liquidation. Dividends accrue at 10% per annum, with 80% payable in cash and 20% payable in kind and added to the liquidation preference; any unpaid cash dividends may also be paid in kind and added to the liquidation preference.

Each share of Series B Preferred Stock is convertible, at the holder's option beginning six months after the original issuance date, into shares of the Company's common stock at a fixed conversion price of \$3.15 per share, subject to a minimum aggregate value of \$500,000 per conversion (other than a final conversion) and customary beneficial ownership and exchange caps. The Series B Preferred Stock is redeemable at the Company's option and under certain holder-option and other specified circumstances, generally at a price per share equal to the greater of (i) the liquidation preference (including accrued but unpaid dividends) and (ii) the value on an as-converted basis determined with reference to recent volume-weighted average trading prices of the Company's common stock.

The Company evaluated the Series B Preferred Stock under ASC 480, Distinguishing Liabilities from Equity, and concluded it is not a liability because it is not mandatorily redeemable and does not otherwise meet the definition of a liability. The host contract was determined to be more akin to debt for purposes of ASC 815, Derivatives and Hedging; the conversion feature is not clearly and closely related to the host but qualifies for the equity classification scope exception because the conversion price is fixed and the instrument is indexed to the Company's own stock. Because certain redemption rights are not solely within the Company's control, the Series B Preferred Stock is presented as temporary equity and initially measured at fair value. The carrying amount is being accreted to the redemption value over the expected term, and dividends (cash and paid-in-kind) are recognized as preferred dividends.

For the three months ended March 31, 2026, the Company recognized accreted dividends of \$468, related to the Series B Preferred Stock.

NOTE 10 - COMMON STOCK

Common stockholders are entitled to dividends if and when declared by the Board of Directors subject to the rights of the preferred stockholders. No dividends on common stock had been declared by the Company.

On January 30, 2026, the Company entered into an Equity Distribution Agreement with Canaccord Genuity LLC, as lead agent and representative of the other sales agents, establishing an at-the-market offering program under which the Company may, from time to time and at its discretion, offer and sell up to \$50 million of its common stock. The Company is not obligated to sell any shares under the program and retains sole discretion over the timing, amount, pricing, and other terms of any sales effected through the lead agent. The program is intended to provide the Company with a flexible source of capital to support its liquidity needs and is subject to customary closing conditions, a 3% sales commission and reimbursement of specified expenses payable to the agents, and customary indemnification and contribution provisions. As of March 31, 2026, the Company did not sell any stock under the agreement.

For the three months ended March 31, 2026 and 2025, the Company had reserved shares of common stock for issuance as follows:

	March 31, 2026	March 31, 2025
Options issued and outstanding	130,084	16,194
Common stock outstanding	12,148,783	758,964
Warrants outstanding	855,349	5,225,616
Earnout shares	277,778	277,778
Series A Preferred Stock outstanding	-	384,000
Shares available for future issuance	1,504,929	122,725
Total	14,916,923	6,785,277

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NOTE 11 - STOCK-BASED COMPENSATION

On October 15, 2025 at the 2025 Annual Meeting of Stockholders (the “Annual Meeting”) of the Company, the Company’s stockholders approved an amendment (the “Plan Amendment”) to the Company’s 2022 Equity Incentive Plan (the “2022 Plan”) increasing the number of shares available for issuance under the 2022 Plan by 900,000 shares. The Plan Amendment became effective following its approval by the Company’s stockholders.

The Company maintains the Dragonfly Energy Holdings Corp. Employee Stock Purchase Plan (the “ESPP”) which is designed to allow eligible employees and the eligible employees of the Company’s participating subsidiaries to purchase shares of the Company’s common stock, at semi-annual intervals, with their accumulated payroll deductions. A total of 27,382 shares of the Company’s common stock were initially available for issuance under the ESPP. The share limit will automatically increase on the first trading day in January of each year by an amount equal to lesser of (1) 1% of the total number of outstanding shares of the Company’s common stock on December 31 in the prior year, (2) 16,667 shares, or (3) such number as determined by the Company’s board of directors.

The Company maintains the Dragonfly Energy Corporation, Inc. Employee Stock Purchase Plan which permits eligible employees to purchase shares at not less than 85% of the market value of the Company’s common stock on the offering date or the purchase date of the applicable offering period, whichever is lower. The plan was adopted by the Company’s Board of Directors on May 13, 2022.

During the three months ended March 31, 2026 and 2025, the Company did not issue any shares of common stock under the ESPP.

A summary of the Company’s option activity and related information follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (in years)	Aggregate intrinsic value
Balances, January 1, 2026	13,407	\$ 241.49	\$ 240.31	5.64	\$ -
Options granted	116,713	2.99	2.99	9.95	-
Options forfeited	(1)	314.59	311.00	-	-
Options expired	(35)	263.51	259.80	-	-
Balances, March 31, 2026	<u>130,084</u>	<u>\$ 27.50</u>	<u>\$ 27.38</u>	<u>9.44</u>	<u>\$ -</u>
At March 31, 2026					
Vested and Exercisable	13,324	\$ 239.87		4.97	\$ -
Vested and expected to vest	130,084	\$ 27.50		9.44	\$ -

During the three months ended March 31, 2026, the Company issued 116,713 stock options. During the three months ended March 31, 2025, the Company did not issue any stock options.

Share-based compensation expense for options and RSUs totaling \$100 and \$220 was recognized in the Company’s consolidated statements of operations for the three months ended March 31, 2026 and 2025, respectively.

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NOTE 11 - STOCK-BASED COMPENSATION (CONTINUED)

Of the \$100 of share-based compensation incurred during the three months ended March 31, 2026, \$3 is allocated to cost of goods sold, \$4 to research and development, \$20 to selling and marketing, and \$73 to general and administrative expenses. Of the \$220 of share-based compensation incurred during the three months ended March 31, 2025, \$18 is allocated to cost of goods sold, \$14 to research and development, \$61 to selling and marketing, and \$127 to general and administrative expenses.

The valuation methodology used to determine the fair value of the options issued during the year was the Black Scholes option pricing model. The Black Scholes model requires the use of a number of assumptions including volatility of the stock price, the fair value of the underlying stock, the average risk free interest rate, and the weighted average expected life of the options. The expected term was estimated using the simplified method due to lack of sufficient history of option exercises.

	March 31, 2026
Weighted average fair value of options granted	\$ 1.40
Risk-free interest rate	3.92%
Volatility	45.12%
Expected life (years)	5.53
Dividend yield	0.00%

Restricted Stock Units

The following table presents the restricted stock units activity for the three months ended March 31, 2026:

	Number of Shares	Weighted-Average Fair Market Value
Unvested shares, January 1, 2026	16,787	\$ 45.16
Granted	13,364	1.73
Exercised	(89)	94.54
Forfeited	(539)	35.06
Unvested shares, March 31, 2026	<u>29,523</u>	<u>\$ 26.42</u>

As of March 31, 2026 and 2025 there were 1,504,929 and 122,725 shares, respectively, of unissued authorized and available for future awards under the 2022 Equity Incentive Plan and Employee Stock Purchase Plan.

NOTE 12 - REPORTABLE SEGMENTS

The Company has two reportable segments: DTC and OEM. The DTC segment pertains to Battle Born, LLC branded batteries which are sold directly to consumers. The OEM segment pertains to Dragonfly branded batteries which are sold to original equipment manufacturers

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance for all of its reportable segments based on both segment gross and net profit or loss from operations.

For the DTC and OEM, the Chief Operating Decision Maker (“CODM”) uses both segment gross and net profit and loss from operations to allocate resources (including employees, property, and financial or capital resources) for each segment predominantly in the annual budget and forecasting process.

Assets information for the reported segments is not disclosed as it is not used by the Chief Operating Decision Maker CODM in evaluating the performance of, or making decisions about, the reported segments.

The Company’s reportable segments are strategic business units that offer different branded products. They are managed separately because each segment requires different technology and marketing strategies.

The Company’s CODM is the Chief Executive Officer.

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 12 - REPORTABLE SEGMENTS (CONTINUED)

The following table presents the reportable segments information for the three months ended March 31, 2026:

	<u>DTC</u>	<u>OEM</u>	<u>Other</u>	<u>Total</u>
Net Sales	\$ 3,702	\$ 5,752	\$ 250 ⁽¹⁾	\$ 9,704
<i>Reconciliation of Net Sales</i>				
Reconciling items				-
Consolidated Net Sales				<u>\$ 9,704</u>
Direct material	2,500	3,546	-	6,046
Direct labor	386	441	-	827
Direct overhead and depreciation	523	598	-	1,121
Total Cost of Goods Sold	3,409	4,585	-	7,994
Gross profit	293	1,167	250	1,710
Operating Expenses				
Research & development	-	-	980 ⁽²⁾	980
Credit card & amazon transaction fees	82	-	-	82
Other general & administrative	-	-	4,400 ⁽³⁾	4,400
Shipping	228	136	-	364
Sales and marketing stock compensation	2	13	-	15
Sales and marketing wages	199	294	-	493
Marketing spend	648	69	-	717
Rent	14	4	-	18
Unallocated sales and marketing stock compensation	-	-	243 ⁽⁴⁾	243
Unallocated sales and marketing wages	-	-	5 ⁽⁴⁾	5
Other sales & marketing	-	-	120 ⁽⁴⁾	120
Total Operating Expenses	1,173	516	5,748	7,437
Loss from operations	(880)	651	(5,498)	(5,727)
Other income (expense)	-	-	61	61
Interest expense, net	-	-	(1,465)	(1,465)
Change in FMV of warrant liability	-	-	506	506
Total Other Income (Expense)	-	-	(898) ⁽⁵⁾	(898)
Net Loss Before Taxes	(880)	651	(6,396)	(6,625)
Income Tax Benefit	-	-	-	-
Net Income (Loss)	\$ (880)	\$ 651	\$ (6,396)	\$ (6,625)
<i>Reconciliation of net loss</i>				
Reconciling items				-
Consolidated net loss				<u>\$ (6,625)</u>

(1) Licensing Revenue which is not considered a segment as it is currently immaterial

(2) Research and Development expenses including employee costs related to new products

(3) Administrative and Engineering employee costs along with legal, insurance, professional fees related to administration and other general office expenses

(4) General sales and marketing employee cost and other marketing expenses

(5) Interest expense related to debt and change in fair market value of warrant liability

There were no significant customer revenues from the Company's DTC segment for the three months ended March 31, 2026.

Revenues from one customer of the Company's OEM segment represents approximately \$1,369, or 14%, of the Company's consolidated revenues for the three months ended March 31, 2026.

DRAGONFLY ENERGY HOLDINGS CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 12 - REPORTABLE SEGMENTS (CONTINUED)

The following table presents the reportable segments information for the three months ended March 31, 2025:

	<u>DTC</u>	<u>OEM</u>	<u>Other</u>	<u>Total</u>
Net Sales	\$ 5,015	\$ 8,091	\$ 250 ⁽¹⁾	\$ 13,356
<i>Reconciliation of Net Sales</i>				
Reconciling items				-
Consolidated Net Sales				<u>\$ 13,356</u>
Direct material	2,889	4,659	-	7,548
Direct labor	321	484	-	805
Direct overhead and depreciation	429	646	-	1,075
Total Cost of Goods Sold	3,639	5,789	-	9,428
Gross profit	1,376	2,302	250	3,928
Operating Expenses				
Research & development	-	-	1,000 ⁽²⁾	1,000
Sales tax adjustment	2	-	-	2
Credit card & amazon transaction fees	114	-	-	114
Other general & administrative	-	-	6,241 ⁽³⁾	6,241
Shipping	338	287	-	625
Sales and marketing stock compensation	10	38	-	48
Sales and marketing wages	197	311	-	508
Marketing spend	675	71	-	746
Rent	14	4	-	18
Unallocated sales and marketing stock compensation	-	-	292 ⁽⁴⁾	292
Unallocated sales and marketing wages	-	-	14 ⁽⁴⁾	14
Other sales & marketing	-	-	234 ⁽⁴⁾	234
Total Operating Expenses	1,350	711	7,781	9,842
Loss from operations	26	1,591	(7,531)	(5,914)
Interest expense, net	-	-	(4,701)	(4,701)
Change in FMV of warrant liability	-	-	3,818	3,818
Total Other Income (Expense)	-	-	(883) ⁽⁵⁾	(883)
Net Loss Before Taxes	26	1,591	(8,414)	(6,797)
Income Tax Benefit	-	-	-	-
Net Income (Loss)	\$ 26	\$ 1,591	\$ (8,414)	\$ (6,797)
<i>Reconciliation of net loss</i>				
Reconciling items				-
Consolidated net loss				<u>\$ (6,797)</u>

(1) Licensing Revenue which is not considered a segment as it is currently immaterial

(2) Research and Development expenses including employee costs related to new products

(3) Administrative and Engineering employee costs along with legal, insurance, professional fees related to administration and other general office expenses

(4) General sales and marketing employee cost and other marketing expenses

(5) Interest expense related to debt and change in fair market value of warrant liability

There were no significant customer revenues from the Company's DTC segment for the three months ended March 31, 2025.

Revenues from one customer of the Company's OEM segment represents approximately \$2,300, or 18%, of the Company's consolidated revenues for the three months ended March 31, 2025.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to March 31, 2026, the remaining outstanding penny warrants of 103,948 warrants were exercised in full on a cashless basis, resulting in the issuance of 103,390 shares of common stock.

Subsequent to March 31, 2026, the Company issued and sold approximately 379,700 shares of common stock under the Equity Distribution Agreement with Canaccord Genuity LLC, resulting in additional net cash proceeds of approximately \$768.

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

References in this report (the “Quarterly Report”) to “we,” “us,” “our” or the “Company” refer to Dragonfly Energy Holdings Corp., a Nevada corporation. References to “Legacy Dragonfly” refer to Dragonfly Energy Corp., a Nevada corporation and one of our wholly-owned subsidiaries. The following discussion and analysis of the Company’s financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto contained elsewhere in this Quarterly Report. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this Quarterly Report and with our audited consolidated financial statements (and notes thereto) for the year ended December 31, 2025 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 30, 2026 (the “Annual Report”), particularly those under “Risk Factors.” This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.

CAUTIONARY NOTE REGARDING FORWARD LOOKING-STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “can,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “seek,” “estimate,” “continue,” “plan,” “point to,” “project,” “predict,” “could,” “intend,” “target,” “potential” and other similar words and expressions of the future.

There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- our ability to service our outstanding indebtedness and comply with the financial covenants in our loan agreement, the failure of which could allow our lenders to accelerate payment under our loan agreement, which would have a material adverse effect on our ability to operate and could require us, among other things, to reduce operations, sell off our assets, seek the protection of bankruptcy courts or shut down our operations and dissolve;
- the potential impact of the conversion and the terms of our outstanding Series B Convertible Stock (the “Series B Preferred Stock”) on the market price of our common stock and our ability to redeem and make dividend payments with respect to our Series B Preferred Stock;
- our ability to raise additional capital to fund our operations;
- our ability to successfully increase market penetration into target markets;
- our ability to maintain the listing of our common stock and public warrants on the Nasdaq Capital Market;
- the addressable markets that we intend to target do not grow as expected;
- the potential for events or circumstances that result in our failure to timely achieve the anticipated benefits of our customer arrangements, including with Stevens Transport;
- our ability to generate revenue from future product sales in our existing markets or new markets that we enter, including the trucking and industrials markets, and our ability to achieve and maintain profitability;
- the loss of any members of our senior management team or other key personnel;
- the loss of any relationships with key suppliers, including suppliers in China;
- the loss of any relationships with key customers;
- our ability to protect our patents and other intellectual property;
- our ability to engage target customers and successfully retain these customers for future orders;
- the failure to successfully optimize solid-state cells or to produce commercially viable solid-state cells in a timely manner or at all, or to scale to mass production;
- the failure to produce lithium battery cells in the United States in a timely manner or at all, or to scale to mass production;
- the outcome of pending litigation and potential product liability claims;
- the failure to timely achieve the anticipated benefits of our licensing arrangement with Stryten Energy LLC (“Stryten”);
- changes in applicable laws or regulations, including changes in the rates of tariffs or any adjustments to the amounts payable by us to customs as a result of improperly identifying the applicable tariff rate payable on our products;
- the possibility that we may be adversely affected by other economic, business and/or competitive factors (including an economic slowdown or inflationary pressures);
- our ability to sell the desired amounts of shares of common stock at desired prices under our committed equity facility;
- the accuracy of our projections and estimates regarding our expenses, capital requirements, cash utilization, and need for additional financing;
- developments relating to our competitors and our industry;
- the reliance on two suppliers for our lithium iron phosphate cells and a single supplier for the manufacture of our battery management system;
- our current dependence on one manufacturing facility; and
- the potential impact of global and macroeconomic conditions, including economic, political and social instability, including the Russia-Ukraine conflict, the India-Pakistan conflict, Hamas’ attack on Israel and the Iranian conflict, and their effects on our operations.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in such forward-looking statements. Please see “*Part I-Item 1A-Risk Factors*” of our Annual Report and in this Quarterly Report for additional risks which could adversely impact our business and financial performance.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this Quarterly Report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaims any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

Overview

Our Business

We are a manufacturer of non-toxic deep cycle lithium-ion batteries that caters to customers in the consumer industry (including the recreational vehicle (“RV”), marine vessel, solar and off-grid residence industries), and trucking, industrial and energy storage markets, with proprietary, patented and disruptive battery cell manufacturing and non-flammable solid-state cell technology currently under development.

Since 2020, we have sold over 382,000 batteries. For the quarters ended March 31, 2026, and March 31, 2025, we sold 5,783 and 10,845 batteries, respectively, and had \$9.7 million and \$13.4 million in net sales, respectively. We currently offer several lines of batteries across our two brands, each differentiated by size, power and capacity, consisting of seven different models, which come with an option for internal heat for cold temperature operation or an option for wireless communication using our Dragonfly IntelLigence feature. As a result of changes to our marketing focus and corporate objectives, we are focusing our selling efforts of “Battle Born” branded batteries primarily to original equipment manufacturers (“OEMs”) as well as directly to consumers (“DTC”).

Our decrease in sales was primarily attributable to RV OEM customers right sizing inventory levels in response to a slower-than-anticipated market recovery, as reflected in RVIA shipment data for the quarter, as well as overall macroeconomic conditions. DTC sales declined due to macroeconomic pressures on consumer demand. In addition, during the quarter, we experienced increased negative third-party online commentary regarding some of our products, which may have impacted customer sentiment and contributed to variability in demand. We expect our sales to increase in the next 12 months as our customers expand the number of models they include our battery systems in for the new model year and our entrance into new markets, trucking and industrials, with new product offerings.

During the first quarter of 2026, we continued to implement our corporate optimization initiative, prioritizing product development to drive near term revenue and profit. For instance, this strategic shift is accelerating our development of purpose-built solutions for the trucking and industrial markets, resulting in the recent launch of our Battle Born DualFlow Power Pack, a practical, cost-effective hybrid electrification solution for the trucking industry. Subsequent to first quarter end, we received a purchase order from Stevens Transport valued in excess of \$3 million for approximately 500 trucks, representing one of the largest single-fleet deployments of our heavy-duty trucking solutions to date and spanning our full product portfolio.

In addition, in April 2026, we announced we have received an allowance from the Japan Patent Office for our application titled “Powderized Solid-State Electrolyte and Electroactive Materials.” This marks our first patent application allowance in Japan and covers innovations in powderized solid-state electrolyte and electroactive materials, a core component of our solid-state battery development and dry electrode manufacturing platform.

We currently source the lithium iron phosphate (“LFP”) cells incorporated into our batteries from a limited number of carefully selected suppliers that can meet our demanding quality standards and with whom we have developed long-term relationships.

To supplement our battery offerings, we are also a reseller of accessories for battery systems. These include chargers, inverters, monitors, controllers and other system accessories from brands such as Victron Energy, Progressive Dynamics, Magnum Energy and Sterling Power. Pursuant to the Asset Purchase Agreement dated April 22, 2022 by and among us and Thomason Jones Company, LLC (“Thomason Jones”) and the other parties thereto, we also acquired the assets, including the Wakespeed Offshore brand (“Wakespeed”) of Thomason Jones, allowing us to include our own alternator regulator in systems that we sell.

In addition to our conventional LFP batteries, we have been developing proprietary dry electrode cell manufacturing processes and solid-state cell technology. We believe that our solid-state technology design allows for a much safer, more efficient battery cell that we believe will be a key differentiator in the energy storage market.

In July 2023, we completed the construction of our proprietary and patented cell electrode manufacturing pilot line. Our patented dry deposition process is chemistry agnostic - meaning it can produce battery cells across a variety of chemistries - and is less capital intensive, uses less energy, and can produce cells in a smaller manufacturing footprint, leading to a lower total cost of manufacturing. In August 2023, we successfully demonstrated the ability to produce anode material at scale using this manufacturing process and did the same with cathode material in October 2023. We have since produced sample cells using PFAS-free binders and automotive-grade electrode loadings and C-rates, and are now working on the design and deployment of scaled-up coating equipment that can be applied to a GWh-scale factory, reflecting the shift in industry priorities from cell performance to cost-effective scalability.

As of March 31, 2026, we had cash totaling \$8.6 million. Our net loss for the quarter ended March 31, 2026 was \$6.6 million and our net loss for the quarter ended March 31, 2025 was \$6.8 million. As discussed under “-Liquidity and Capital Resources” below we expect that we will need to raise additional funds, including through the use of the ATM (as defined below) and the issuance of equity, equity-related or debt securities or by obtaining additional credit from financial institutions to fund, together with our principal sources of liquidity, ongoing costs. If such financings are not available, or if the terms of such financings are less desirable than we expect, we may be forced to take actions to reduce our capital or operating expenditures, including not seeking potential acquisition opportunities, eliminating redundancies, or reducing or delaying our production facility expansions, reduce operations, sell off our assets, seek the protection of bankruptcy courts or shut down our operations and dissolve.

License Agreement with Stryten

On July 29, 2024, Legacy Dragonfly and Battle Born Battery Products, LLC (“Battle Born LLC”), a wholly-owned subsidiary of Legacy Dragonfly, entered into a License Agreement (the “License Agreement”) with Stryten. Pursuant to the License Agreement, Battle Born LLC granted Stryten an exclusive, worldwide license to use certain trademarks relating to Legacy Dragonfly’s lithium-ion battery brand, Battle Born Batteries® (the “Licensed Trademarks”) for business-to-business sales of batteries to customers within the following markets: (i) automotive, (ii) marine, (iii) powersports, (iv) lawn and garden, (v) golf cart, and (vi) military and defense (such industries, the “Stryten Market”). In exchange for the licensing rights, Stryten agreed to pay Battle Born LLC an initial licensing fee of five million dollars (\$5,000,000) (the “Initial Licensing Fee”), which was paid on August 29, 2024.

The License Agreement provides for mid-single digit royalty payments based on net sales using the Licensed Trademarks, with a tiered structure reaching up to twenty-five million dollars (\$25,000,000), at which point Stryten will be required to pay a nominal annual license fee. Additional fees will apply for battery design and contract manufacturing services outside of the License Agreement. The License Agreement is perpetual in term, unless terminated by: (i) Battle Born LLC if Stryten fails to pay the royalty payments required by the License Agreement and such royalty payments remain unpaid thirty (30) days after notice of such overdue payments (provided that Battle Born LLC uses reasonable efforts to discuss such overdue payments with Stryten), or (ii) either party (x) if the other party materially breaches the License Agreement and fails to cure such material breach within thirty (30) days of notice of such breach, (y) upon the occurrence of certain bankruptcy-related events, or (z) under certain circumstances, if the aggregate royalty payments received by Battle Born LLC under the License Agreement are less than fifteen million dollars (\$15,000,000) after five (5) years.

Earnout Merger Consideration

In addition to the initial merger consideration in connection with our business combination in October of 2022, up to 444,445 additional shares of common stock (“Earnout Shares”) may be issued based on achieving specified milestones in three tranches:

1. First Tranche (166,667 shares): Issuable if 2023 total audited revenue is at least \$250 million and audited operating income is at least \$35 million. This milestone was not achieved for 2023.
2. Second Tranche (138,889 shares): Issuable if the volume-weighted average trading price of common stock reaches \$2,025.00 over any 20 trading days within a 30-day period, on or before December 31, 2026.
3. Third Tranche (138,889 shares): Issuable if the volume-weighted average trading price of common stock reaches \$2,925.00 over any 20 trading days within a 30-day period, on or before December 31, 2028.

If a change of control occurs during the second or third earnout periods, unachieved milestones will be automatically deemed satisfied if the share price at the time of the transaction meets or exceeds \$2,025.00 for the second period or \$2,925.00 for the third period.

February 2025 Registered Direct Offering and Concurrent Private Placement, Fifth Amendment to Term Loan Agreement and April 2025 Private Placement

On February 26, 2025, we entered into a securities purchase agreement with a single institutional investor, pursuant to which we sold in a registered direct offering (the “Registered Direct Offering”) 18 shares of Series A Convertible Preferred Stock, par value \$0.001 per share (the “Series A Preferred Stock”), at a price of \$100,000 per share, initially convertible into shares of our common stock, at a conversion price of \$23.32 per share of common stock. The Series A Preferred Stock was also convertible by the investor at an adjusted conversion price, subject to the applicable floor price.

Concurrently with the sale of the Series A Preferred Stock in the Registered Direct Offering, in a private placement offering pursuant to the Purchase Agreement (the “Private Placement” and, together with the Registered Direct Offering, the “Offerings”), we sold, at the initial closing of the Private Placement (the “Initial Closing” and, together with the Registered Direct Offering, the “Initial Offerings”), (i) an additional 17 shares of Series A Preferred Stock at the same offering price as the Series A Preferred Stock offered in the Registered Direct Offering, initially convertible into shares of common stock at a conversion price of \$23.32 per share, and (ii) warrants (the “Private Placement Convertible Preferred Warrants”) to purchase up to an aggregate of 400 shares of Series A Preferred Stock (the “Private Placement Warrant Shares”), with an exercise price of \$100,000 per share of Series A Preferred Stock, and a term as described below.

The exercise price under each Private Placement Convertible Preferred Warrant was \$100,000 per share of Series A Preferred Stock. Each Private Placement Convertible Preferred Warrant was exercisable for 20 shares of Series A Preferred Stock in minimum increments of \$500,000. The Private Placement Convertible Preferred Warrants had a term beginning on the issuance date and ending on or prior to the earlier of (i) the thirty-three (33) month anniversary of the date the shares of common stock issued or issuable upon the conversion of the Series A Preferred Stock issued in the concurrent Private Placement were registered for resale (“Registration Effectiveness”) pursuant to an effective registration statement under the Securities Act of 1933, as amended, (the “Securities Act”) (such date, the “Registration Effectiveness Date”) and (ii) (A) the consummation of a Change of Control (as defined in the certificate of designation) and (B) the consummation of a redemption of the then outstanding Series A Preferred Stock in full. The exercise price and number of shares of Series A Preferred Stock issuable upon exercise was subject to appropriate adjustment in the event of share dividends, share splits, reorganizations or similar events affecting shares of our common stock.

On April 28, 2025, pursuant to the Purchase Agreement, we sold to the Purchaser, in the second closing of the Private Placement (the “Second Closing”) 45 Preferred Shares at a price of \$100,000 per share, initially convertible into shares of common stock at a conversion price of \$5.95 per share, subject to adjustment.

The net proceeds to us from the Initial Offerings and the Second Offering, after deducting the placement agent’s fees and expenses and estimated offering expenses, were approximately \$3.2 million and \$4.2 million, respectively, excluding the net proceeds, if any, from the exercise of the Private Placement Convertible Preferred Warrants.

As a condition precedent to the closing of the Initial Offerings, on February 26, 2025, we entered into the Fifth Amendment (the “Fifth Amendment”) to the Term Loan Agreement with the Term Loan Lenders. Under the Fifth Amendment, the Term Loan Lenders agreed to, among other matters (i) receive no principal or interest payments under the Term Loan Agreement through March 31, 2026, and (ii) remove certain financial covenant tests under the Term Loan, provided that we maintain cash and cash equivalents equal to at least \$2.5 million through such date.

On June 23, 2025, we and the holder of Private Placement Convertible Preferred Warrants agreed to cancel such holder’s Private Placement Convertible Preferred Warrants to purchase up to an aggregate of 400 shares of Series A Preferred Stock, with an exercise price of \$100,000 per share of Series A Preferred Stock. As a result, the Private Placement Convertible Preferred Warrants are no longer outstanding.

On July 20, 2025, we entered into a Settlement and Release Agreement (the “Release Agreement”) with the holder of the outstanding shares of Series A Preferred Stock. Pursuant to the terms of the Release Agreement, we issued and delivered 210,000 shares of common stock to the holder and the holder surrendered to us all of the outstanding shares of Series A Preferred Stock. In addition, under the Release Agreement, upon the issuance of the shares of common stock, our obligations under the Purchase Agreement, the Certificate of Designation governing the Series A Preferred Stock and the other agreements entered into in connection with the offering of the Series A Preferred Stock were satisfied in full and the Purchase Agreement and the other agreements were deemed terminated and any remaining shares of Series A Preferred Stock that were outstanding or deemed to be outstanding were deemed cancelled and no longer outstanding. We have no further obligation to issue any shares of common stock or Series A Preferred Stock to the holder under the Purchase Agreement or otherwise. Under the Release Agreement, each party also provided a full release to the other party.

July 2025 Offering

On July 30, 2025, we entered into an underwriting agreement with Canaccord Genuity LLC (“Canaccord”), as representative of the several underwriters named in the certain underwriting agreement, relating to an underwritten public offering (the “July 2025 Public Offering”) of 2,198,000 shares of common stock, at a price to the public of \$2.50 per share. On July 31, 2025, we completed the July 2025 Public Offering raising gross proceeds of approximately \$5.5 million and net proceeds of \$4.7 million after deducting underwriting discounts and commissions and other estimated offering expenses payable by us.

October 2025 Offerings

On October 6, 2025, we entered into an underwriting agreement with Canaccord, as representative of the several underwriters (the “First Offering Underwriters”) named in the underwriting agreement dated October 6, 2025, relating to an underwritten public offering (the “First October 2025 Offering”) of 2,000,000 shares of common stock at a price to the public of \$12.50 per share, which includes the First Offering Underwriters’ option to purchase an additional 300,000 shares of common stock, at a public offering price of \$12.50 per share. On October 8, 2025, we completed the First October 2025 Offering, including the full exercise of the additional 300,000 shares of common stock, raising gross proceeds of approximately \$28.8 million and net proceeds of \$26.9 million after deducting underwriting discounts and commissions and other estimated offering expenses payable by us. On October 8, 2025 upon a request from our Term Loan Lenders under the term loan agreement, we repaid \$4.0 million of principal to satisfy a portion of its outstanding principal under the Term Loan Agreement.

On October 16, 2025, we entered into an additional underwriting agreement with Canaccord, as representative of the several underwriters (the “Second Offering Underwriters”) named in the underwriting agreement, dated October 17, 2025 (the “Second Offering Underwriting Agreement”), relating to an underwritten public offering (the “Second October 2025 Offering”) of 3,600,000 shares of common stock at a price to the public of \$13.50 per share, and (ii) prefunded warrants (the “October 2025 Pre-Funded Warrants”) to purchase up to 500,000 shares of common stock (the “Pre-Funded Warrant Shares”) at a price to the public of \$13.50 per October 2025 Pre-Funded Warrant, which represents the per share public offering price for the Shares (as defined below) less the \$0.001 per share exercise price for each such Pre-Funded Warrant.

Sixth Amendment to Term Loan, Series B Preferred Stock Issuance and 2025 Debt Restructuring

On October 20, 2025, we entered into the Sixth Amendment to the Term Loan Agreement with the Term Loan Lenders to, among other matters, (i) adjust the fixed interest rate of the remaining outstanding principal amount under the Term Loan Agreement to a fixed interest rate of 12% per annum, payable monthly commencing December 31, 2025 that will mature in October 2027, and (ii) waive any applicable financial covenants (except for a financial covenant requiring us to maintain cash and cash equivalents equal to or greater than \$5.0 million) through December 31, 2026. In connection with the Sixth Amendment, (i) we made a prepayment of \$45.0 million of outstanding indebtedness under the Term Loan Agreement from the net proceeds from the Second October 2025 Offering (the “Loan Prepayment”), (ii) the Term Loan Lenders forgave the repayment of \$5.0 million of the outstanding principal under the Term Loan Agreement, (iii) we paid a fee to the Term Loan Lenders equal to approximately \$450,000 in cash and \$450,000 added to principal outstanding amount of the loan under the Term Loan Agreement; and (iv) we issued 25,000 shares of Series B Preferred Stock in exchange for \$25.0 million outstanding principal amount of the Term Loan. The remaining outstanding principal amount under the Term Loan Agreement of approximately \$19.0 million, after the repayment and forgiveness disclosed above, will have a fixed interest rate of 12% per annum, payable monthly commencing December 31, 2025 and will mature in October 2027. In addition, certain covenants under the Term Loan Agreement have been waived through December 31, 2026, and we have agreed to a minimum liquidity covenant of \$5.0 million calculated on a monthly basis.

On November 4, 2025, we filed a Certificate of Designation of the Powers, Preferences and Relative, Participating, Optional and Other Restrictions of Series B Convertible Preferred Stock (the “Series B Certificate of Designation”) with the Secretary of State of the State of Nevada to establish the rights, privileges, preferences, and restrictions of the Series B Preferred Stock. As set forth in the Certificate of Designation, we designated 25,000 shares of preferred stock as Series B Preferred Stock with a stated value of \$1,000 per share. The Series B Preferred Stock is convertible into shares of common stock at the option of the Term Lenders at a conversion price of \$31.50 per share, or an aggregate of 793,651 shares of common stock.

On November 4, 2025, we entered into the Exchange Agreement with the Term Loan Lenders pursuant to we issued 25,000 shares of newly created Series B Preferred Stock in exchange for \$25.0 million outstanding principal amount of the Term Loan. The Series B Preferred Stock (i) is convertible into shares of common stock at the option of the Term Loan Lenders at a conversion price of \$31.50 per share, or an aggregate of 793,651 shares of common stock, (ii) has a dividend of 8% per annum payable quarterly in cash and (iii) has a dividend of 2% per annum payable quarterly in kind (“PIK Dividends”), which includes the aggregate amount of all paid PIK Dividends and any accrued and unpaid PIK Dividends on the applicable dividend date. In addition, we have a right to redeem any outstanding shares of the Series B Preferred Stock at our option at the greater of (i) the stated value plus any outstanding dividends and (ii) the as-converted value of the shares of common stock underlying the Series B Preferred Stock (the “Optional Redemption Price”). The Term Loan Lenders have also agreed not to convert any shares of the Series B Preferred Stock for a period of six months following the issuance of the Series B Preferred Stock. In connection with any future equity offerings, we will be required to use 50% of the net proceeds from such offering to redeem outstanding shares of the Series B Preferred Stock at the Optional Redemption Price. In the event we have not redeemed the outstanding shares of Series B Preferred Stock by October 7, 2027 or upon the occurrence of a Non-Payment Event (as defined in the Series B Certificate of Designation), the holders will have the right to require us to redeem the Series B Preferred Stock at the Optional Redemption Price.

Equity Distribution Agreement

In January 2026, we entered into an Equity Distribution Agreement (the “Equity Distribution Agreement”) with Canaccord Genuity LLC (“Canaccord”) under which we may offer and sell, from time to time, shares of our common stock through an at-the-market equity offering program (the “ATM”) for up to \$50.0 million in gross proceeds. Subject to the terms and conditions of the Equity Distribution Agreement, Canaccord will use commercially reasonable efforts to sell shares of our common stock from time to time based upon our instructions, including any price, time or size limits specified by us. We are not obligated to sell any shares of common stock under the Equity Distribution Agreement. We will pay Canaccord a commission of 3.0% of the aggregate gross proceeds from each sale of shares of common stock and will reimburse Canaccord for certain specified expenses. As of March 31, 2026, we have not sold any shares of our common stock pursuant to the ATM. Subsequent to March 31, 2026, we have sold 379,700 shares of common stock for aggregate net proceeds of approximately \$0.8 million.

Key Factors Affecting Our Operating Results

Our financial position and results of operations depend to a significant extent on the following factors:

End Market Consumers

The demand for our products ultimately depends on demand from consumers in our current end markets. We generate sales through (1) DTC and (2) through OEMs, particularly in the RV market. As our business has evolved, our growth strategy has increasingly shifted toward OEM, fleet, and industrial channels, where we can deliver integrated energy storage solutions at scale.

An increasing proportion of our sales has been and is expected to continue to be derived from sales to RV OEMs, driven by continued efforts to develop and expand sales to RV OEMs with whom we have longstanding relationships. Our RV OEM sales have been on a purchase order basis, without firm revenue commitments, and we expect that this will likely continue to be the case. Therefore, future RV OEM sales will be subject to risks and uncertainties, including the number of RVs these OEMs manufacture and sell, which in turn may be driven by the expectations these OEMs have around end market consumer demand.

Demand from end market consumers is impacted by a number of factors, including travel restrictions, fuel costs and energy demands (including an increasing trend towards the use of green energy), as well as overall macro-economic conditions and inflation. Sales of our batteries have benefited from the increased adoption of the RV lifestyle, the demand for and inclusion of additional appliances and electronics in RVs, and the accelerating trend of solar power adoption among RV customers. However, macro-economic conditions and increased competition from imported battery packs have led to a decrease in direct to consumer sales. We have focused on product diversification, including the introduction of batteries equipped with our Dragonfly IntelLigence technology and the expansion of complementary system components that support integrated power solutions across our end markets. We expect that direct to consumer sales will remain relatively flat through 2026. However, we expect growth among our existing RV OEM customers to be driven by expanded adoption of our products across additional models and configurations, as well as increased system content per unit, rather than solely by changes in overall RV shipment volumes. In addition, we anticipate increased revenue from continued expansion within existing customer relationships across other end markets, including industrial and commercial energy storage applications and the heavy-duty trucking market, where fleet customers have begun to adopt our systems and expand deployments following initial pilot programs.

Supply

We currently rely on two carefully selected cell manufacturers located in China, and a single supplier, also located in China, to manufacture our proprietary battery management system. Our close working relationships with our China-based LFP cell suppliers, reflected in our ability to increase our purchase order volumes (qualifying us for related volume-based discounts) and order and receive delivery of cells in anticipation of required demand, has helped us moderate increased supply-related costs associated with inflation, currency fluctuations and U.S. government tariffs imposed on our imported battery cells and to avoid potential shipment delays. To mitigate against potential adverse production events, we opted to build our inventory of key components, such as battery cells. However, as many of the supply chain challenges and delays that were prevalent over the last several years have eased, we are actively working down our inventory to more appropriate safety stock levels.

As a result of our battery chemistry and active steps we have taken to manage our inventory levels, we have not been subject to the shortages or price impacts that have been present for manufacturers of nickel manganese cobalt and nickel cobalt aluminum batteries. As we look toward the production of our solid-state cells, we have signed a Commercial Offtake Agreement with a lithium mining company located in Nevada for the supply of lithium, which we expect will enable us to further manage our cost of goods over time.

Product and Customer Mix

Our product sales consist of sales of numerous models of LFP batteries, along with accessories for battery systems (individually or bundled). These products are sold to different customer types (e.g., consumers, OEMs and distributors) and at different prices and involve varying levels of costs. In any particular period, changes in the mix and volume of particular products sold and the prices of those products relative to other products will impact our average selling price and our cost of goods sold. Despite our work to moderate increased supply-related costs, the price of our products may also increase as a result of increases in the cost of components due to inflation, currency fluctuations and tariffs. OEM sales typically result in lower average selling prices and related margins, which could result in margin erosion, negatively impact our growth or require us to raise our prices. However, this reduction is typically offset by the benefits of increased sales volumes. Sales of third-party sourced accessories typically have lower related margin. We expect accessory sales to increase as we further develop full-system design expertise and product offerings and consumers increasingly demand more sophisticated systems, rather than simple drop-in replacements. In addition to the impacts attributable to the general sales mix across our products and accessories, our results of operations are impacted by the relative margins of products sold. As we continue to introduce new products at varying price points, our overall gross margin may vary from period to period as a result of changes in product and customer mix.

Production Capacity

All of our battery assembly currently takes place at our 390,240 square foot headquarters and manufacturing facility located in Reno, Nevada. We currently operate four LFP battery production lines. Consistent with our operating history, we plan to continue to automate additional aspects of our battery production lines. Our existing facility has the capacity to add up to four additional LFP battery production lines and construct and operate a pilot production line for our solid-state cells, all designed to maximize the capacity of our manufacturing facility. Although our automation efforts are expected to reduce our costs of goods, we may not fully recognize the anticipated savings when planned and could experience additional costs or disruptions to our production activities. We have also focused on optimizing our manufacturing efficiency and throughput, enabling us to increase our production capacity without the need for increased headcount.

Competition

We compete with traditional lead-acid battery manufacturers and lithium-ion battery manufacturers, who primarily either import their products or components or manufacture products under a private label. As we continue to expand into new markets, develop new products and move towards production of our own conventional LFP cells and, in the longer term, solid state cells, we will experience competition with a wider range of companies. These competitors may have greater resources than we do and may be able to devote greater resources to the development of their current and future technologies. Our competitors may be able to source materials and components at lower costs, which may require us to evaluate measures to reduce our own costs, lower the price of our products or increase sales volumes in order to maintain our expected levels of profitability.

Research and Development

Our research and development is currently primarily focused on the scaling our proprietary dry electrode process for domestic production of full LFP cells. Although we have reallocated resources from the advanced manufacturing of solid-state lithium-ion batteries in order to focus on conventional cells, we expect to return to the solid-state chemistry as capital becomes more available for these longer term projects.

Components of Results of Operations

Net Sales

Net sales are primarily generated from the sale of our LFP batteries to OEMs and directly to consumers, as well as chargers and other accessories, either individually or bundled, and recognition of deferred licensing revenue.

Cost of Goods Sold

Cost of goods sold includes the cost of cells and other components of our LFP batteries, labor and overhead, logistics and freight costs, and depreciation of manufacturing equipment.

Gross Profit

Gross profit, calculated as net sales less cost of goods sold, may vary between periods and is primarily affected by various factors including average selling prices, product costs, product mix and customer mix.

Operating Expenses

Research and development

Research and development costs include personnel-related expenses for scientists, experienced engineers and technicians as well as the material and supplies to support the development of new products and our solid-state technology.

General and administrative

General and administrative costs include personnel-related expenses attributable to our executive, finance, human resources, and engineering and product development organizations, certain facility and information technology costs, and fees for professional services.

Selling and marketing

Selling and marketing costs include outbound freight, personnel-related expenses, as well as trade show, industry event, marketing, customer support, and other indirect costs. We expect to continue to make the necessary sales and marketing investments to enable the execution of our strategy, which includes expanding into additional end markets.

Total Other Expense

Other expense consists primarily of debt extinguishment, interest expense, the change in fair value of the warrant liability and amortization of debt issuance costs.

Results of Operations

Comparisons for the Three months ended March 31, 2026, and March 31, 2025

The following table sets forth our results of operations for the three months ended March 31, 2026 and March 31, 2025. This data should be read together with our financial statements and related notes included elsewhere in this Quarterly Report, and is qualified in its entirety by reference to such financial statements and related notes.

	Three months ended March 31,			
	2026	% Net Sales	2025	% Net Sales
	(in thousands)			
Net Sales	\$ 9,704	100.0	\$ 13,356	100.0
Cost of Goods Sold	7,994	82.4	9,428	70.6
Gross profit	1,710	17.6	3,928	29.4
Operating expenses				
Research and development	980	10.1	1,000	7.5
General and administrative	4,482	46.2	6,357	47.6
Sales and marketing	1,975	20.4	2,485	18.6
Total Operating expenses	7,437	76.6	9,842	73.7
Loss From Operations	(5,727)	(59.0)	(5,914)	(44.3)
Other Expense				
Interest expense, net	(1,465)	(15.1)	(4,701)	(35.2)
Other income	61	0.6	-	-
Change in fair market value of warrant liability	506	5.2	3,818	28.6
Total Other Expense	(898)	(9.3)	(883)	(6.6)
Loss Before Taxes	(6,625)	(68.3)	(6,797)	(50.9)
Income Tax Benefit	-	-	-	-
Net Loss	\$ (6,625)	(68.3)	\$ (6,797)	(50.9)
Less: Preferred Stock Dividends	\$ (1,095)	(11.3)	\$ -	-
Net Loss Attributable to Common Shareholders	\$ (7,720)	(79.6)	\$ (6,797)	(50.9)

	Three months ended March 31,			
	2026	% Net Sales	2025	% Net Sales
	(in thousands)			
DTC	\$ 3,702	38.1	\$ 5,015	37.5
OEM	5,752	59.3	8,091	60.6
Licensing Revenue	250	2.6	250	1.9
Net Sales	\$ 9,704	100.0	\$ 13,356	100.0

Net Sales

Net sales decreased by \$3.7 million, or 27.3%, to \$9.7 million for the quarter ended March 31, 2026, as compared to \$13.4 million for the quarter ended March 31, 2025. This decrease was primarily due to lower OEM and DTC sales. RV OEM sales declined as customers rightsized inventory levels in response to a slower-than-anticipated market recovery, as reflected in RVIA shipment data for the quarter, as well as overall macroeconomic conditions. DTC sales declined due to macroeconomic pressures on consumer demand. We expect our sales to increase in the next 12 months as our customers expand the number of models they include our battery systems in for the new model year and our entrance into new markets, trucking and industrials, with new product offerings.

Cost of Goods Sold

Cost of goods sold decreased by \$1.4 million, or 15.2%, to \$8.0 million for the quarter ended March 31, 2026, as compared to \$9.4 million for the quarter ended March 31, 2025. This decrease was primarily due to lower unit volume of batteries and accessories. We expect our cost of goods sold to increase over the next 12 months in conjunction with the anticipated increase in revenue and higher tariffs but will be slightly offset with some automation initiatives in the second quarter of 2026.

Gross Profit

Gross profit decreased by \$2.2 million, or 56.5%, to \$1.7 million for the quarter ended March 31, 2026, as compared to \$3.9 million for the quarter ended March 31, 2025. The decrease in gross profit was primarily due to lower unit volume of battery and accessory sales. Gross Profit percentage decreased by 11.8% to 17.6% primarily due to lower sales unit volume and higher material costs due to higher tariffs.

Research and Development Expenses

Research and development expenses remained unchanged at \$1.0 million for the quarters ended March 31, 2026 and 2025. A decrease in wage expense of \$0.4 million, resulting from reduced headcount, was offset by an increase in depreciation expense due to a prior period correction, leading to overall unchanged research and development expenses. We expect research and development expenses to remain relatively stable over the next year.

General and Administrative Expenses

General and administrative expenses declined by \$1.9 million, or 29.5%, from \$4.5 million for the quarter ended March 31, 2026, compared to \$6.4 million for the quarter ended March 31, 2025. The reduction was mainly driven by a \$1.4 million decrease in professional fees, which resulted from lower deal costs and litigation expenses in the current period. Rent expense also fell by \$0.5 million due to the impairment of two leases in the last quarter of 2025. Additionally, depreciation decreased by \$0.5 million, primarily because the prior year included a catch-up adjustment related to tenant improvements under the lease. These cost reductions were partially offset by a rise in employee expenses, reflecting increased headcount in engineering and product development. Looking forward, we anticipate that general and administrative expenses as a percentage of revenue will decrease over the next 12 months. This expectation is based on targeted cost reduction measures which have been implemented, including further reductions in professional fees, continued optimization of lease agreements, and ongoing evaluation of staffing levels beginning in the second quarter of 2026.

Selling and Marketing Expenses

Sales and marketing expenses decreased by \$0.5 million, or 20.5%, to \$2.0 million for the quarter ended March 31, 2026, as compared to \$2.5 million for the quarter ended March 31, 2025. This decrease was primarily due to lower employee-related costs in the amount of \$0.2 million related to lower headcount and lower shipping costs related to lower sales. We expect our Selling and Marketing Expenses to decrease over the next 12 months due to cost reduction measures beginning in the second quarter of 2026.

Total Other Income (Expense)

Other expense totaled \$0.9 million for the quarter ended March 31, 2026 as compared to other expense of \$0.9 million for the quarter ended March 31, 2025. Other expense of \$0.9 million for the quarter ended March 31, 2026 was comprised primarily of interest expense of \$1.5 million related to our debt securities partially offset by a change in fair market value of warrant liability in the amount of \$0.5 million and other income in the amount of \$0.1 million. The \$0.9 million of other expense for the quarter ended March 31, 2025 was comprised primarily of interest expense of \$4.7 million related to our debt securities offset by a change in fair market value of warrant liability in the amount of \$3.8 million.

Income Tax (Benefit) Expense

There was no tax expense recorded for the quarter ended March 31, 2026 or March 31, 2025. Management evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets and determined that it is more likely than not that we will not recognize the benefits of the deferred tax assets primarily due to us entering into a 3-year cumulative loss position. As a result, a full valuation allowance totaling \$37.7 million was recorded as of the year ended December 31, 2025 and is unchanged as of March 31, 2026.

Net Loss

We generated a net loss of \$6.6 million for the quarter ended March 31, 2026, as compared to net loss of \$6.8 million for the quarter ended March 31, 2025. As described above, this result was driven by lower sales, lower cost of goods sold, and lower operating expenses.

Critical Accounting Estimates

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. We base our estimates on historical experience, known trends and events, and other factors we believe to be reasonable under the circumstances. These estimates form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources, and actual results may differ from these estimates under different assumptions or conditions. On a recurring basis, we evaluate our judgments and estimates in light of changes in circumstances, facts, and experience. The effects of material revisions in an estimate, if any, are reflected in the consolidated financial statements prospectively from the date of the change in the estimate.

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

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our board of directors. In addition to the estimates described below, there are other items within our financial statements that require estimation, but that we do not consider critical under the definition above. Changes in estimates used in these and other items could have a material impact on our financial statements.

We believe that the following accounting estimates are the most critical to the judgments and assumptions used in the preparation of our financial statements because they involve significant estimation uncertainty and have had, or are reasonably likely to have, a material impact on our financial condition and results of operations.

Inventory Valuation

We maintain reserves for excess and obsolete inventory and for inventory that is carried at amounts in excess of its estimated realizable value. These reserves are inherently judgmental and involve significant estimates regarding expected future demand, product life cycles, pricing, and the recoverability of costs through future sales. In estimating these reserves, we consider factors such as recent sales experience, forecasted demand, the aging of inventories and specific identification of items that may be obsolete or slow-moving.

Changes in these assumptions, including adverse changes in customer demand, technological developments, or pricing pressures, could result in materially different reserve levels and related cost of goods sold in future periods. For example, a decrease in expected demand or sales prices, or an increase in the aging of inventory, could require us to increase our reserves, which would negatively affect our gross margin. Conversely, if actual demand is higher than currently estimated, our reserves could prove to be overstated, resulting in lower cost of goods sold in future periods.

Warrants

We issue warrants to purchase our common stock in connection with certain financing and other transactions. We apply the relevant guidance in ASC 480 and ASC 815 in determining whether warrants should be classified as liabilities or equity. Warrants that are classified as liabilities are initially recorded at fair value and remeasured at fair value at each reporting date, with changes in fair value recognized in earnings.

The fair value of liability-classified warrants involves significant judgment, as it is based on valuation models that incorporate various inputs, including our common stock price, expected stock price volatility, expected term, risk-free interest rates and, as applicable, other market-based or contractual features. These inputs are subject to estimation uncertainty and can change over time in response to our operating performance, changes in our capital structure, market conditions or other factors.

Because changes in these inputs directly affect the fair value of the warrants, they can result in material volatility in our reported earnings from period to period. For example, an increase in the price or volatility of our common stock generally increases the fair value of liability-classified warrants and may result in a loss recognized in our statement of operations, whereas decreases in stock price or volatility may result in a gain.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities and for operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

We recognize the financial statement effect of an uncertain tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Recognized tax positions are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We also establish a valuation allowance to reduce deferred tax assets to an amount that is more likely than not to be realized.

The assessment of the realizability of deferred tax assets and the recognition and measurement of uncertain tax positions involve significant judgment and estimation, including projections of future taxable income, the timing and character of that income, the reversal of existing temporary differences, the outcome of tax examinations and the interpretation of tax laws and regulations in multiple jurisdictions. Our projections of future taxable income are inherently uncertain and subject to change due to changes in our business, our industry, and the overall economic environment.

If actual results differ from our estimates, or if we adjust our estimates in future periods, we may need to increase or decrease our valuation allowance or adjust our uncertain tax positions, which could have a material impact on our effective tax rate, income tax expense and results of operations. For example, evidence of sustained profitability in one or more jurisdictions could result in a reduction of the valuation allowance and a related decrease in income tax expense, whereas evidence of sustained losses or unfavorable changes in tax law could result in an increase in the valuation allowance and higher income tax expense.

Leases

We recognize right-of-use assets and lease liabilities for our operating leases based on the present value of lease payments over the expected lease term. Because our leases generally do not provide an implicit rate, we estimate an incremental borrowing rate to determine the present value of lease payments. Our incremental borrowing rate is derived from market data, including current borrowing rates available to us for similar terms and collateral, as well as broader market interest rate information. We also make judgments regarding the lease term, including renewal and termination options, when it is reasonably certain that such options will be exercised.

These estimates are subjective and can significantly affect the measurement of our right-of-use assets, lease liabilities and related lease cost recognized in the statement of operations. Changes in our assessment of the incremental borrowing rate, or our expectations about exercising renewal or termination options, could result in material changes to the recorded lease liabilities and right-of-use assets and affect the pattern of lease expense recognition over time.

License Arrangement

We have entered into license arrangements under which we receive upfront compensation. We recognize this compensation as revenue over a five-year period, which we believe reflects the pattern in which control of the licensed rights and related services is transferred and the period over which we expect to realize the economic benefits of the arrangement.

The determination of the appropriate recognition pattern involves significant judgment, including our assessment of the nature and timing of performance obligations, the expected duration and level of customer engagement, and the likelihood of renewal or modification of the arrangement. These factors are inherently uncertain and may change over time as we gain more experience with the arrangements or as customer behavior evolves.

If our expectations regarding the timing or amount of the benefits to be provided under these arrangements change, or if we modify or renew the arrangements on terms different from those originally anticipated, we may be required to adjust the recognition pattern, which could result in a material increase or decrease in revenue in one or more reporting periods.

Non-GAAP Financial Measures

This Quarterly Report includes a non-generally accepted account principles within the United States (“U.S. GAAP”) measure that we use to supplement our results presented in accordance with U.S. GAAP. Earnings before interest tax and amortization (“EBITDA”) is defined as earnings before interest and other income (expenses), income taxes, and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA adjusted for stock-based compensation, change in fair market value of warrant liabilities, non-recurring costs associated with strategic financing, reverse stock split, litigation and loss on settlement. Adjusted EBITDA is a performance measure that we believe is useful to investors and analysts because it illustrates the underlying financial and business trends relating to our core, recurring results of operations and enhances comparability between periods.

Adjusted EBITDA is not a recognized measure under U.S. GAAP and is not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry. Investors should exercise caution in comparing our non-GAAP measure to any similarly titled measure used by other companies. This non-GAAP measure excludes certain items required by U.S. GAAP and should not be considered as an alternative to information reported in accordance with U.S. GAAP.

The table below presents our adjusted EBITDA, reconciled to net loss for the three months ended March 31, 2026, and March 31, 2025.

	Three months ended March 31,	
	2026	2025
	(in thousands)	
Net Loss Attributable to Common Shareholders	\$ (7,720)	\$ (6,797)
Interest Expense	1,465	4,701
Depreciation and Amortization	794	859
EBITDA	(5,461)	(1,237)
<i>Adjusted for:</i>		
Stock-Based Compensation ⁽¹⁾	100	220
Change in fair market value of warrant liability ⁽²⁾	(506)	(3,818)
Series B Preferred Stock Dividend	1,095	-
Non-Recurring/One-Time Expenses:		
Litigation Expenses ⁽³⁾	39	543
Preferred Stock Financing Expenses	-	631
At-the-Market (ATM) set up Expenses ⁽⁴⁾	139	-
Loss on Impairment of Asset ⁽⁵⁾	6	-
Expenses related to Debt Restructure ⁽⁶⁾	36	-
Reverse Stock Split	-	15
Adjusted EBITDA	\$ (4,552)	\$ (3,646)

- (1) Stock-Based Compensation is comprised of costs associated with option and RSU grants made to our employees, consultants and board members.
- (2) Change in fair market value of warrant liabilities represents the change in fair value for the three months ended March 31, 2026 and March 31, 2025.
- (3) In 2026, Litigation Fees includes fees and expenses related to the Berdner et al case. In 2025, Litigation Fees includes legal fees and expenses and settlement related to the International Trade Commission ‘ITC’ Lithium Hub patent infringement case and other.
- (4) At-the-Market (ATM) set up expenses are for the equity distribution agreement with Canaccord Genuity, LLC.
- (5) Loss on Impairment of Asset is costs related to the prior year impairment of our previous main office.
- (6) Debt Restructure expenses including legal and professional service.

Liquidity and Capital Resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service, acquisitions, contractual obligations and other commitments. We assess liquidity in terms of our cash flows from operations and their sufficiency to fund our operating and investing activities. As of March 31, 2026, we had cash totaling \$8.6 million. We believe that our cash balance as of March 31, 2025 will fund our operations into the second quarter of 2027.

On January 30, 2026, we entered into the Equity Distribution Agreement with Canaccord under which we may offer and sell, from time to time, shares of our common stock through an ATM for up to \$50.0 million in gross proceeds, as described in the “*Overview*” section above. As of March 31, 2026, we have not sold any shares of our common stock pursuant to the ATM. Subsequent to March 31, 2026, we have sold 379,700 shares of common stock for aggregate net proceeds of approximately \$0.8 million.

We expect that we will need to raise additional funds, including through the use of the ATM and the issuance of equity, equity-related or debt securities or by obtaining additional credit from financial institutions to fund, together with our principal sources of liquidity, ongoing costs, such as research and development relating to our solid-state batteries, expansion of our facilities, and new strategic investments. If such financings are not available, or if the terms of such financings are less desirable than we expect, we may be forced to take actions to reduce our capital or operating expenditures, including by not seeking potential acquisition opportunities, eliminating redundancies, or reducing or delaying our production facility expansions, reduce operations, sell off our assets, seek the protection of bankruptcy courts or shut down our operations and dissolve. Further, any future debt or equity financings may be dilutive to our current stockholders.

Financing Obligations and Requirements

On November 24, 2021, we issued \$45.0 million of fixed rate senior notes, secured by among other things, a security interest in our intellectual property. As part of the Business Combination, we entered into a senior secured term loan facility in an aggregate principal amount of \$75 million (the “Term Loan”) pursuant to the Term Loan, Guarantee and Security Agreement (the “Original Term Loan Agreement” and, as amended, the “Term Loan Agreement”) by and among, us, Legacy Dragonfly, Alter Domus (US) LLC, as the Agent to the lenders time-to-time party thereto (such lenders, the “Term Loan Lenders”), the proceeds of which were used to repay the \$45.0 million fixed rate senior notes, and ChEF Equity Facility.

As described in the “*Overview*” section above, under the Sixth Amendment, we (i) prepaid \$45.0 million of principal using proceeds from the Second October 2025 Offering, (ii) exchanged \$25.0 million of principal for redeemable Series B Preferred Stock (convertible at \$31.50 per share, with 8% cash and 2% “in kind” dividends), which is redeemable in October 2027 unless otherwise converted by the holder, and (iii) had \$5.0 million of principal forgiven by the Term Loan Lenders. Following these transactions, approximately \$19.4 million of principal remained outstanding under the Term Loan, bearing 12% interest payable monthly and maturing in October 2027. We paid \$0.9 million in fees (half in cash, half added to principal) and obtained covenant waivers through December 2026, subject to maintaining \$5.0 million of minimum liquidity.

The Sixth Amendment significantly improved our liquidity by reducing total debt from \$93.1 million to approximately \$19.4 million and deferring near-term cash interest requirements through the preferred stock exchange and covenant waivers.

The Term Loan proceeds were used to: (i) support the Business Combination, (ii) prepay the fixed rate senior notes at closing of the Business Combination, (iii) pay fees and expenses in connection with the foregoing, (iv) to provide additional growth capital and (v) for other general/corporate purposes. The Term Loan will mature on October 7, 2027, or the Maturity Date, and will be subject to quarterly amortization of 5% per annum beginning 24 months after issuance. The definitive documents for the Term Loan incorporate certain mandatory prepayment events and certain affirmative and negative covenants and exceptions hereto. The financial covenants for the Term Loan include a maximum senior leverage ratio covenant, a minimum liquidity covenant, a springing fixed charge coverage ratio covenant, and a maximum capital expenditures covenant. In accordance with U.S. GAAP, we reclassified our notes payable from a long-term liability to a current liability. The Term Loan accrues interest as follows: (i) until April 1, 2024, at a per annum rate equal to adjusted secured overnight financing rate (“SOFR”) plus 7% payable in cash plus an amount ranging from 4.5% to 6.5%, depending on our senior leverage ratio; (ii) effective April 1, 2024 and thereafter, interest payable to certain lenders subject to regulations of the U.S. Small Business Administration (“SBA”) with outstanding principal on that date of \$30,846 will be limited to 14.0% per annum (except for default interest permitted under SBA regulations, as applicable); and (iii) the other outstanding principal will accrue interest from April 1, 2024 thereafter until October 1, 2024, at a per annum rate equal to adjusted SOFR plus 7% payable in cash plus an amount ranging from 4.5% to 6.5%, depending on the senior leverage ratio of the consolidated company, and at all times thereafter, at a per annum rate equal to adjusted SOFR plus a margin ranging from 11.5% to 13.5%, depending on our senior leverage ratio.

The Term Loan is secured by substantially all assets of the Company, Battle Born LLC and Legacy Dragonfly, and we pledged our equity interests in Battle Born LLC and Legacy Dragonfly as additional collateral. In connection with the Business Combination, the Term Loan Lenders also received penny warrants and \$10 warrants. The \$10 warrants were exercised in full on October 10, 2022. During the quarter ended March 31, 2026, 70,267 penny warrants were exercised on a cashless basis, with the Company agreeing to issue 69,985 shares of Common Stock in connection with such exercise. Subsequent to March 31, 2026, the remaining outstanding penny warrants were exercised in full on a cashless basis, resulting in the issuance of 103,390 shares of common stock.

In 2024, we identified an underpayment of tariffs to U.S. Customs and Border Protection (“CBP”) in the amount of approximately \$1.66 million in the aggregate, related to the improper classification and valuation of certain of the products used in our batteries. We have reported the underpayment to CBP. In June 2025, after a comprehensive review of this tariff calculation, an additional \$0.29 million was discovered and also reported to CBP and a payment plan of \$0.05 million per week was put into place. As of March 31, 2026, the entire balance of the reported tariff underpayment has been paid in full; however, we have recorded an estimated liability of approximately \$0.3 million on our balance sheet related to interest that may have accrued on the underpayment. The amount and timing of any such interest obligation have not yet been confirmed by CBP, and the actual amount payable, if any, may differ from the current estimate.

Going Concern

For the quarter ended March 31, 2026, we incurred losses and had a negative cash flow from operations. As of March 31, 2025, we had approximately \$8.6 million in cash and cash equivalents and a working capital of \$23.4 million. Our ability to achieve profitability and positive cash flow depends on our ability to increase revenue, contain our expenses and maintain compliance with the financial covenants in our outstanding indebtedness agreements.

On February 26, 2025, the Term Loan was amended to (i) extend the maturity date by one (1) year to October 2027, (ii) defer all principal and interest payments to April 2026 and (iii) remove any applicable financial covenants (except for a financial covenant requiring us to maintain cash and cash equivalents equal to or greater than \$2,500) through June 30, 2026.

In addition, investors received warrants to purchase up to 4,000 shares of Series A Preferred Stock at \$10,000 per share, potentially providing up to \$40 million in future capital, however, these warrants were cancelled on June 23, 2025.

On July 30, 2025, we received proceeds of \$5,495 less \$811 in costs, which we have been using for working capital and other general corporate purposes, including the repayment of indebtedness in the ordinary course. Investors received an aggregate of 2,198,000 shares of common stock.

On October 6, 2025, we received proceeds of \$26,925, net of costs, in connection with the issuance of 2,300,000 shares of common stock and option to purchase 300,000 shares of common stock. On October 17, 2025, we received additional proceeds of \$51,928, net of costs, from the issuance of 3,600,000 shares of common stock and 500,000 pre-funded warrants to purchase shares of common stock. We used the aggregate net proceeds for working capital and other general corporate purposes, including the repayment of indebtedness in the ordinary course of business. Additionally, on October 20, 2025, the Term Loan was restructured and we entered into the Sixth Amendment (the “Sixth Amendment”) with the Term Loan lenders, which included new interest payment terms, \$45,000 prepayment in October, and \$5,000 debt cancellation. Lastly, as part of the restructuring, on November 4, 2025, we and the lenders entered into an exchange agreement (the “Exchange Agreement”) pursuant to which we issued 25,000 shares of Series B Preferred Stock in exchange for \$25,000 outstanding principal amount of the Term Loan.

On January 30, 2026, we entered into an Equity Distribution Agreement with Canaccord Genuity LLC, as lead agent and representative of the other sales agents, establishing an at-the-market equity offering program under which we may, at our discretion, offer and sell from time to time up to \$50 million of its common stock. While we are not obligated to issue any shares under the agreement and retain full control over the timing, amount, pricing, and terms of any sales effected through the lead agent, this agreement provides us with a flexible, readily accessible source of capital to support its liquidity needs, subject to customary closing conditions, a 3% sales commission and reimbursement of specified expenses payable to the agents, and standard indemnification and contribution provisions.

As presented above, strategic initiatives were executed in 2025 and early 2026 in order to alleviate the substantial doubt regarding our ability to continue as a going concern. These initiatives include multiple capital raises totaling a net cash increase of \$90.9 million and Term Loan restructuring to reduce principal and interest owed, including a significant principal paydown, partial debt cancellation, and partial principal conversion into preferred shares, along with the at-the-market equity offering program entered into January 2026. Management has evaluated the conditions and events described above in relation to our obligations coming due within one year after the date these condensed consolidated financial statements are issued. Based on this evaluation and the capital raising and debt restructuring activities completed in 2025 and early 2026, including access to the at-the-market equity offering program, management has concluded that although substantial doubt was initially raised, its plans have alleviated substantial doubt about the Company's ability to continue as a going concern within one year after the date these condensed consolidated financial statements are issued.

In addition, we may need to raise additional debt and/or equity financing to fund our operations, strategic plans, meet our financial covenants under the Term Loan and our redemption obligations under the Series B Preferred Stock and repay our outstanding indebtedness under the Term Loan. We have historically been able to raise additional capital through issuance of equity and/or debt financing and we intend to raise additional capital as needed. However, we cannot guarantee that we will be able to raise additional equity, contain expenses, or increase revenue, and comply with the financial covenants under the Term Loan.

Cash Flows for the Three months ended March 31, 2026, and March 31, 2025

	Three months ended March 31,	
	2026	2025
	(in thousands)	
Net Cash (used in)/provided by:		
Operating Activities	\$ (8,784)	\$ (4,500)
Investing activities	\$ (279)	\$ (778)
Financing activities	\$ (570)	\$ 3,232

Operating Activities

Net cash used in operating activities was \$8.8 million for the three months ended March 31, 2026, primarily due to a net loss of \$6.6 million, \$0.6 million decrease in operating lease liabilities, and a decrease in accounts payable of \$2.9 million, partially offset by \$1.2 million increase in accounts receivable.

Net cash used in operating activities was \$4.5 million for the three months ended March 31, 2025, primarily due to a net loss of \$6.8 million and \$0.7 million decrease in operating lease liabilities, partially offset by \$3.4 million increase in accounts payable.

Investing Activities

Net cash used in investing activities was \$0.3 million for the three months ended March 31, 2026, as compared to net cash used in investing activities of \$0.8 million for the three months ended March 31, 2025. The cash used for the three months ended March 31, 2026 was primarily for payments of improvements to the battery production area and renovations to the research and development location. The cash used for the three months ended March 31, 2025 was primarily for payments of building improvements for the new warehouse.

Financing Activities

Net cash used by financing activities was \$0.6 million for the three months ended March 31, 2026, primarily related to Series B preferred stock dividend payments and repayment of debt, as compared to net cash provided by financing activities of \$3.3 million for the three months ended March 31, 2025, primarily related to net proceeds of \$3.2 million from the Offerings on February 26, 2025.

Contractual Obligations

Our estimated future obligations consist of short-term and long-term operating and financing lease liabilities. As of March 31, 2026, we had \$2.5 million in short-term operating and financing lease liabilities and \$20.0 million in long-term operating and financing lease liabilities.

As disclosed above, we have a Term Loan and as of March 31, 2026, the principal amount outstanding under the Term Loan was \$19.1 million.

Additionally, we are required to pay to the holders of the Series B Preferred Stock dividends, which will accrue at 10% per annum, commencing from the Initial Issuance Date, payable (i) 80% in cash and (i) 20% “in kind” and added the Liquidation Preference of such holder’s Series B Preferred Stock. Such dividends are payable quarterly in arrears on the first trading day of each fiscal quarter commencing on the first trading day of the initial fiscal quarter after the date of issuance. Upon the occurrence of certain events, the dividend rate may automatically increase, as described in the Certificate of Designation. Additionally, in connection with any future equity offerings, we are required to use 50% of the net proceeds from such offering to redeem outstanding shares of the Series B Preferred Stock at the Optional Redemption Price. In the event we have not redeemed the outstanding shares of Series B Preferred Stock by October 7, 2027 or upon the occurrence of a Non-Payment Event (as defined in the Certificate of Designation), the holders will have the right to require us to redeem the Series B Preferred Stock at the Optional Redemption Price.

We and Chardan Capital Markets LLC, a New York limited liability company (“CCM LLC”) entered into a purchase agreement (as amended, the “ChEF Purchase Agreement”) and a Registration Rights Agreement in connection with our merger in October 2022 (the “Business Combination”). Pursuant to the Original Purchase Agreement, we had the right to sell to CCM LLC an amount of shares of common stock, up to a maximum aggregate purchase price of \$150 million, pursuant to the terms of the ChEF Purchase Agreement (the “ChEF Equity Facility”), subject to certain restrictions set forth in the Term Loan Agreement (as defined below). The ChEF Purchase Agreement terminated in December 2025. As part of the expiration, the remainder of the Commitment Fee, pursuant to the purchase agreement, of \$891 is due and payable to Chardan Capital Markets. This amount was expensed in fiscal year ending December 31, 2025 and remains accrued in current liabilities, specifically ‘Accrued payroll and other liabilities’, on the balance sheet as of March 31, 2026.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, and the rules and regulations thereunder, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and implementation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2026. Based on that evaluation, management concluded that as of March 31, 2026, we did maintain effective disclosure controls and procedures.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting (as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2026, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

“Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2025 filed with the SEC on March 30, 2026 includes a discussion of our legal proceedings.

Other than as set forth below, there have been no material updates to the legal proceedings previously disclosed in our Annual Report on Form 10-K.

On February 13, 2026, a putative consumer class action captioned *Berdner et al v. Dragonfly Energy Holdings Corp. d/b/a Battle Born*, was filed against the Company in the Superior Court of the State of California, County of Sonoma, Case No. 26CV01247. We were served with the complaint on March 31, 2026. The case was removed to Northern District of California on April 30, 2026. The plaintiffs purport to represent four classes of purchasers of certain “Battle Born” branded 100 amp-hour 12V LiFePo4 batteries. They allege that the products share a uniform design defect related to the positive terminal connection that can result in overheating, premature failure, and safety risk. The complaint asserts violations of various state consumer protection statutes, breach of express and implied warranties (including under California law), and false advertising, and seeks damages, restitution, injunctive relief, punitive damages, and attorneys’ fees.

We believe that the claims are without merit and intend to vigorously defend this matter. No trial date has been set as of the date of this report. We are unable at this time to reasonably estimate a range of possible loss or determine whether an adverse outcome is probable; accordingly, no liability has been recorded related to this matter as of the date of this report.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2025 filed with the SEC on March 30, 2026, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K may not be the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company’s business, financial condition and/or operating results.

There were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

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

ITEM 6. EXHIBITS

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

Exhibit No.	Description	Incorporation by Reference		
		Form	Exhibit	Filing Date
3.1	Articles of Incorporation of Dragonfly Energy Holdings Corp.	8-K	3.1	03/31/2023
3.2	Certificate of Amendment to the Articles of Incorporation of Dragonfly Energy Holdings Corp., dated November 29, 2023.	8-K	3.1	11/29/2023
3.3	Certificate of Amendment to the Articles of Incorporation of Dragonfly Energy Holdings Corp., as filed with the Secretary of State of the State of Nevada, dated November 19, 2024.	8-K	3.1	11/22/2024
3.4	Certificate of Amendment to the Articles of Incorporation of Dragonfly Energy Holdings Corp., dated April 25, 2025.	8-K	3.1	04/28/2025
3.5	Certificate of Amendment to the Articles of Incorporation of Dragonfly Energy Holdings Corp., as filed with the Secretary of State of the State of Nevada, dated December 15, 2025.	8-K	3.1	12/18/2025
3.6	Certificate of Designation of the Powers, Preferences and Relative, Participating, Optional and Other Restrictions of Series A Convertible Preferred Stock of Dragonfly Energy Holdings Corp.	8-K	3.1	02/27/2025
3.7	Certificate of Designation of the Powers, Preferences and Relative, Participating, Optional and Other Restrictions of Series B Convertible Preferred Stock.	8-K	3.1	11/04/2025
3.8	Bylaws of Dragonfly Energy Holdings Corp.	8-K	3.2	03/31/2023
10.1	Equity Distribution Agreement, dated January 30, 2026, by and between Dragonfly Energy Holdings Corp. and Canaccord Genuity, LLC.	8-K	1.1	01/30/2026
31.1*	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2*	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
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*	Inline XBRL Instance Document.			
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.			
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.			
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document.			
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.			
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document and included as Exhibit 101).			

* Filed herewith.

** Furnished.

Portions of schedules and exhibits to the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the Securities and Exchange Commission upon request.

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.

Dragonfly Energy Holdings Corp.

Date: May 14, 2026

By: /s/ Denis Phares

Denis Phares

Chief Executive Officer, President and Interim Chief Financial Officer

(Principal Executive Officer and Principal Financial and Accounting Officer)

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

I, Denis Phares, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2026 of Dragonfly Energy Holdings Corp.;
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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report 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 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/ Denis Phares

Chief Executive Officer
(Principal Executive Officer)

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

I, Denis Phares, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2026 of Dragonfly Energy Holdings Corp.;
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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report 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 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/ Denis Phares

Interim Chief Financial Officer

(Principal Financial and Accounting Officer)

**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**

This Certification is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Quarterly Report on Form 10-Q of Dragonfly Energy Holdings Corp. (the “**Company**”) for the quarter ended March 31, 2026 (the “**Quarterly Report**”), Denis Phares, as Chief Executive Officer and Interim Chief Financial Officer, certifies in his capacity as such officer of the Company, that to his knowledge:

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

Dated: May 14, 2026

By: /s/ Denis Phares

Denis Phares

Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.
